

MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004

ECONOMIC CONDITIONS

The overall Thai economy in 2004 showed a slight slowdown with a decrease of GDP growth from 6.8% in 2003 to 6.5%, according to the research department of TISCO Securities Co., Ltd. The disasters from the Tsunami in 6 southern provinces of Thailand at the end of the year are expected to have an impact to Thai economy in 2005. In terms of financial market, due to the continuing inflationary pressure and the upward trend of interest rate, the Bank of Thailand raised its policy rate three times in 2004 from 1.25% at the end of 2003 to 2.00%.

The Management's Discussion and Analysis compares operating performance and financial position of the year 2004 and the year 2003.

SUMMARY OF OPERATING RESULTS

The Company and subsidiaries net profit for the year 2004 increased by 17.7% y-o-y to B2,224.27m. The total net income increased by 17.2% y-o-y to B5,385.03m, contributed from a 27.5% y-o-y increase in net interest and dividend income, after bad debts and doubtful accounts, from B2,083.40m to B2,655.57m, and a 8.6% y-o-y increase in non-interest income from B2,512.57m to B2,729.46m.

Diluted EPS for 2004 was B3.05 compared with B2.60 of 2003. The average annualized ROEs was 19.1%.

INTEREST AND DIVIDEND INCOME AND BALANCE SHEET GROWTH

Net interest and dividend income after bad debts and doubtful accounts for the year 2004 rose by 27.5% to B2,655.57m, contributed mainly from the continued growth of hire purchase portfolio, the decrease in funding cost resulting from declining interest rates, and the improvement in asset quality. The ratio of the net interest and dividend income to total income was 49.3%, increased from 45.3%.

The Company and subsidiaries' total assets increased by 10.0% from B60,263.25m to B66,296.04m as loan portfolio expanded by 22.4% to B55,759.84m. Hire purchase loans expanded by 32.3% to B38,573.79m while corporate loan grew by 13.0% to B10,924.18m. In the 4th quarter of 2004, corporate and hire purchase loans significantly expanded from the 3rd quarter by 5.5% and 9.0%, respectively. Net investments in securities decreased by B2,883.41m from the end of 2003, following the decrease of investment in fixed-income securities due to anticipation of upward interest rate trend.

The source of funds to support loan growth was mainly from borrowings and deposits, totaling B44,640.35m, an increase of 17.1%, with an emphasis on fund raising from public deposits. The proportion of borrowings and deposits to total liabilities increased from 76.9% to 83.1%. The ratio of loans (excluding accrued interest) to total deposits and borrowings stood at 127.6%.

Shareholder's equity increased from B10,721.10m to B12,580.90m, an increase of 17.3%. The change was mainly contributed from the 2004 annual net profit of B2,224.27m, the dividend payment of B648.53m in the month of April, and an increase of revaluation surplus after tax adjustment of B222.47m resulted from changes in the surplus value of equity investment (tax-adjusted), which increased from B1,032.91m to B1,255.38m at the end of 2004.

NON-INTEREST INCOME

Non-interest income grew by 8.6% to B2,729.46m, resulted from the increase in commissions income from brokerage business, following the rising market turnover and market share, and the increase in fees and services income from investment banking business. Furthermore, in October and November, Company divested 24.34 million shares of Thai Oil Plc. through its IPO, contributing to the total gain from investments of B567.10m.

OPERATING EXPENSES

With a goodwill write-off of B833.48m in 2003, the operating expense for 2004 was significantly lower than that of 2003. However, if the effect of goodwill write-off was excluded, the operating expense of the Company and subsidiaries increased by 12.9% to B2,646.32m, lower than the growth in net income of 17.5%.

While direct expenses such as sales promotional expenses, rose 20.8% to B721.02m with the increased business activities, normal operating and administrative expenses increased 10.1% from B1,748.02m to B1,925.31m, consisting of B1,259.00m of personnel expenses, which grew by only 5.9% from the previous year, and B666.31m of non-personnel expenses, which rose by 19.2%. The high growth of non-personnel expenses was contributed by the acceleration of expense recognition for investment in preparation for bank upgrade.

