

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR YEAR ENDED DECEMBER 31, 2003**

The overall Thai economy in 2003 expanded significantly. The Fiscal Policy Office (FPO) revised up the projected growth rate of the Thai economy in 2003 from 6.1% p.a. to 6.4% p.a. The economic expansion in 2003 was driven by government policies, consumer and investor confidence, low interest rate environment and economic stability. The private consumption continued to play crucial role in economic expansion. The average growth of Private Consumption Index for the first 11M 2003 was 5.1% y-o-y. Passenger car and motorcycle for the first 11M 2003 grew at the average of 40.9% and 29.7% y-o-y, respectively.

In respect to capital market, economic stability, low interest rate environment and good corporate earnings attracted capital inflow to the stock market which resulted in an active stock market throughout 2003. The Stock Index increased to close at 722.15 points by the end of December 31, 2003 compared with 356.48 points in 2002. The market daily turnover surged from B8,356.91m in 2002 to B18,908.02m.

**OPERATING RESULTS FOR THE YEAR ENDED DECEMBER 31, 2003**

TISCO and its subsidiaries consolidated net profit of 2003 was B1,890.28m, an increase of 63.8% y-o-y. The major contribution to the net profit rise was not only a strong expansion of hire purchase business but also the very strong growth in brokerage, asset management and investment banking businesses. While hire purchase portfolio grew 39.0% y-o-y, its interest income rose by 30.3% y-o-y to B2,410.07m. Meanwhile, brokerage commissions and fee income rose by 133.4% to B824.86m, and 90.2% to B1,046.12m, respectively. Fully diluted EPS were 2.60 baht in 2003, representing 62.5% growth y-o-y. An average annualized ROE (excluding minority interest) was 21.4%

Revenue structure of TISCO and its subsidiaries for 2002 and 2003 was illustrated below.

**Table 1: Consolidated Revenue Structure**

Type of Revenue	2002		2003		% Change
	Amount (Bm)	%	Amount (Bm)	%	
<b>TISCO</b>					
Interest and dividend income					
Loan and deposits	1,012.36	30.3	818.44	17.8	(19.2)
Hire purchase and financial lease	1,240.37	37.1	1,684.70	36.7	35.8
Securities	467.33	14.0	283.25	6.2	(39.4)
Expenses on borrowings	(1,196.97)	(35.8)	(1,098.72)	(23.9)	(8.2)
Net interest and dividend income	<i>1,523.09</i>	<i>45.5</i>	<i>1,687.67</i>	<i>36.7</i>	<i>10.8</i>
Bad debts and doubtful accounts	(484.46)	(14.5)	(201.30)	(4.4)	(58.4)
<b>Interest and dividend income - net of bad debts and doubtful accounts</b>	<b><i>1,038.63</i></b>	<b><i>31.0</i></b>	<b><i>1,486.37</i></b>	<b><i>32.3</i></b>	<b><i>43.1</i></b>
Non-interest income					
Fee and charges	193.78	5.8	378.81	8.2	95.5
Gain on trading securities	508.91	15.2	303.74	6.6	(40.3)
Others	185.62	5.5	109.31	2.4	(41.1)
<b>Total non-interest income</b>	<b><i>888.31</i></b>	<b><i>26.6</i></b>	<b><i>791.86</i></b>	<b><i>17.2</i></b>	<b><i>(10.9)</i></b>
<b>Total – TISCO</b>	<b><i>1,926.94</i></b>	<b><i>57.6</i></b>	<b><i>2,278.23</i></b>	<b><i>49.6</i></b>	<b><i>18.2</i></b>
<b>Subsidiaries</b>					
Interest and dividend income					
Loans and deposits	24.11	0.7	18.71	0.4	(22.4)
Hire purchase and financial lease	609.36	18.2	725.37	15.8	19.0
Securities	15.54	0.5	34.87	0.8	124.4
Expense on borrowings	(70.06)	(2.1)	(117.44)	(2.6)	67.6
Net interest and dividend income	<i>578.95</i>	<i>17.3</i>	<i>661.51</i>	<i>14.4</i>	<i>14.3</i>
Bad debts and doubtful accounts	(33.29)	(1.0)	(64.46)	(1.4)	93.6
<b>Interest and dividend income – net of bad debts and doubtful accounts</b>	<b><i>545.66</i></b>	<b><i>16.3</i></b>	<b><i>597.05</i></b>	<b><i>13.0</i></b>	<b><i>9.4</i></b>
Non-interest income					
Brokerage fees	353.34	10.6	824.86	17.9	133.4
Fee and charges	356.16	10.6	667.31	14.5	87.4
Gain on trading securities	115.85	3.5	192.53	4.2	66.2
Others	47.67	1.4	36.00	0.8	(24.5)
<b>Total non-interest income</b>	<b><i>873.02</i></b>	<b><i>26.1</i></b>	<b><i>1,720.70</i></b>	<b><i>37.4</i></b>	<b><i>97.1</i></b>
<b>Total – Subsidiaries</b>	<b><i>1,418.68</i></b>	<b><i>42.4</i></b>	<b><i>2,317.75</i></b>	<b><i>50.4</i></b>	<b><i>63.4</i></b>
<b>Total – TISCO and Subsidiaries</b>	<b><i>3,345.62</i></b>	<b><i>100.0</i></b>	<b><i>4,595.98</i></b>	<b><i>100.0</i></b>	<b><i>37.4</i></b>

