

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE FIRST QUARTER OF 2005 ENDED MARCH 31, 2005**

**ECONOMIC CONDITIONS**

The overall Thai economy in the first quarter of 2005 showed a slight slowdown with a decrease of GDP growth from 6.1% in 2004 to 5.4%, according to the research department of TISCO Securities Co., Ltd. The economic contraction was driven by the rising oil price, the drought in many areas, and the unrest situation in the southern part of Thailand. 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 by 25bps to 2.25%.

**The Management's Discussion and Analysis compares operating performance of the 1<sup>ST</sup> quarter of year 2005 and the 1<sup>ST</sup> quarter of year 2004. Meanwhile, financial position is a comparison between the financial position as of March 31, 2005 and December 31, 2004.**

**SUMMARY OF OPERATING RESULTS**

The Company and subsidiaries net profit for the 1<sup>st</sup> quarter of 2005 decreased by 14.1% y-o-y to B517.12m. The total net income decreased by 7.2% y-o-y to B1,301.16m, contributed from a 18.4% y-o-y decrease in non-interest income from B725.22m to B591.94m, and a 4.7% y-o-y increase in net interest and dividend income, after bad debts and doubtful accounts, from B677.34m to B709.22m.

Diluted EPS for first 3 months was B0.71 compared with B0.83 that of the same period of 2004. The average annualized ROEs was 16.8%.

**INTEREST AND DIVIDEND INCOME AND BALANCE SHEET GROWTH**

Net interest and dividend income after bad debts and doubtful accounts for 1<sup>st</sup> quarter of 2005 rose by 4.7% to B709.22m, contributed mainly from the continued growth of hire purchase portfolio, the increase in dividend income from equity portfolio, and the write-back from provision of loan loss of B60.10m. The ratio of the net interest and dividend income to total income was 54.5%, increased from 48.3%.

The Company and subsidiaries' total assets as of March 31, 2005 were B70,710.67m increased by B4,414.63m or 6.7% from the end of 2005 and increased by B9,486.67m or 15.5% y-o-y. Details are presented below.

Cash and deposits at financial institutions as of March 31, 2005 were B1,225.86m decreased by B259.37m or 17.5% from the end of 2005 while loans to financial institutions as of March 31, 2005 were B1,140.38m increased by B1,102.54m q-o-q.

Loan portfolio as of March 31, 2005 was B57,914.17m increased by B2,154.33m or 3.9% driven by the increase of hire purchase loans which were B40,641.91m increased by B2,068.12 or 5.4%. Corporate loan grew by 0.2% to B10,947.36m.

Net investments in securities increased by B1,362.11m or 26.1% to B6,574.27m, following the increase in investment in fixed-income securities and the increase in market value of equity investment due to mark to market.

The Company and subsidiaries' total liabilities as of March 31, 2005 were B58,669.34m increased by B4,954.19m or 9.2% and increased by B8,500.22m or 16.9% y-o-y driven by the increase of borrowings and deposits from financial institutions which were B3,361.64m increased by B1,250.78m or 59.3% q-o-q. Borrowings and deposits from public were B41,927.26m increased by B1,707.79m or 4.2%.

Shareholders' equity as of March 31, 2005 decreased by B539.56m or 4.3% to B12,041.33m because the Company appropriated the retained earnings for dividend payment. However, shareholders' equity increased B986.45m or 8.9% y-o-y.

### **NON-INTEREST INCOME**

Non-interest income declined by 18.4% to B591.94m, resulted from a 34.0% y-o-y decrease from B316.98m to B209.33m in commissions income from brokerage business, following the stock market condition, and a 45.0% y-o-y decrease from B401.02m to B220.70m in fees and services income. It was resulted from a large amount of underwriting fee income from TPI Polene Plc, which occurred on January 2005.

However, if the fee income from investment banking business was excluded, the fee and services income rose by 19.0% from B175.97m to B209.33m. As a result, non-interest income grew by B80.40m or 16.1% to B580.57m.

### **OPERATING EXPENSES**

The operating expense of the Company and subsidiaries increased by 3.6% to B625.30m. While direct expenses such as sales promotional expenses, rose 15.1% to B187.25m with the increased business activities, normal operating and administrative expenses decreased 0.7% from B441.13m to B438.05m, consisting of B243.00m of personnel expenses, which decreased by 18.8% following the decline in brokerage fee income, and B195.05m of non-personnel expenses, which rose by 37.4%. The growth of non-personnel expenses was contributed by the expense for investment in preparation for bank upgrade.

In 2004, there was a tax benefit due to the tax loss carried forward, while in 2005 Company and subsidiaries starts paying corporate tax at normal rate. In this quarter, there was a corporate tax amounted to B150.79m.

