

Thanachart Capital Public Company Limited

Management Discussion and Analysis of 2006

(Financial Statement Audited)

Economy and the Finance & Banking Sector Outlooks

Thai economy in the year 2006 has struggled due to series of unfavorable factors. Unrest in the 3 southern provinces, unstable oil price, high inflation and political instability all contributed to the confidence of consumers and investors.

The problem regarding confidence or psychological discouragement is believed to be major source of impact to the Thai economy. In effect, the business sentiment index and consumer confidential index has decreased continuously. The same story applied to the decline of domestic supply in both consumption and investing.

However, Thai economic in 2006 had grown almost at the same rate with that of the year before. Major contributor of this growth was the export sector, which reinforces the importance of the sector as the main engine to Thai economy. At the same time, the interdependence between Thai and trade partner is hi-lighted.

As a result, the exchange rate plays a crucial role to the export sector. On December 18, 2006 the appreciation of Thai Baht, as strong as 35.3 Baht / US Dollar, led to the imposing of the capital flow restriction by the Bank of Thailand as an attempt to weaken the value of the Baht. (Note that the average value of Thai Baht through out 2006 was 37.9 Baht / US Dollar)

In the banking sector, given the high amount of excess liquidity in the system commercial banks still have put their effort in acquiring deposit in a hope to maintain market shares. One-year deposit interest rate has been increasingly adjusted from 2.5-3.5% at the end of 2005 to 4.0 – 5.0% when 2006 was over. Thus, the cost of funds of the system went up accordingly. Consequently, the Monetary Policy Committee of the Bank of Thailand has increased the interest rate to 5.00% during the middle of the year (from 4.00% at the end of 2005). Nevertheless, on December 13, 2006, the change has been made on the Policy rate from R/P 14-day to R/P 1-day as an attempt to improve the effectiveness of the monetary policy and promote the development of the money market. The adjustment would be a sign of the declining trend of the interest rate in 2007.

Major events in 2006

During the year 2006, there were considerable events that affected the performance of the Company and its subsidiaries as follows:

1. National Finance Public Company Limited has become a Financial Holding Company and returned its Finance Business License on March 31, 2006. In addition, the Company changed its name to “Thanachart Capital Public Company Limited” on April 3, 2006 and also its securities name and symbol in trading system to “TCAP” on April 10, 2006.
2. The Board of Directors adopted a resolution approving payments of an interim dividend of Baht 0.30 per share or the total of Baht 400 million for the performance of the first half of the year from January 1 to June 30, 2006. The closing date of the registered book was on October 16, 2006 and the payment was on October 27, 2006.
3. In term of channel development, Thanachart Bank, a subsidiary company, opened 67 new branches in 2006. As a result, as of the end of the year 2006, Thanachart Bank had 133 branches (excluding the head office) in total. Of all branches, 72 of them are in Bangkok and its vicinities while the remaining 61 branches are in the regions. In addition, the Bank had 242 ATMs and 46 exchange booths in total.
4. To be harmonized with the guidance of the Bank of Thailand about the “Consolidated Supervision” announced in July 2006 and the raising of the corporate governance standard to the level of “international best practice”, Thanachart Group, with Thanachart Capital Plc. as a parent company and another 16 companies under the Group including the Bank, has prepared and submitted the proposal of forming the financial business group which has already been approved the petition regarding the issue by the Bank of Thailand in December 2006.
5. To be ready to comply with the International Accounting Standard (IAS) no. 39 about the Recognition and Measurement of the Financial Instruments issued by the BOT, the Company and its subsidiaries (the Assets Management companies) have provided provisions for non-performing loans, ruled out debts/debts subject to execution, and debts under legal actions after second half year accounting of 2006. Moreover, Thanachart Bank has also completely provided 100% provisions for its non-performing loans for the difference between outstanding amount and present value of expected cash flow from the sale of collateral. At the same time, for a normal loan, a vehicle can be used as collateral to calculate the amount of the provision. The implementation occurred earlier than the policy of the Bank of Thailand which divided the process into 3 phases, second half of 2006, first half of 2007, and second half of 2007.
6. In December, to enhance financial strength, the Bank has issued the subordinated debenture of 3,000 million Baht with 7-year tenor and coupon 6.18%. The Thanachart Capital Plc. was the sole purchaser for the whole lot and the Bank of Thailand agreed to include the proceed from issuing debenture to the tier 2 capital of the Bank