**Net Interest and Dividend Income**

Net interest and dividend income after provision for 2003 increased by 31.5% y-o-y to B2,083.40m. This was contributed from 30.3% y-o-y increase in hire purchase interest income, together with the decline in provision. TISCO and its subsidiaries bad debts and doubtful accounts in 2003 declined by 43.5% y-o-y to B263.08m as TISCO and its subsidiaries accelerated the allowance in 2002, while the allowance in 2003 was provided according to normal business expansion only.

**Non-Interest Income**

Non-interest income for 2003 increased 42.7% y-o-y to B2,512.57m. This was due to increase in brokerage fees by 133.4% y-o-y following a buoyant stock market condition in 2003. Trading volume of TISCO Securities Company Limited ("TISCO Securities") increased by 95.4% y-o-y to B314,112.05m in 2003.

TISCO and its subsidiaries fee income in 2003 increased 90.2% y-o-y to B1,046.12m due to an increase of fee from asset management and investment banking businesses. Gain on securities trading declined by 20.6% to B496.27m due to gain from non-listed securities booked in 2002.

**Operating Expenses**

By reducing fixed expenses and increasing variable expenses, namely personnel expenses, following business expansion, TISCO and its subsidiaries operating expenses, exclusive of goodwill write-off, increased 19.4% y-o-y to B2,344.71 m.

As a result of B833.48m goodwill fully written-off, the operating expenses including goodwill write-off, increased 61.8% y-o-y to B3,178.18m. Taking this into account, TISCO and its subsidiaries will save the goodwill amortization expense by B49.00m per year for the next 17 years.

**Corporate Income Tax:**

For 2003, TISCO and its subsidiaries recognized corporate income tax expenses from taxable income of B860.40m. After deducting loss carried forward of B578.65m, TISCO and its subsidiaries corporate income tax was B281.74m. Due to the economic expansion in 2003, TISCO and its subsidiaries recorded deferred income tax benefits of B797.72m. (see details in "Deferred Tax Assets") As a result, TISCO and its subsidiaries corporate income tax for 2003 was a gain of B515.98m.

**FINANCIAL POSITION AS OF DECEMBER 31, 2003**

**Assets**

Total assets increased 22.5% from the end of 2002 to B60,263.25m (B48,061.60m for TISCO and B12,201.65m for subsidiaries), driven by 39.0% expansion of hire purchase portfolio from B23,473.97m to B32,619.35m. Investment in securities as of the end of 2003, increased 31.0% from the end of 2002 to B8,095.58m.

**Investment in Securities**

At the end of 2003, total investment in securities increased from the end of 2002 by 31.0% to B8,095.58m. Investment in equity increased 58.8% to B4,197.93m, due mainly to a mark to market gain, while the increase in fixed income investment was for liquidity reserve purpose following the business expansion.