### **ASSET QUALITY AND LOAN LOSS RESERVE**

The Company and subsidiaries' NPLs to total loans ratio remained at 5.8% from the end of 2004, despite the continued growth of loan portfolio. The Company and subsidiaries's NPLs increased by B142.67m to B3,446.45m, (B2,738.33m for the Company and B708.12m for subsidiaries), following the expansion of loan portfolio

with the improvement of the asset quality and the acceleration of debt restructuring process.

The Company and its subsidiaries' allowance for doubtful account and loss on debt restructuring was B4,245.91m, and the ratio of the allowance for doubtful account and loss on debt restructuring to NPLs ratio was 123.2%. From the total amount of allowance, the Company's allowance was B3,611.25m, consisting of B2,916.86m of specific reserve and B694.39m of general reserve, which was greater than the minimum requirement of the Bank of Thailand (BoT) of B2,418.24m. 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 are capable to fulfill the debt restructuring conditions.

## **BUSINESS SEGMENT PERFORMANCE**

The performance analysis for 3-month period ended March 31, 2005 was compared with that of the same period of last year. While the analysis of business volume was compared with that as of December 31, 2004. Details are presented below.

### ***Finance Business***

Finance business comprises of corporate loans and retail loans, which operates by TISCO Finance Plc and its subsidiaries; TISCO Leasing Co., Ltd., Thai Commercial Auto Co., Ltd., VLT Leasing Co., Ltd and Hi-Way Co., Ltd. Corporate loan portfolio of the Company and subsidiaries amounted to B10,947.36m, an increase of 0.2%. The NPL ratio increased from 9.2% to 9.6%.

Retail finance business comprised car and motorcycle hire purchase, and mortgage loan. Hire purchase loans accounted for 94.6% of total retail loans. The outstanding hire purchase portfolio was B40,641.91m, an increase of 5.4%, driven by the company's aggressive expansion. New loan extended in this quarter amounted to B6,628.11m, an increase of 9.4%. The penetration rate for the first 2 months of 2005 was at 8.0% compared to 7.6% at the end of 2004.

The NPL ratio of hire purchase portfolio increased from 1.9% to 2.3%, 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.

### ***Securities Business***

Securities business operates under TISCO Securities Co., Ltd. with securities brokerage and investment banking as the main businesses.

For brokerage business, TISCO Securities Co., Ltd managed to continually increase customer base, both from institutional and retail segments. Nevertheless, following

the market turnover, TISCO Securities' trading volume declined, resulting to a 34.0% decrease in brokerage fee income to B209.33m while market share was at 3.2%.

For investment banking, 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. Excluding TPI Polene Plc.'s underwriting fee income in the first quarter of 2004, fee and services income consequently increased 132.0% to B11.37m.

### ***Asset Management***

Asset management business operates under TISCO Asset Management Co., Ltd., providing provident fund, private fund, mutual fund and retirement mutual fund services. The total assets under management was B72,594.82m, increased by 7.2% from B67,704.15m, following the increase in funds' NAV, additional investments from investors, and increase in customer base. The basic fee was B56.07m, increased by 17.8% from B47.59m. The incentive fee income from fund performance sharing was B11.60m while there was no such income in 2004.

Total market share of TISCO Asset Management Co., Ltd as of February 2005 was 7.5%, the 4<sup>th</sup> rank in the market. Market share of provident fund was at the 2<sup>nd</sup> rank of 15.1%, private fund at the 2<sup>nd</sup> rank of 13.9%, and mutual fund at the 15<sup>th</sup> rank of 1.3%.

## **RISK MANAGEMENT**

In the first quarter of 2005, the capital base was B12,041.33m, comparing with the estimated capital at risk that increased by 2.5% to B6,209.20m, following the continued expansion of retail lending. Capital surplus remained high at 52.4% of total capital, reflecting a strong capital position to support future business expansion. The regulatory capital adequacy ratio (BIS ratio) remained high at 16.8%, with a tier-I capital ratio of 14.9%, higher than the 8.0% minimum requirement of the Bank of Thailand. The net capital ratio (NCR) of TISCO Securities Co., Ltd. stood at 81.7% 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 B6,054.53m at the end of 2004 to B6,209.20m at the end of 1<sup>st</sup> quarter of 2005, mainly contributed by strong expansion of car hire purchase loan.

Comparing with year end 2004, the credit risk capital rose 4.5% from B2,861.80m to B2,992.81m from continuing automobile hire purchase loan expansion. Meanwhile, the market risk capital decreased from B2,578.41m to B2,569.67m, mainly due to the increase in market value of equity investment and the decline of mismatch duration of asset and liabilities. For interest rate risk, the durations of assets and liabilities changed from 1.22 and 0.72 to 1.18 and 0.74 respectively. The difference in the duration of assets and liabilities slightly decreased from 6 months to 5.28 months, as deposit profiles slightly shifted toward longer maturity. Interest rate risk remained stable and perceived to manageable in terms of potential impact on overall interest income.