The Company Overview

The Group's consolidated financial statement as of the end of 2006 shows total assets of Baht 286,768 million, representing an increase of 25.7% from Baht 228,119 million at the end of last year. Most of this increase was due to the increase in deposits from Baht 148,371 million at the end of 2005 to Baht 198,527 million, representing an increase of 33.8%. This was the result of our strategies to move forward by launching new deposit products and expanding branches which helped support the liquidity of the Bank in expanding its business stability. The public deposits were the main source of funds to support the continuously high loan growth of the hire purchase business, which grew by 34.6% from the end of last year. In addition, the market share increased all along resulted in the market leader of the new car hire purchase. Moreover, the Bank continued to expand its branches in order to build up the confidence of its own business progression.

For the year of 2006, the operations of the Company and its subsidiaries resulted in earnings before income tax and minority interest were Baht 2,585 million, representing a decrease of 37.1% or Baht 1,524 million. The corporate income tax decreased by 0.7% or Baht 7 million. As a result, the net earnings of the Company and its subsidiaries amounted to Baht 1,468 million, representing a decrease of 52.7% or Baht 1,636 million. The earning per share was Baht 1.10. The decrease of the net earnings was due to the increase in provided provisions of the Company and its subsidiaries (the Assets Management companies) complying with the IAS 39 and the competition in Banks' deposits that caused the cost of funds to increase while interest income from hire purchase loans is fixed rate. Moreover, the acceleration in expanding banking branches and the development of the information technology system for building up strong fundamental to support future business expansion were also primary causes.

As of December 31, 2006, the non-performing loans (NPLs) of the Company and its subsidiaries amounted to Baht 9,767 million, representing a decrease of Baht 362 million or 3.6% from the end of last year. Thus, the percentage of Group's NPLs to total Group's lending decreased from 6.2% at the end of 2005 to 4.7% at the end of 2006.

The Company and its subsidiaries had the allowance for doubtful accounts amounting to Baht 7,020 million, representing an increase of Baht 63 million or 0.9% from the end of 2005. The allowance for doubtful accounts was divided into the specific reserve of Baht 5,732 million and the allowance for future risk of Baht 1,288 million.

Operating Results of the Company and its subsidiaries

Operating Results

Statements of Earnings of the Company and its subsidiaries

(Unit: Baht million)

	4 th quarter of 2006	3 rd quarter of 2006	% Change	2006	2005	% Change
Interest and Dividend Income	4,803	4,458	7.7	16,951	10,935	55.0
Expenses on Borrowings	(3,059)	(2,755)	11.0	(10,043)	(4,421)	127.2
Net Interest and Dividend Income	1,744	1,703	2.4	6,908	6,514	6.0
Reversal of Bad Debt and Doubtful Accounts						
(Bad Debts and Doubtful Accounts)	(77)	(59)	30.5	(103)	723	(114.2)
Loss on Debt Restructuring	(31)	(85)	(63.5)	(165)	(430)	(61.6)
Net Interest and Dividend Income after Bad Debts and Doubtful Accounts and Loss on Debt Restructuring	1,636	1,559	4.9	6,640	6,807	(2.5)
Non-Interest Income	1,882	2,092	(10.0)	7,530	5,144	46.4
Operating Expenses	(3,402)	(2,955)	15.1	(11,585)	(7,842)	47.7
Earnings before Income Tax and Minority Interest	116	696	(83.3)	2,585	4,109	(37.1)
Corporate Income Tax	(202)	(159)	27.0	(965)	(972)	(0.7)
Earnings before Minority Interest	(86)	537	(116.0)	1,620	3,137	(48.4)
Minority Interest in Net Earnings in Subsidiary Companies	(31)	(61)	(49.2)	(152)	(33)	360.6
Net Earnings	(117)	476	(124.6)	1,468	3,104	(52.7)

The operations of the Company and its subsidiaries resulted in net losses of Baht 117 million in the 4th quarter of 2006, compared with net profit of Baht 476 million in the previous quarter. For the year of 2006, the net earnings were Baht 1,468 million, representing a decrease of 52.7% or Baht 1,636 million from the last year. The decreases were attributable to the following factors:

- **Interest and Dividend Income**

For the 4th quarter of 2006, the interest and dividend income of the Company and its subsidiaries amounted to Baht 4,803 million, representing an increase of 7.7% or Baht 345 million from the 3rd quarter of 2006. For the year of 2006, the interest and dividend income amounted to Baht 16,951 million, representing an increase of 55.0% or Baht 6,016 million from the last year. The related four main factors were:

- The interest on loans of the Company and its subsidiaries for the 4th quarter of 2006 increased by 0.8% from Baht 775 million at the end of the 3rd quarter 2006 to Baht 781 million. For the year of 2006, the interest on loans amounted to Baht 2,919 million, an increase of 24.7% or Baht 579 million from the last year, mostly from the increase in the market interest rate.

- The interbank and money market items for the 4th quarter of 2006 increased by 21.7% from Baht 591 million at the end of the 3rd quarter 2006 to Baht 719 million. For the year of 2006, the interbank and money market items amounted to Baht 2,256 million, an increase of 304.3% or Baht 1,698 million from the last year, mostly from the increase of the interest income from securities purchased under resale agreements.

- For the 4th quarter of 2006, the automobile hire purchase income amounted to Baht 2,953 million, representing an increase of 7.7% or Baht 212 million from the 3rd quarter of 2006. For the year of 2006, the automobile hire purchase income amounted to Baht 10,425 million, representing an increase of 48.3% or Baht 3,397 million from the last year. This was due to the Company's growth in the automobile hire purchase business for both new and used cars.

- At the end of the 4th quarter of 2006, interest and dividend income from investment was Baht 350 million, representing a decreased of 0.3% or Baht 1 million. For the year of 2006, interest and dividend income from investment was Baht 1,351 million, representing an increase of 33.9% or Baht 342 million from the last year. This was due to the increase in the debt securities.

- **Expenses on Borrowings and Deposits**

The expenses on borrowings and deposits of the Company and its subsidiaries in the 4th quarter of 2006 were Baht 3,059 million, an increase of 11.0% or Baht 304 million from Baht 2,755 million of the 3rd quarter of 2006. For the year of 2006, the expenses on borrowings and deposits were Baht 10,043 million, an increase of 127.2% or Baht 5,622 million from the last year. This was due to the increase of total borrowings and deposits, and the rise on the interest rate. While the total borrowings and deposits of the subsidiaries as of

the end of the 4th quarter of 2006 was Baht 248,069 million, increased by Baht 55,147 million from Baht 192,922 million at the end of the 4th quarter last year, representing an increase of 28.6%.

- **Bad debts and doubtful accounts**

For the 4th quarter of 2006, the Company and its subsidiaries had the bad debts and doubtful accounts amounted to Baht 77 million, representing an increased of 30.5% or Baht 18 million from the previous quarter. For the year of 2006, the bad debts and doubtful accounts amounted to Baht 103 million, due to the Company and its subsidiaries have complied with the IAS 39 issued by the BOT, while the Group had the reversal for doubtful accounts amounted to Baht 723 million from debt restructuring and closures of some lending accounts of the subsidiary companies (the Assets Management companies) in the last year.

- **Non-interest income**

For the 4th quarter of 2006, the non-interest income of the Company and its subsidiaries amounted to Baht 1,882 million, a decrease of 10.0% or Baht 210 million from the 3rd quarter of 2006. The most important determinants were:

- 1) Insurance premium/Life Insurance premium income amounted to Baht 904 million, an increase of 10.9% or Baht 89 million.
- 2) Gain on debt settlement/disposals amounted to Baht 222 million, a decrease of 29.3% or Baht 92 million.
- 3) Fees and charges amounted to Baht 211 million, an increased of 46.5% or Baht 67 million.
- 4) Brokerage fee was Baht 173 million, an increase of 26.3% or Baht 36 million.
- 5) Discounted income on insurance premium amounted to Baht 144 million, an increase of 2.1% or Baht 3 million.
- 6) Gain on property foreclosed amounted to Baht 100 million, an increase of 809.1% or Baht 89 million.
- 7) Loss on investments amounted to Baht 125 million compared with Baht 247 million gains from the previous quarter. This was due to the Company and its subsidiaries have provided more provisions in investment in receivables purchased from FIDF, complying with the IAS 39. Such provisions were for protecting the future risks.