In 2003, there was a tax benefit of B515.98m due to the tax loss carried forward, while in 2004 there was a corporate tax amounted to B478.93m, or a 17.5% effective rate.

ASSET QUALITY AND LOAN LOSS RESERVE

The Company and subsidiaries' NPLs to total loans ratio decreased from 7.0% at the end of 2003 to 5.8%, following the expansion of loan portfolio with the improvement of the asset quality. The Company and subsidiaries's NPLs decreased by B106.23m to B3,303.78m, (B2,628.15m for the Company and B675.63m for subsidiaries). The main reasons for the decrease in NPL's were the improvement in asset quality and the acceleration of debt restructuring process. In determining the NPLs, the Company has taken into account both the qualitative and quantitative criteria according to the Bank of Thailand's requirements. From the Bank of Thailand's auditing of the Company in May 2004, the change in provisioning guideline had no effect on the Company and subsidiaries' provisioning, as it had set aside reserve provisions significantly higher than the BOT requirement. In addition, the new BoT's guideline concerning collateral would mainly affect mortgage loans, which the Company had only in a small portion comparing to other loans. Therefore, no additional reserve provisioning was required.

The Company and its subsidiaries' allowance for doubtful account and loss on debt restructuring was B4,288.37m, and the ratio of the allowance for doubtful account and loss on debt restructuring to NPLs ratio was 129.8%. From the total amount of allowance, the Company's allowance was B3,590.55m, consisting of B2,766.27m of specific reserve and B824.28m of general reserve, which was greater than the minimum requirement of the Bank of Thailand (BoT) of B2,350.99m. This follows a conservative provisioning policy aimed to protect the Company from potential risks to its operations. The Company will consider to recognize these excess provisions as income when customers' loan repayment capability become clearer.

BUSINESS SEGMENT PERFORMANCE

(1) Finance Business

Finance business comprises of corporate loans and retail loans, which operates by TISCO Finance Plc and its subsidiaries; TISCO Leasing Co., Ltd., Hi-Way Co., Ltd., and Thai Commercial Auto Co., Ltd.

A. Commercial Finance Business

Corporate loan portfolio of the Company and subsidiaries as of December 31, 2004 amounted to B10,924.18m, an increase of 13.0%. There was a strong expansion of corporate loan portfolio in the 4th quarter of 2004, which rose by 5.5% from the 3rd quarter. The NPL ratio declined from 11.9% to 9.2%, resulting from the strong expansion of the corporate loan portfolio and improved asset quality.

B. Retail Finance Business

Retail finance business comprised car and motorcycle hire purchase, mortgage loan, and other consumption loans. Hire purchase loans accounted for 94.1% of total retail loans. The outstanding hire purchase portfolio was B38,573.79m, a 32.3% increase from the end of 2003. New loan extended in 2004 amounted to B24,976.46m, following the 17.3% y-o-y growth in the industry car sales for the year 2004, coupled with the company's aggressive expansion strategy to increase market share. The penetration rate for the 2004 was at 7.6% compared to 6.6% at the end of 2003.

The NPL ratio of hire purchase portfolio increased from 1.5% to 1.9%, adjusting to the normal condition as the extraordinary high level of new loan proportion in the portfolio, resulted from super strong growth over the past 2 –3 years, started to return to normal level. The occurrence of hire purchase NPLs will normally spread through out the 3-5 years contract maturities. When the loan growth returns to the constant level, the NPL ratio shall also return to the constant level as the quality of assets remains high.

(2) Securities Business

Securities business comprised of securities brokerage and investment banking, which operates under TISCO Securities Co., Ltd and asset management business which operates under TISCO Asset Management Co., Ltd.