**Table 2: Investment in Securities Breakdown**

Type of Securities	December 31, 2002		December 31, 2003		% Change
	Amount (Bm)	%	Amount (Bm)	%	
<b>TISCO</b>					
Fixed income	3,423.63	55.4	3,324.71	41.1	(2.9)
Equity	2,193.94	35.5	3,876.64	47.9	76.7
FRA	6.53	0.1	6.53	0.1	0.0
<i>Total – TISCO</i>	<i>5,624.10</i>	<i>91.0</i>	<i>7,207.88</i>	<i>89.0</i>	<i>28.2</i>
<b>Subsidiaries</b>					
Fixed income	108.01	1.7	566.41	7.0	424.4
Equity	449.02	7.3	321.29	4.0	(28.4)
<i>Total- Subsidiaries</i>	<i>557.03</i>	<i>9.0</i>	<i>887.70</i>	<i>11.0</i>	<i>59.4</i>
<b>Total – TISCO and Subsidiaries</b>	<b>6,181.13</b>	<b>100.0</b>	<b>8,095.58</b>	<b>100.0</b>	<b>31.0</b>

**Loans and Receivables**

As described hereunder, total loans and receivables at the end of 2003 increased 20.0% from the end of 2002 to B48,992.18m, representing 81.3% of total assets.

**Table 3: Loans and Receivables Breakdown**

Type of Business	December 31, 2002		December 31, 2003		% Change
	Amount (Bm)	%	Amount (Bm)	%	
<b>TISCO</b>					
Commercial Lending					
Manufacturing and commerce	3,775.18	9.2	3,262.36	6.7	(13.6)
Real estate and construction	3,080.08	7.5	1,666.21	3.4	(45.9)
Public utilities and services	2,655.39	6.5	1,559.92	3.2	(41.3)
Others	1,885.76	4.6	2,612.78	5.3	38.6
Retail					
Hire purchase	18,671.44	45.7	27,851.48	56.8	49.2
Housing	2,665.51	6.5	2,431.38	5.0	(8.8)
Others	1,994.66	4.9	874.60	1.8	(56.2)
<i>Total – TISCO</i>	<i>34,728.02</i>	<i>85.1</i>	<i>40,258.73</i>	<i>82.2</i>	<i>15.9</i>
<b>Subsidiaries</b>					
Retail					
Hire purchase	4,802.53	11.8	4,767.88	9.7	(0.7)
Securities Business Receivables	1,099.60	2.7	3,428.00	7.0	211.7
Others	196.04	0.5	537.57	1.1	174.1
<i>Total – Subsidiaries</i>	<i>6,098.17</i>	<i>14.9</i>	<i>8,733.45</i>	<i>17.8</i>	<i>43.2</i>
<b>Total – TISCO and Subsidiaries</b>	<b>40,826.19</b>	<b>100.0</b>	<b>48,992.18</b>	<b>100.0</b>	<b>20.0</b>

An increase in loans and receivables was mainly due to the expansion of hire purchase portfolio, which continuously expanded from B23,473.97m as at the end of 2002 to B32,619.35m as at the end of 2003, or 39.0% increase.

In 2003, distinctively rise in trading volume from cash account clients took a major part in 211.7% increase in securities business receivables as compared to those in 2002.

**Non-performing Loans**

Due to the restructuring of commercial and mortgage loans, TISCO and its subsidiaries non-performing loan, following the new BOT definition, declined from B3,846.18m in 2002 to B3,415.42m in 2003, representing 7.0% of total loans and receivables. The breakdown of the NPL by business area is as follows.