For the year of 2006, the non-interest income of the Company and its subsidiaries amounted to Baht 7,530 million, an increase of 46.4% or Baht 2,386 million from the last year. The most important determinants were:

- 1) Insurance premium/Life Insurance premium income amounted to Baht 2,935 million, an increase of 65.8% or Baht 1,165 million.

- 2) Gain on debt settlement/disposals amounted to Baht 857 million, an increase of 26.8% or Baht 181 million.
- 3) Brokerage fee was Baht 648 million, an increase of 23.7% or Baht 124 million.
- 4) Discounted income on insurance premium amounted to Baht 598 million, an increase of 15.4% or Baht 80 million.
- 5) Fees and charges amounted to Baht 575 million, an increased of 52.1% or Baht 197 million.
- 6) Gains on property foreclosed were Baht 462 million, an increase of 86.3% or Baht 214 million.
- 7) Gains on investment amounted to Baht 376 million, an increased of 56.7% or Baht 136 million.
- 8) Share of profit from investment in associated companies amounted to Baht 223 million, an increase of 16.2% or Baht 31 million.

- **Operating Expenses**

For the 4th quarter of 2006, the Company and its subsidiaries had the operating expenses of Baht 3,402 million, representing an increase of 15.1% or Baht 447 million from the 3rd quarter of 2006. Premises and equipment expenses and personnel expenses increased by 16.7% and 12.3%, respectively. Insurance /Life Insurance expenses increased by 13.9% or Baht 86 million.

For the year of 2006, the operating expenses of the Company and its subsidiaries amounted to Baht 11,585 million, representing an increase of 47.7% or Baht 3,743 million from the last year. Premises and equipment expenses and personnel expenses increased by 34.9% and 31.5%, respectively. This was the result of the expansion of banking branches of Thanachart Bank. As of the end of the year 2006, Thanachart Bank had 133 branches, compared with only 66 branches at the end of last year. In addition, as of the end of the year 2006, the Company and its subsidiaries had 6,988 staff members, representing an increase of 26.4% or 1,459 staff members from 5,529 staff members as of the end of last year. This was due to the expansion of the Company and its subsidiaries for supporting the future business growth. While commission charged on hire purchase increased by 55.1%, as a result of the immense growth of the subsidiary company's hire purchase portfolio as previously explained altogether with the one time charge on the hire purchase commission. Insurance/Life Insurance expenses increased by 69.9% or Baht 965 million from last year.

Financial Status

Total Assets

(Unit: Baht million)

	Dec 31, 06	Dec 31, 05	Changes from 2005	
			Increase(Decrease)	% Change
Interbank and Money Market Items -Interest Bearing	23,980	348	23,632	6,790.8
Securities Purchased under Resale Agreements	6,300	19,700	(13,400)	(68.0)
Investments-net	35,349	33,203	2,146	6.5
Loans	208,178	162,722	45,456	27.9
Total Earning Assets	273,807	215,973	57,834	26.8
Other Assets	12,961	12,146	815	6.7
Total Assets	286,768	228,119	58,649	25.7

● Assets

The Group's assets grew from Baht 228,119 million at the end of 2005 to Baht 286,768 million at the end of 2006, representing an increase of 25.7%. The majority of this increase was a result of the combination of loans and accrued interest receivable which amounted to Baht 201,275 million or accounted for 70.2% of the total assets, while the net investment accounted for Baht 35,349 million or 12.3% of all assets, with details as follows:

□ As of the end of 2006, the total outstanding hire purchase loans were Baht 163,259 million, accounting for 78.3% of all total loans, representing an increase of 34.6% from Baht 121,251 million from the last year. The total outstanding hire purchase loans for the 4th quarter of 2006 were Baht 25,370 million compared with Baht 22,443 million from the same quarter last year, representing an increase of 13.0%. The total contracts of hire purchase as of the end of 2006 amounted to 577,166 units, an increase of 151,101 units from the end of 2005, which resulted in a considerable increase in hire purchase income for this year.

□ Securities purchased under resale agreements amounted to Baht 6,300 million, representing a decrease of 68.0% from Baht 13,400 million at the end of 2005. This was due to the adjustment of the liquidity to a suitable level.