A. Securities Brokerage Business

TISCO Securities Co., Ltd's trading volume increased by 12.7%, following the increase in market turnover and the continuing expansion of customer base, both from institutional and retail segments. As a result, its market share rose from 3.36% to 3.52% and the commission fee increased from B759.32m to B854.66m.

B. Investment Banking Business

TISCO Securities Co., Ltd. still maintained its lead position in the business, as evidenced in the company's being appointed as financial advisor and underwriter for several securities offerings and listings such as TPI Polene Plc., Pacific Pipe Plc., Syrus Securities Plc., and Thainox Stainless Plc. Fees and services income consequently increased 127.4% to B360.93m.

C. Asset Management

TISCO Asset Management Co., Ltd., providing provident fund, private fund, mutual fund and retirement mutual fund services. The total assets under management was B67,704.15m, increased by 19.9% from B56,459.42m, following the increase in funds' NAV, additional investments from investors, and increase in customer base. The basic fee in 2004 was B206.79m, increased from B165.06m, while there was no incentive fee income from fund performance sharing, due to the sluggish stock market condition.

Total market share of TISCO Asset Management Co., Ltd at the end of 2004 was 7.3%, the 4th rank of the market. Market share of provident fund, private fund, and mutual fund were 13.9% at the 2nd rank, 13.8% at the 2nd rank, and 1.4% at the 13th rank, respectively.

RISK MANAGEMENT

During the year 2004, the capital base rose by 17.3% to B12,580.90m, comparing with the estimated capital at risk that increased by 19.6% to B6,055.16m, following allocation of more capital to businesses to generate income. Capital surplus remained high at 55.1% of total capital, reflecting a continuously strong capital position to support future business expansion. The regulatory capital adequacy ratio (BIS ratio) remained strong at 19.6%, with a tier-I capital ratio of 17.5%, higher than the 8.0% minimum requirement of the Bank of Thailand. The net capital ratio (NCR) of TISCO Securities Co., Ltd. stood at 56.5% comparing with the minimum of 7.0% required by the SEC.

Risk Capital or the amount of capital required to support integrated risk exposures, comprising credit risk, market risk, and operational risk, estimated from internal risk model, increased from B5,064.02m to B6,055.16m. The increased risks were mainly contributed by strong expansion of hire purchase loan portfolio, growing equity investment exposure, and rising interest rate sensitivity.

Credit risk capital rose 25.3% to B2,861m from continuing automobile hire purchase loan expansion, especially in the used car market. In year 2004, loan approval through credit scoring system has been rolled-out into the provincial loan offices, increasing the overall accuracy of the probability of defaults estimation.

Market risk capital increased 15.4% to B2,578m mainly due to additional investment in equity and increase of interest rate repricing gap. For interest rate risk, the durations of assets and liabilities changed from 1.14 and 1.06 to 1.22 and 0.72 respectively. The difference in the duration of assets and liabilities increased from 1 month to 6 months, as deposit profiles shifted toward shorter maturity during the interest rate uptrend while fixed-rate hire purchase portfolio continued to expand. However, the shift also resulted in lowering of the cost of funds, therefore interest rate risk is perceived to remain acceptable and manageable in terms of potential impact on interest income.

CORPORATE AND BUSINESS STRATEGIES ISSUES

Commercial Bank Upgrade

After TISCO bank upgrade proposal was approved by the Ministry of Finance on October 22, 2004, the company has started implementations according to the upgrade plans. The company has signed I-Flex Solutions Ltd. to be the vendor and implementer of the Core Banking System which will complete by June 2005. The company also hired IBM Co., Ltd. as an advisor and project manager for the implementation of the core banking system, who will also be the outsource vendor for data center when the bank commences operations.

In addition, working teams were set up to carry out activities according to the upgrade plan. The working teams responsibilities cover the areas of the office infrastructure, branch operations, accounting, risk management, human resources and training, organization and management, banking processes, product development and information technology. The initial investments are approximately B155m with operating expenditure estimated at B90m per year. The bank is expected to commence its operation within 3rd quarter of 2005.