**Table 4: NPL Breakdown by Area**

	December 31, 2002		December 31, 2003		% Change
	Amount (Bm)	%	Amount (Bm)	%	
<b>TISCO</b>					
Commercial	2,068.51	53.8	1,739.50	50.9	(15.9)
Retail					
Mortgage loans	861.30	22.4	624.12	18.3	(27.5)
Car hire purchase	146.06	3.8	287.42	8.4	96.8
Others	27.73	0.7	38.83	1.1	40.0
<i>Total – TISCO</i>	<i>3,103.60</i>	<i>80.7</i>	<i>2,689.87</i>	<i>78.8</i>	<i>(13.3)</i>
<b>Subsidiaries</b>					
Retail					
Car hire purchase	50.23	1.3	32.08	0.9	(36.1)
Motorcycle hire purchase	140.66	3.7	148.24	4.3	5.4
Others	551.69	14.3	545.23	16.0	(1.2)
<i>Total – Subsidiaries</i>	<i>742.58</i>	<i>19.3</i>	<i>725.55</i>	<i>21.2</i>	<i>(2.3)</i>
<b>Total – TISCO and Subsidiaries</b>	<b>3,846.18</b>	<b>100.0</b>	<b>3,415.42</b>	<b>100.0</b>	<b>(11.2)</b>

**Allowance for Doubtful Account and Loss on Debt Restructuring**

At the end of 2003, TISCO and its subsidiaries allowance for doubtful account and loss on debt restructuring was B4,599.63m (B3,881.63m for TISCO and B718.00m for subsidiaries). TISCO and its subsidiaries allowance for doubtful account and loss on debt restructuring to NPL ratio was 134.7%.

TISCO allowance was B3,881.63m, out of this amount, B2,899.45m was the reserve required by Bank of Thailand (“BOT”). With conservative provisioning policy, TISCO and its subsidiaries total reserve was 133.9% of the BOT requirement.

**Deferred Tax Assets:**

In accordance with the international accounting standard, TISCO and its subsidiaries provide for deferred income tax resulting from temporary differences in income and expenses recognized for financial reporting and income tax reporting purposes. Accordingly, the income tax applicable to income, which is not currently recognized, or to expenses, which are not currently deductible for income tax purposes, is set up as “Deferred income tax” in the balance sheets. This will be allocated to future periods when the income is realized, or expenses provided for are actually incurred and considered deductible for income tax purposes. TISCO and its subsidiaries recognize tax benefits as assets in their book of account if it is highly probable that TISCO and its subsidiaries will generate sufficient profits from their future operations to utilize these benefits. Therefore, the performance is appropriately reported with respect of income and expenses matching.

## *Management's Discussion & Analysis*

Due to economic crisis and uncertainty of deferred tax benefits utilization considering net loss during 1997-1999, TISCO and its subsidiaries have ceased to recognize the deferred tax benefits since 2000. It has been 3 consecutive years that TISCO and its subsidiaries have generated profit and the economy has shown good sign of recovery. Consequently, TISCO and its subsidiaries, in accordance with the international accounting standard, have booked the deferred income tax benefits again in this year. In 2003 TISCO and its subsidiaries recorded deferred income tax as revenue for B797.72m. This was due mainly to the temporary differences in providing loan loss provision and recognizing interest income under conservative accounting policy. TISCO has set aside loan loss provision in excess of the BOT's requirement, which are not considered deductible expenses for income tax purposes. Moreover, TISCO has also stopped accruing interest income for restructured loans or commercial loans with 1 month overdue, which was more stringent than the BOT's standard of 3 month overdue; thus the interest income of the 2-month difference must be added back for income tax purpose.

As a result, deferred tax assets as at the end of 2003 stood at B623.15m.

### **Goodwill:**

Following conservative accounting policy, TISCO and its subsidiaries fully wrote off goodwill in investment in subsidiaries of B833.48m in 2003. Therefore, TISCO and its subsidiaries will save the goodwill amortization expense by B48m per year for the next 17 years. In December 2003, TISCO absorbed entire assets and liabilities of TruWay following its plan to restructure the holding in TISCO and its subsidiaries to reduce the shareholding redundancy and to have TISCO directly hold all subsidiaries.

### **Liabilities**

Total liabilities of TISCO and its subsidiaries as at the end of 2003 were B49,542.15m, 19.7% increase from 2002. This was due to 15.8% increase in debenture as a result of the issuance of B400m 3 year unsecured debenture with coupon rate of 3.25% p.a. by Hi-Way Co., Ltd. and the issuance of B500m 3 year unsecured amortizing debenture with coupon rate of 3.20% p.a. by Thai Commercial Auto Co., Ltd.. Both debentures obtained BBB+ rating from TRIS Rating Co., Ltd.