□ The net investment as of the end of 2006 was Baht 35,349 million, representing an increase of 6.5% or Baht 2,146 million from the end of the year 2005. This was due to an increase of 18.8% in government securities and state-owned enterprise investment to Baht 27,178 million from Baht 22,883 million as of the end of the year 2005.

The details of investments were as follows:

(Unit: Baht million)

	Dec 31, 06	%	Dec 31, 05	%
1) Debt* (Bonds and Debentures)	27,178	76.9%	22,883	68.9%
2) Equity	5,821	16.5%	8,551	25.8%
3) Investment in Receivables Purchased	2,350	6.6%	1,769	5.3%
Total Investment	35,349	100.0%	33,203	100.0%
Note:* Debt on December 31, 2006 composes of Treasury Bill and BOT Bonds 32.3%, Government Bonds (less than 5 years) 31.0%, Government Bonds (over 5 years) 23.7% and Debentures 13.0% of total investment in debt securities.				

- Property foreclosed as of the end of 2006 was valued at Baht 8,420 million, an increase of Baht 275 million from the end of the year 2005. For the end of the 4th quarter of 2006, the Company and its subsidiaries registered gains of Baht 100 million on property foreclosed. For the year of 2006, the Company and its subsidiaries registered gains of Baht 462 million on property foreclosed and appropriated a reserve of Baht 860 million, an increase of Baht 135 million from the end of 2005, for covering the related risks.

● Liabilities and shareholders' equity

(Unit: Baht million)

	Changes from 2005			
	Dec 31, 06	Dec 31, 05	Increase(Decrease)	% Change
Deposits	198,527	148,371	50,156	33.8
Interbank and Money Market Items -Interest Bearing	4,339	2,556	1,783	69.8
Short Term Borrowings	18,460	1,254	17,206	1,372.1
Long Term Borrowings	26,575	40,696	(14,121)	(34.7)
Total Interest Bearing Liabilities	247,901	192,877	55,024	28.5
Other Liabilities	14,897	11,856	3,041	25.6
Total Liabilities	262,798	204,733	58,065	28.4
Total Shareholders' Equity	23,970	23,386	584	2.5
Total Liabilities and Shareholders' Equity	286,768	228,119	58,649	25.7

As of December 31, 2006, the Company and its subsidiaries had the total liabilities of Baht 262,798 million, representing an increase of 28.4% or Baht 58,065 million from the end of the year 2005. The related main factors were:

- Deposits as of the end of 2006 increased from Baht 148,371 million at the end of 2005 to Baht 198,527 million, representing an increase of 33.8% or Baht 50,156 million.
- Total borrowings amounted to Baht 45,035 million, which consisted of short-term borrowings amounting to Baht 18,460 million and long-term borrowings amounting to Baht 26,575 million. The Company and its subsidiaries used the long-term borrowings for the financial restructuring in order to match the uses of funds. Therefore, the Company and its subsidiaries' total borrowings increased by 7.4% or Baht 3,085 million from Baht 41,950 million at the end of 2005.

As of the end of 2006, the Company and its subsidiaries had shareholders' equity of Baht 23,970 million, a 2.5% increase from Baht 23,386 million at the end of 2005. This increase was a result of the performance of the Company and its subsidiaries.

Quality of Assets

The loans and accrued interest receivables of the Company and its subsidiaries increased by 27.9% from Baht 162,961 million at the end of year 2005 to Baht 208,455 million at the end of 2006.

- The total outstanding loans and accrued interest receivables

Breakdowns by type of business were as follows:

(Unit: Baht million)

	Dec 31, 06	%	Dec 31, 05	%
1) Manufacturing & Commerce	5,914	2.8%	7,082	4.4%
2) Real Estate & Construction	7,524	3.6%	5,113	3.1%
3) Public Utilities & Services	7,996	3.9%	10,281	6.3%
4) Retail				
4.1 Hire Purchase	163,259	78.3%	121,251	74.4%
4.2 Housing loans	9,793	4.7%	11,120	6.8%
5) Others	14,243	6.8%	8,616	5.3%
<u>Less</u> Inter-company profits from loans receivables transferred	(274)	(0.1)%	(502)	(0.3)%
Total	208,455	100.0%	162,961	100.0%

- Non-performing Loans (NPLs)

As of the end of 2006, the NPLs of the Company and its subsidiaries amounted to Baht 9,767 million, which accounted for 4.7% of all total loans.

