

Management's Discussion & Analysis

The Thai economy in 1Q03 continued with its recovery momentum from last year as suggested by several indicators released in the early of 2003. Car sales in the first two months increased 50% y-o-y, and hire purchase business at TISCO continued to grow steadily during 1Q03. The US-Iraq war, and a recent Severe Acute Respiratory Syndrome (SARS), however, had clouded the sentiment in the stock market, and this had somewhat dented brokerage fee and trading income of the Group. The Company continued to focus on improving the quality of existing loans in all areas and put great effort into accelerating debt recovery. This resulted in a bad debt write back, which significantly contributed to 1Q03 earnings.

For the Company, under cost method, the net profit increased 190% to 280 million baht from 97 million baht in 1Q02. This was due mainly to a surge in net interest and dividend income after provision of 141% y-o-y to 456 million baht following bad debt recovery, and a healthy contribution from a continual increase in automobile hire purchase loan. Non-interest income, including fee and trading gain, declined 52% y-o-y to 196 million baht due mainly to a lower gain from trading following an unfavorable market sentiment.

The consolidated net profit of the Company and subsidiaries was 364 million baht, an increase of 20% y-o-y. The annualized ROE (excluding minority interest) was 19%.

The following analysis of this Management Discussion and Analysis is based on consolidated financial statements of TISCO Finance Company, comprising consolidated balance sheets as of **March 31, 2003 and December 31, 2002**, and consolidated income statements for three months to **March 31, 2002 and March 31, 2002** under equity method unless stated otherwise. The consolidated financial statement comprises consolidated financial positions and performances of some 12 companies in TISCO Group, namely, TISCO Finance Company Plc., TISCO Securities Co., Ltd., TISCO Securities Hong Kong Ltd., TISCO Asset management Co., Ltd., Thai Permsap Finance Co., Ltd., TISCO Securities UK Ltd., TISCO Global Investment Holdings Ltd., Tru-Way Co., Ltd., TISCO Leasing Co., Ltd., Thai Commercial Auto Co., Ltd., Hi-Way Co., Ltd., and Thai Information Technology Co., Ltd.

Financial Position

The following analysis was based on a comparison between the Balance Sheets of March 2003, and December 2002.

Assets

Total assets: Total assets increased 8% to 53,265 million baht. This was due largely to a rapid expansion of hire purchase portfolio, and increasing short-term investment.

Investment in Securities: Total investment in securities increased 32% to 8,389 million baht. TISCO and subsidiaries increased its investment in both equity and short-term fixed income instruments during the period to take up the market opportunity and adjusted excess liquidity during the quarter.

Table 1: Investment in Securities Breakdown: Total 8,389 Million Baht

	Dec02(Bm)	% of Total	Mar03(Bm)	% of Total
Fixed Income	3,532	55%	5,472	65%
Equity	2,643	42%	2,773	33%
FRA	187	3%	144	2%
Total	6,362	100%	8,389	100%

Loans and Receivables Total loans and receivables grew 4% from 40,637 million baht to 42,328 million baht. Loans and receivables were 79% of total assets. The portfolio of TISCO was well-diversified across various industries as illustrated below.

Table 2: Loans and Receivables Breakdown: Total 42,328 Million Baht

As of March 03	% of Loans and Receivables
Hire Purchase	59%
Real Estate and Construction	5%
Manufacturing and Commerce	9%
Housing	6%
Public Utilities and Services	6%
Others	15%

Accrued interest receivables was 109 million baht, or 0.3% of net loans. Following a conservative interest income policy, TISCO stops accruing interest income, reversed it off the books and recognized interest income on a cash basis for corporate loans, stock borrowing and lending accounts, and consumer loans that were overdue by one, two, and three months respectively.

Non-performing Loans: The Group focused on improving the quality of existing loans in all areas and put great effort into accelerating debt recovery. With the BOT's new definition, the Group's NPL by 1Q03 declined 7% to 3,584 million baht or 8.5% of total loan. Within 1Q03, loan restructured from Commercial Lending area was 320 million baht; and from Mortgage Loan and hire purchase was 65 million baht. The breakdown of the Group's NPL by business area is as follows;

Table 3: NPL Breakdown by Area: Total 3,584 Million Baht

As of March 03	% of Total NPL
Commercial Lending	51%
Mortgage Loan	22%
Car Hire Purchase	7%
Motorcycle Hire Purchase	5%
Others	16%

Allowance for Doubtful Account was 4,690 million baht of which 2,808 million baht was specific reserve (required by BoT). Following internal prudent policy, TISCO and subsidiaries have also retained a high general reserve of 1,882 million baht making the Group's total reserve be 167% of the BOT requirement.

Property foreclosures: The recovery of real estate market resulted in a continuation of sale of foreclosed assets. Property foreclosures of the Group declined by 2% to 1,294 million baht.