Figure 1: Compositions of Assets, Liabilities, and Equity of the Company and subsidiaries

	December 31, 2003		December 31, 2004		% Change
	Amount (Bm)	%	Amount (Bm)	%	
Assets					
Corporate Loans	9,667.53	16.0	10,924.18	16.5	13.0
Retail Loans	31,699.97	52.6	40,971.27	61.8	29.2
Other Loans	7,624.68	12.7	5,089.28	7.7	(33.2)
Allowance	(4,599.63)	(7.6)	(4,288.37)	(6.5)	(6.8)
Fixed-income	3,891.12	6.5	994.48	1.5	(74.4)
Equity	4,197.93	7.0	4,217.69	6.4	0.5
Other Assets	7,781.65	12.8	8,387.51	12.7	7.8
Total Assets	60,263.25	100.0	66,296.04	100.0	10.0
Liabilities					
Borrowings and Deposits	38,113.90	76.9	44,640.35	83.1	17.1
Debentures	5,941.00	12.0	5,941.00	11.1	0.0
Other Liabilities	5,485.25	11.1	3,133.79	5.8	(42.9)
Total Liabilities	49,542.15	100.0	53,715.14	100.0	8.4
Total Equity	10,721.10	-	12,580.90	-	17.3

Figure 2: Loans and Receivables Breakdown

Type of Business	December 31, 2003		December 31, 2004		% Change
	Amount (Bm)	%	Amount (Bm)	%	
Commercial Lending	9,667.53	21.2	10,924.18	19.6	13.0
Manufacturing and commerce	4,903.81	10.8	5,525.07	9.9	12.7
Real estate and construction	2,578.56	5.7	3,500.24	6.3	35.7
Public utilities and services	2,072.38	4.5	1,744.45	3.1	(15.8)
Agriculture and mining	112.79	0.2	154.43	0.3	36.9
Retail Lending	31,699.97	69.6	40,971.27	73.5	29.2
Hire purchase	29,154.27	64.0	38,573.79	69.2	32.3
Housing	2,545.70	5.6	2,397.48	4.3	(5.8)
Others	4,196.68	9.2	3,864.39	6.9	(7.9)
Total	45,564.18	100.0	55,759.84	100.0	22.4

Figure 3: NPL Breakdown by TISCO Business Area of the Company and subsidiaries

Type of Business	December 31, 2003		December 31, 2004		% Change		
	% NPL	Amount (Bm)	% NPL	Amount (Bm)			
Commercial	11.9	1,153.86	33.8	9.2	1,009.82	30.6	(12.5)
Retail							
Car hire purchase	1.5	434.77	12.7	1.9	719.52	21.8	65.5
Mortgage loans	17.8	452.80	13.3	15.7	375.63	11.4	(17.0)
Securities	15.4	529.14	15.5	38.5	471.21	14.3	(10.9)
Others	20.0	839.54	24.6	18.8	727.60	22.0	(13.3)
Total	7.0	3,410.01	100.0	5.8	3,303.78	100.0	(3.1)

Figure 4: Asset under Management Breakdown by Type of Fund

Type of Fund	December 31, 2003		December 31, 2004		% Change
	Amount (Bm)	%	Amount (Bm)	%	
Provident Fund	37,805.26	67.0	42,471.28	62.7	12.3
Private Fund	13,762.01	24.4	18,458.16	27.3	34.1
Mutual Fund	4,892.15	8.6	6,774.71	10.0	38.5
Total	56,459.42	100.0	67,704.15	100.0	19.9

Figure 5: Average Duration Mismatch of Assets and Liabilities and Its Impact (*Baht million)

	Duration		1-Y Net interest income* change to 1% interest rate increase	
	2003	2004	2003	2004
Assets	1.14	1.22	189.39	190.15
Liabilities	1.06	0.72	-215.52	-267.77
Net Gap			-26.13	-77.62