## **CORPORATE AND BUSINESS STRATEGIES ISSUES**

### ***Commercial Bank Upgrade***

The Company has already fulfilled all approval conditions set forth by the Ministry of Finance and plan to file the application for commercial banking business license in April 2005. The Bank is expected to commence its operation in the 3<sup>rd</sup> quarter of 2005 as planned.

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

	March 31, 2005		December 31, 2004		% Change
	Amount (Bm)	%	Amount (Bm)	%	
<b>Assets</b>					
Corporate Loans	10,947.36	15.5	10,924.18	16.5	0.2
Retail Loans	42,977.55	60.8	40,971.27	61.8	4.9
Other Loans	5,781.31	8.2	5,089.28	7.7	13.6
Allowance	(4,245.91)	(6.0)	(4,288.37)	(6.5)	(1.0)
Fixed-income	2,126.30	3.0	994.48	1.5	113.8
Equity	4,447.97	6.3	4,217.69	6.4	5.5
Other Assets	8,676.09	12.3	8,387.51	12.7	3.4
<b>Total Assets</b>	<b>70,710.67</b>	<b>100.0</b>	<b>66,296.04</b>	<b>100.0</b>	<b>6.7</b>
<b>Liabilities</b>					
Borrowings and Deposits	47,164.82	80.4	44,640.35	83.1	5.7
Debentures	5,941.00	10.1	5,941.00	11.1	0.0
Other Liabilities	5,485.25	9.5	3,133.79	5.8	77.5
<b>Total Liabilities</b>	<b>58,669.34</b>	<b>100.0</b>	<b>53,715.14</b>	<b>100.0</b>	<b>9.2</b>
<b>Total Equity</b>	<b>12,041.33</b>	<b>-</b>	<b>12,580.90</b>	<b>-</b>	<b>(4.3)</b>

**Figure 2: Loans and Receivables Breakdown**

Type of Business	March 31, 2005		December 31, 2004		% Change
	Amount (Bm)	%	Amount (Bm)	%	
<b>Commercial Lending</b>	<b>10,947.36</b>	<b>18.9</b>	<b>10,924.18</b>	<b>19.6</b>	<b>0.2</b>
Manufacturing and commerce	5,641.05	9.7	5,525.07	9.9	2.1
Real estate and construction	3,528.62	6.1	3,500.24	6.3	0.8
Public utilities and services	1,616.60	2.8	1,744.45	3.1	(7.3)
Agriculture and mining	161.09	0.3	154.43	0.3	4.3
<b>Retail Lending</b>	<b>42,977.55</b>	<b>74.2</b>	<b>40,971.27</b>	<b>73.5</b>	<b>4.9</b>
Hire purchase	40,641.91	70.2	38,573.79	69.2	5.4
Housing	2,335.64	4.0	2,397.48	4.3	(2.6)
<b>Others</b>	<b>3,989.26</b>	<b>6.9</b>	<b>3,864.39</b>	<b>6.9</b>	<b>3.2</b>
<b>Total</b>	<b>57,914.17</b>	<b>100.0</b>	<b>55,759.84</b>	<b>100.0</b>	<b>3.9</b>

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

Type of Business	March 31, 2005		December 31, 2004			% Change	
	% NPL	Amount (Bm)	% NPL	% NPL	Amount (Bm)		
Commercial	9.6	1,046.70	30.4	9.2	1,009.82	30.6	3.7
Retail							
Car hire purchase	2.3	919.74	26.7	1.9	719.52	21.8	27.8
Mortgage loans	15.5	361.56	10.5	15.7	375.63	11.4	(3.7)
Securities	21.8	390.63	11.3	38.5	471.21	14.3	(17.1)
Others	18.2	727.81	21.1	18.8	727.60	22.0	0.0
<b>Total</b>	<b>5.8</b>	<b>3,446.45</b>	<b>100.0</b>	<b>5.8</b>	<b>3,303.78</b>	<b>100.0</b>	<b>4.3</b>

**Figure 4: Asset under Management Breakdown by Type of Fund**

Type of Fund	March 31, 2005		December 31, 2004		% Change
	Amount (Bm)	%	Amount (Bm)	%	
Provident Fund	46,862.94	64.6	42,471.28	62.7	10.3
Private Fund	19,099.93	26.3	18,458.16	27.3	3.5
Mutual Fund	6,631.95	9.1	6,774.71	10.0	(2.1)
<b>Total</b>	<b>72,594.82</b>	<b>100.0</b>	<b>67,704.15</b>	<b>100.0</b>	<b>7.2</b>

**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	
	1Q05	4Q04	1Q05	4Q04
Assets	1.18	1.22	224.96	190.15
Liabilities	0.74	0.72	(273.64)	(267.77)
<b>Net Gap</b>			<b>(48.69)</b>	<b>(77.62)</b>