Breakdowns of the Group's NPLs by type of loans were as follows:

(Unit: Baht million)

	Dec 31, 06	% Group loan	Dec 31, 05	% Group loan
Hire Purchase	2,167	1.0%	1,425	0.9%
Others *	7,600	3.7%	8,704	5.3%
Total	9,767	4.7%	10,129	6.2%

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

Breakdowns of the Group's NPLs by company were as follows:

(Unit: Baht million)

	Dec 31, 06	% Group loan	Dec 31, 05	% Group loan
Thanachart Capital Plc.	1,500	0.7%	1,498	0.9%
Thanachart Bank Plc.	3,281	1.6%	3,582	2.2%
Thanachart Securities Plc.	307	0.1%	319	0.2%
NFS-AMC	4,192	2.0%	4,244	2.6%
MAX-AMC	360	0.2%	398	0.2%
Others	127	0.1%	88	0.1%
Total	9,767	4.7%	10,129	6.2%

Allowance for Doubtful Accounts

As of the end of 2006, the consolidated allowance for doubtful accounts of the Company and its subsidiaries amounted to Baht 7,020 million, an increase of Baht 63 million or 0.9% from the end of 2005. They consisted of a specific reserve of Baht 5,732 million and a reserve of Baht 1,288 million for future potential risks. It is the Company and its subsidiaries' conservative policy to build up the level of reserves to protect against all types of risk in order to prevent a serious impact on the operating results. This will, in turn, lead to stability in the Company and its subsidiaries' long-term performance.

The following table shows a breakdown of the Group's allowance for doubtful accounts by type of loans

(Unit: Baht million)

	Dec 31, 06	% : NPL	Dec 31, 05	% : NPL
Hire Purchase	2,578	119.0%	2,150	150.9%
Others	3,154	41.5%	2,671	30.7%
Reserve for Potential Risks in the Future	1,288	-	2,136	-
Total	7,020	71.9%	6,957	68.7%

The total allowance of the doubtful accounts of the Groups was Baht 7,020 million, or 71.9% of the Group's NPLs. It can be broken down by company as follows:

(Unit: Baht million)

	Dec 31, 06	% : NPL	Dec 31, 05	% : NPL
Thanachart Capital Plc.	2,473	164.9%	3,245	216.6%
Thanachart Bank Plc.*	2,342	71.4%	1,591	44.4%
Thanachart Securities Plc.	307	100.0%	320	100.3%
NFS-AMC	1,667	39.8%	1,533	36.1%
MAX-AMC	89	24.7%	184	46.2%
Others	142	111.8%	84	95.5%
Total	7,020	71.9%	6,957	68.7%

* Allowance for doubtful accounts of Thanachart Bank shown above has been deducted the inter-company transactions

The Company's total allowance for doubtful accounts amounted to Baht 2,473 million, which was the specific reserve of Baht 1,605 million, and higher than the BOT requirement of Baht 868 million.

The allowance of doubtful debts for Thanachart Bank Plc. amounted to Baht 2,342 million with its specific reserve amounting to Baht 2,206 million and its general reserve amounting to Baht 136 million.

Operating Results of the Subsidiary Companies

(Unit: Baht million)

Subsidiary Companies	% of direct holding	4 th quarter of 2006	3 rd quarter of 2006	2006	2005
Thanachart Bank Plc.	99.4%	(25.7)	57.3	225.1	361.7
Thanachart Securities Plc.	100.0%	93.9	45.8	206.8	120.9
Thanachart Fund Management	75.0%	12.2	11.4	55.7	36.3
Thanachart Insurance	78.0%	6.2	38.0	28.4	73.4
Thanachart Life Assurance	100.0%	57.9	(17.2)	102.5	100.9
NFS-AMC	100.0%	(262.4)	(101.7)	82.3	576.1
MAX-AMC	58.5%	60.3	101.2	308.3	73.4

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 year of 2006, the automobile hire purchase businesses continuously expanded caused credit risk, interest rate risk, operational risk to increase, and also market risk increased from expanding investment portfolio accompanying with the fluctuation of the stock market. In addition, excess liquidity was still at high level from the expansion of public deposits.

Although each type of risk will be increased as a result of the rapid growth of the Company and its subsidiaries' business, 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.