Liabilities

Total liabilities of TISCO and subsidiaries increased 9% to 45,069 million baht. Major items of liabilities are as follows;

Table 4: Liabilities Breakdown: Total 45,069 Million Baht

As of March 03	% of Liabilities
Public Borrowings	75%
Debenture	11%
Banks and Financial Institution Borrowings	8%
Other liabilities	6%

Borrowings: The deposits continued to be main source of funding. The Group deposit increased 9% to 33,833 million baht. TISCO planed to further expand retail depositor base to reduce concentration risk.

Shareholders' Equity: Shareholder's equity of TISCO and subsidiaries increased by 5% q-o-q from 7,812 million baht to 8,197 million baht following net profit generated in 1Q03. The BIS capital adequacy ratio of TISCO Finance remained solid at 19% while the net capital adequacy ratio of TISCO Securities was 200%.

Consolidated Statement of Income Analysis

The following analysis was based on Income Statement of 1Q03 comparing to 1Q02. During 1Q03

Net Revenue

TISCO and subsidiaries' net revenue after provision grew 15% y-o-y to 940 million baht of which main contributions were from hire purchase, bad debt recovery, investment banking, and asset management; and reduction in cost of fund. A structure of the Group's revenues was illustrated below.

Table 5: Net Revenue (after bad debt) Breakdown: Total 940 million baht

1Q03	% of Net Revenue
Net Interest and Dividend Income	62%
Net Fee Income	29%
Net Trading Gain	5%
Others	3%

Net Interest and Dividend Income

Net interest and dividend income after provision surged by 102% y-o-y to 586 million baht. This was contributed mainly from hire purchase interest income, which grew 37% y-o-y; and a decline in cost of funding by 3% y-o-y. Together with a provision write back that outweighed bad debt expenses in 1Q03, the bad debt expenses showed an income of 16 million baht, comparing to an expenses of 188 million baht in 1Q02.

Non-Interest Income

The poor stock market condition in 1Q03 adversely affected non-interest income, including fee and trading income, to decline 33% to 353 million baht, as trading gain and brokerage fee income dropped 76% and 23% to 51 million baht and 84 million baht respectively. However, the significant growth in fee income from investment banking, and asset management businesses contributed to the increase of 45% y-o-y in fee and service income which increased from 131 million baht to 189 million baht.

Operating Expenses

Operating expenses of TISCO and subsidiaries increased by 24% to 514 million baht from 413 million baht. The 30% increase in personnel expenses was due to a provision for bonus booking earlier this year to make it more evenly through the course of the year, rather than being accelerated by the year-end. For non-personnel expenses, the increase in other expenses was due to the increasing hire purchase related expenses following high expansion in hire purchase business.

Net Profit

Following a solid expansion mainly from hire purchase business, a loan write back from corporate lending restructuring, and solid contribution of fee income from investment banking and asset management, as well as declining cost of funds; net profit of TISCO and subsidiaries increased 20% y-o-y to 364 million baht from 302 million baht. Fully diluted EPS for 2002 was 0.51 baht in 1Q03, a 21% increase y-o-y from 0.42 baht, and the annualized ROE (excluding minority interest) was 19%.



Business Performance by Area

We have broken down TISCO performance by business functions as they represent core business activities at TISCO Group. The details are presented below:

Finance Business

Finance business at TISCO Group includes hire purchase, commercial lending, and mortgage finance. Total net interest and dividend income after provision rose 102% y-o-y to 586 million baht and fee earned from finance business increased by 23% to 81 million baht (out of the group's total fee income of 189 million baht).

Hire Purchase Lending: Apart from TISCO Finance, hire purchase business operates under TISCO's subsidiaries, i.e., Tru-Way Co., Ltd, TISCO Leasing Co., Ltd., Hi-Way Co., Ltd, and Thai Commercial Auto Co., Ltd.. TISCO Group hire purchase new business in 1Q03 grew 35% y-o-y to 5,346 million baht, supporting hire purchase portfolio to expand 46% y-o-y to 26,827 million baht. The breakdown of hire purchase business among TISCO Finance and subsidiaries by 1Q03 was as follows;

Table 6: Hire Purchase Portfolio Breakdown By Company: Total 26,872 million baht

As of March 03	% of Total Hire Purchase Portfolio
TISCO Finance	78.0%
Thai Commercial Auto	13.4%
Hi-Way	4.7%
TISCO Leasing	3.7%
Tru-Way	0.3%

Commercial Lending: For commercial financing, TISCO focused on accelerating the debt restructuring process to reduce NPLs. In addition, the approval of new loans was granted strictly on a selective basis, mainly to the real economic sectors. Gross loan portfolio of Commercial Lending area by 1Q03 was 11,319 million baht.

With focus on improving asset quality, in 1Q03 Commercial Lending area accomplished 320 million baht of loan restructure, and this caused the non-performing loans to decline 254 million baht, or 12% q-o-q. The NPL was 16% of total commercial loans, falling from 17.4%.