As at the end of 2003, securities business payable increased to B3,299.17m from B431.45m last year, following the active stock market. Major items of liabilities are as follows:

**Table 5: Liabilities Breakdown by Area**

Type of Borrowings	December 31, 2002		December 31, 2003		% Change
	Amount (Bm)	%	Amount (Bm)	%	
<b>TISCO</b>					
Public borrowings	30,472.50	73.6	32,987.55	66.6	8.3
Debenture	5,131.00	12.4	5,131.00	10.4	0.0
Banks and financial institutions borrowings	1,184.81	2.9	2,628.05	5.3	121.8
Other liabilities	916.23	2.2	964.48	1.9	5.3
<i>Total – the Company</i>	<i>37,704.54</i>	<i>91.1</i>	<i>41,711.08</i>	<i>84.2</i>	<i>10.6</i>
<b>Subsidiaries</b>					
Public borrowings	471.25	1.1	924.39	1.9	96.2
Debenture	-	-	810.00	1.6	n.a.
Banks and financial institutions borrowings	2,079.42	5.0	1,474.47	3.0	(29.1)
Securities Business Payable	431.45	1.0	3,299.16	6.7	664.7
Other liabilities	713.30	1.7	1,323.05	2.7	85.5
<i>Total – Subsidiaries</i>	<i>3,695.42</i>	<i>8.9</i>	<i>7,831.07</i>	<i>15.8</i>	<i>111.9</i>
<b>Total – TISCO and Subsidiaries</b>	<b>41,399.96</b>	<b>100.0</b>	<b>49,542.15</b>	<b>100.0</b>	<b>19.7</b>

Under the circumstances of low interest rate in 2003, deposits from public borrowing remained the main source of fund, representing 68.5% of total liabilities. To reduce interest rate risk, the alternative source of fund was debenture of which portion increased to 12% of total liabilities.

For borrowing and lending business, the movement of interest rates may affect TISCO net interest income should the pricing of interest for assets and liabilities is mismatched. In this particular case, TISCO and its subsidiaries exposed to very low interest rate risk, as most of their assets and liabilities were matched. Thus, the interest spread was well maintained.

### **Shareholders' Equity**

Shareholder's equity of TISCO and its subsidiaries as at the end of 2003 increased from B7,812.23m last year to B10,721.11m. It was due mainly to the net profit of B1,890.28m, and the increase of revaluation of available-for-sale securities including net effect of the 30% corporate tax.

The BIS capital adequacy ratio of TISCO remained solid at 21.4% comparing to the minimum of 8.0% required by BOT. The net capital ratio (NCR) of TISCO Securities stood at 35.1% comparing with the minimum of 7.0% required by SEC.

## **BUSINESS PERFORMANCE BY AREA**

Details of TISCO and its subsidiaries business performance by core business functions are presented below.

### **Finance Business**

Finance business at TISCO and its subsidiaries includes hire purchase, commercial lending, and mortgage finance.

#### **Hire Purchase**

Other than TISCO, hire purchase business also operates under its subsidiaries including TISCO Leasing Co., Ltd., Hi-Way Co., Ltd, and Thai Commercial Auto Co., Ltd. TISCO and its subsidiaries hire purchase portfolio expanded 39.0% from 2002 to B32,619.35m. The breakdown of hire purchase business is as follows:

**Table 6: Hire Purchase Portfolio Breakdown by Company**

Company	December 31, 2002		December 31, 2003		% Change
	Amount (Bm)	%	Amount (Bm)	%	
TISCO	18,671.44	79.5	27,851.48	85.4	49.2
Thai Commercial Auto	2,658.97	11.3	2,833.02	8.7	6.5
Hi-Way	1,148.40	4.9	1,214.80	3.7	5.8
TISCO Leasing	910.79	3.9	720.06	2.2	(20.9)
Tru-Way <sup>1</sup>	84.36	0.4	0.00	0.0	(100.0)
Total	23,473.97	100.0	32,619.35	100.0	39.0

<sup>1</sup> TISCO absorbed Tru-Way business in 29 December 2003

#### **Commercial Lending**

TISCO mainly focused on maintaining market share as the market yet expanded, and reducing NPLs by 15.9% y-o-y by accelerating the debt restructuring process. Gross loan portfolio of commercial lending as at the end of 2003 was B9,122.86m, reduced from B12,229.90m last year.