Mortgage Loan: Our strategy in mortgage financing is to focus on asset quality and NPL recovery with less emphasis on growth as the competition continued to be high and this pressured down the business margin. Therefore TISCO was very selective in loan granting to ensure our long-term profitability. The NPL of mortgage loan declined by 85 million baht, or 10% q-o-q to 777 million baht. This was 23.4% of mortgage loan portfolio.

Securities Business

TISCO Group's securities business covers securities brokerage, investment banking, proprietary trading, and asset management. This area operates under the Group's companies including TISCO Securities Co.,Ltd., TISCO Securities Hong Kong Ltd., TISCO Global Investment Holdings Ltd., TISCO Securities UK Ltd, and TISCO Asset management Co. Ltd.

Securities Brokerage: TISCO Securities focused on providing quality service to institutional and private investors. TISCO Securities entered into a cooperative arrangement with Deutsche Securities in 2002 to jointly build a high quality equity research so as to expand distribution channel to reach a broader international market. At the same time, TISCO Securities has improved the Internet trading business to better serve retail client. This effort made TISCO's market share increase to 4%, ranking number seven in the market in terms of volume. However, the poor market sentiment dragged down TISCO's volume by 52% to 29,816 million baht. Consequently, the brokerage commission fell 24% y-o-y to 72 million baht.

Business in HK and UK made loss of 14 million baht in 1Q03. With co-arrangement with Deutsch Securities, there is no need to retain TISCO's UK operation; therefore, TISCO decide to close down the TISCO UK to increase operational efficiency. TISCO brokerage clientele is decomposed as follows;

Table 7: Brokerage Volume Breakdown By Client: Total 29.9 Billion Baht

1Q03	% of Total Brokerage Volume
Private Sales	36%
Deutsche Bank & Foreign	37%
Local Institution	16%
Internet	9%
Others	2%

Investment Banking: TISCO maintained its leading role in investment banking industry as confirmed by several IPOs underwriting mandates at hand. As these were the deals postponed from last year, net fee income for 1Q03 was 50 million baht, roughly three fourth of its total fee income made in 2002.

Fund Management: Fund management service is provided by TISCO Asset management Co., Ltd. (TISCO Asset). It offers ranges of investing choices in provident

fund, mutual fund (including Retirement Mutual Fund), and private fund. With the combined asset under management of 39.9 billion baht by 1Q03, TISCO has been trusted by an increased number of clients. Fee income in 1Q03 increased 9% y-o-y, leading net profit of TISCO Asset Management Co.,ltd. to be 19 million baht in 1Q03. The breakdown of funds under management is shown below.

Table 8: Asset Under Management Breakdown: Total 39.9 Billion Baht

As of March 03	Fund size (Billion)
Provident Fund	32.4
Private Fund	3.9
Mutual Fund	3.5

With the market being relatively liquid and low interest rate, TISCO Asset plans to continue to expand its customer base, while maintaining expertise in investment and administrative services to efficiently support an increasing fund base.

Other Business

TISCO acquired Thai Permsap Finance Co., Ltd. in November 2001 as part of its plan to upgrade to become a restricted bank in the future. Regardless the restricted bank option, the Company is open to other alternatives if they could help the company achieve business goal faster and cheaper. The Company has no plans to operate any business under Thai Permsap. As for Thai Information Technology Co., Ltd., it mainly provides technology service to TISCO Group.

Risk Management

Over the first quarter of 2003, the development focus of TISCO risk management is on policy & guideline and consequent risk monitoring and reporting process. For policy & guideline, risk management policy and all guidelines have been comprehensively reviewed to be in line with the regulatory and risk environment. Risk management policy was revised to better provide a broad framework of risk management as well as its long-term direction, which is aligned with corporate vision, mission and strategy. The framework was then effectively implemented by risk management guidelines, which carry out all procedures, rules, and limits to control and manage all material risks.

Under a newly structured control framework, two core risk management guidelines has been formulated, integrated risk management guideline and funding risk guideline. Integrated risk management guideline involves the management and control of credit risk, market risk and operational risk in an integrated manner, which comprehensively cover all key business areas in TISCO Group. According to new BOT's regulation on funding risk management, funding risk guideline has been separately formulated together with fully revised processes of funding risk assessment, monitoring and reporting. Funding risk model has been rebuilt to reflect analysis of cash flow mismatch based on both contractual and client-behavior supported by high security database & IT system

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Financial position of TISCO continued to be very strong with more than 56 % capital surplus in excess of the risk position. The total risk position as of 1Q03 can be measured into risk capital of approximately 3,469 MM comparing against TISCO capital base of 8,008 MM. Most of risk comes from credit exposure, followed by risks from equity holdings, which are accounted for 49% and 24% of total risk, respectively.