#### **Mortgage Loan**

Same as commercial lending, TISCO focused on maintaining market share and reducing NPLs. Due to the success in debt restructuring, NPLs declined by 27.5% y-o-y. The amount of mortgage loan declined from B2,665.51m to B2,431.38m.

### **Securities Business**

TISCO Securities mainly operates in securities brokerage and investment banking businesses. Meanwhile, TISCO Securities Hong Kong Ltd. provides securities brokerage services to foreign investors who are interested in investing in Thailand, China and Hong Kong.

In July 2003, TISCO Securities was awarded the “Best Brokerage Service - Retail Clients” and “Best of Research House” from the Stock Exchange of Thailand.

### **Securities Brokerage**

TISCO Securities focuses on providing quality service and research to both institutional and private investors. TISCO Securities entered into a cooperative arrangement with Deutsche Securities to jointly build a high quality equity research so as to expand distribution channel and reach the broader international markets. The average market daily turnover surged from B8,356.91m in 2002 to B18,908.02m in 2003. TISCO Securities' brokerage volume increased accordingly, which caused the brokerage fee increased by 133.4% to B824.86m in 2003. TISCO Securities Hong Kong's brokerage fee in 2003 also increased. However, TISCO Securities' market share dropped slightly to 3.4% as the increase in market turnover mainly came from net settlement clients which were not TISCO Securities' focused clients.

### **Investment Banking**

In 2003, TISCO Securities has maintained its lead position in Investment Banking. It was appointed a lead underwriter for the share offering of many companies; namely, Siam City Bank Plc., EGV Entertainment Plc., MFEC Plc., Kim Eng Securities (Thailand) Plc., and Picnic Gas & Engineering Plc. In addition, TISCO Securities has been chosen as financial advisor for privatization of several state enterprises such as Electricity Generating Authority of Thailand and TOT Corporation Plc. As a result, fee and service income of TISCO Securities in 2003 increased 167.3% y-o-y to B167.52m.

### **Asset Management**

Asset management business is operated under TISCO Asset Management Co., Ltd. It offers fund management services for provident fund, private fund and mutual fund (including Retirement Mutual Fund) with a range of investment choices. It managed total assets of B56,459.42m in 2003, which contributed the fee income of B409.95m, and increase of 94.3% y-o-y. The breakdown of assets under management is shown below.

**Table 7: Asset under Management Breakdown by Type of Fund**

Type of Fund	December 31, 2002		December 31, 2003		% Change
	Amount (Bm)	%	Amount (Bm)	%	
Provident Fund	31,742.84	80.7	37,805.26	67.0	19.1
Private Fund	4,005.78	10.2	13,762.01	24.4	243.6
Mutual Fund	3,586.86	9.1	4,892.15	8.6	36.4
Total	39,335.48	100.0	56,459.42	100.0	43.5

### **Other Business**

Thai Information Technology is TISCO's subsidiary providing IT services to TISCO and its subsidiaries. TISCO Global Investment Holding Ltd. was set up in Hong Kong to act as a holding company for investment in aboard. TISCO acquired Thai Permsap Finance Co., Ltd. in 2001 as part of its plan to upgrade to a restricted bank. As the Financial Master Plan has not yet been announced, TISCO continued to keep Thai Permsap dormant.

**RISK MANAGEMENT**

TISCO maintains its good standard in risk management and internal control system as affirmed by the external auditor and the Bank of Thailand. TISCO's risk absorption capacity remained high as its capital at risk estimated internally stood at B5,117m in 2003, accounting for only 49.8% of total equity of B10,277m coupled with the excessive loan loss reserves in comparing to the BOT's requirement.

Over the year, credit and market risks have increased materially in accordance with the business expansion. Credit risk rose by approximately 10% as a result of aggressive retail loan portfolio expansion. Market risk from equity investment jumped dramatically by 74%, resulted mainly from the appreciation of stock prices. Meanwhile, interest rate risk was maintained at low level as the average time differences in re-pricing interest between interest-bearing assets and liabilities was near zero.