

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE PERIOD OF 3 MONTHS ENDED JUNE 30, 2003**

After a strong economic expansion in 1Q03, 2Q03 may see a slower growth due partly to concerns over Severe Acute Respiratory Syndrome (SARS), which had an impact on consumer confidence. Some economic indicators, including the expansion of the Private Consumption Index (PCI), during April and May 2003 had suggested an obvious slowdown comparing to 1Q03. The effect of SARS was expected to be short-lived however. The NESDB had reviewed the economy in June and adjusted upward its GDP growth forecast to 5.5%.

Although the growth of car sales decelerated from a strong rate of 43% y-o-y in 1Q03, when several new models were launched in the market, car sales during the first two months of 2Q03 still grew at an average rate of 33%. Motorcycle sales grew 50% y-o-y during the first two months of 2Q03.

In respect to capital market, the interest rate cut by the BoT, and commercial banks in June 2003; weakened dollar; and an expectation of good corporate earnings attracted capital inflow which resulted in an active stock market. The Stock Index increased 30% from the beginning of the year to close at 462 points by the end of June 2003. The market daily turnover surged from B5,962m to B10,267m.

OPERATING RESULTS FOR PERIOD OF THREE MONTHS ENDED JUNE 30, 2003

The Group's consolidated net profit of 2Q03 was B439.95m, an increase of 35.6% y-o-y. The major contribution to net profit rise was a strong expansion of hire purchase business. While hire purchase portfolio grew 49.0% y-o-y during 2Q03, its interest income rose by 33.9% y-o-y to B591.47m. Meanwhile Brokerage fee, and Fee and Charges rose 22.1% to B126.98m, and 57.0% to B214.2m, respectively. Furthermore, the Group successfully restructured loan, which had caused debt and doubtful account expenses to decline by B104.33m y-o-y.

The operation results in 2Q03 contributed into the Group's 1H02 net profit of B804.10m, an increase of 28.2% y-o-y. Fully diluted EPS were 0.61 baht in 2Q03, representing 35.6% growth y-o-y; and 1.11 baht in 1H03, representing 26.1% growth y-o-y. The annualized ROE (excluding minority interest) was 20.8%.

Revenue structure of the Group for the three months ended 30 June 2002 and 2003 was illustrated below.

Table1: Revenue Structure

	For the three months ended June 30, 2002		For the three months ended June 30, 2003	
	Bm	% of Total Revenue	Bm	% of Total Revenue
Net Interest and Dividend Income ¹	321.51	37.2	517.76	48.4
Non-interest Income				
Fee and charges	136.46	15.8	214.22	20.0
Gain (Loss) on investments	243.67	28.2	163.91	15.3
Brokerage Fees	104.01	12.0	126.98	11.9
Other income ²	59.17	6.8	46.48	4.4
Total non-interest income	543.30	62.8	551.58	51.6
Total	864.82	100.0	1,069.34	100.0

¹ Net interest and dividend income after deducting provision.

² Including other income, share of profit of associated companies.

Net Interest and Dividend Income

Net interest and dividend income after provision in 2Q03 increased by 61.0% to B517.76m. This was contributed mainly from hire purchase interest income, which grew 33.9% to B591.47m, together with the 3.3% decline in funding cost. The Group's allowance for doubtful accounts in 2Q03 declined 59.7% y-o-y as the Group accelerated the allowance during 2Q02, while the allowance in 2Q03 was provided according to normal business expansion only. In addition, the Group had written back loan loss during 2Q03.

Non-Interest Income

Gain from investment during 2Q03 was B163.91m, a decline of 32.7% y-o-y. This was because the Group had gain both from securities held for trading; and sales of securities available for sales, which the Group had held for over 10 years. In the contrary, gain from investment in 2Q03 was only from securities held for trading.

Considering only normal business, however, both gains from securities for trading and fee income increased y-o-y in 2Q03.

The Group's Fee and Charges increased 57.0% y-o-y in 2Q03 to B214.22m. This was due to an increase of fee from hire purchase, investment banking, and asset management businesses.

Brokerage fee income also grew 22.1% y-o-y to B126.98m following a buoyant stock market condition at the end of 2Q03. Non-interest income for 2Q03 increased from B543.31m to B551.58m y-o-y as a result.

Operating Expenses

Operating expenses for 2Q03 increased 10.5% y-o-y to B523.47m being driven by an 25.9% increase of personnel expenses to B217.46m. This was due to a change in a method of bonus provision. Bonus expense was provided for gradually through the course of this year, rather than recognizing it by the year-end. Number of personnel also increased following business expansion.

Non personnel expenses in 2Q02 increased only 2.3% y-o-y. The Group had limited the increase of capital expenditure at no more than 2% of total assets in order to limit the expansion of non-personnel expenses. While Premises and equipment expenses increased only 3% to B78.7m as a result. Other expenses increased 2.3% to B207.8m. This was due partly to an increase in a contribution to FIDF following an increase in the Group's borrowing, and an increase in hire purchase commission expenses that varied with hire purchase business.

FINANCIAL POSITION AS AT JUNE 30, 2003

Assets

Total assets increased 10.4% from the year end 2002 to B54,347.36m. This was driven by an expansion of hire purchase portfolio at the rate of 19.4%, as well as an increase in investment in securities of 10.9% to B7,056.19m.

Investment in Securities

As at June 30, 2003, total investment in securities increased from FY02 by 10.9% to B7,056.19m. During the period, both equity and fixed income instruments of the Group increased to take up the market opportunities and to adjust excess liquidity respectively. Investment in equity increased 26.0% to B3,329.67m, and fixed income securities increased 5.3%

Table 2: Investment in Securities Breakdown

	December 31, 2002		June 30, 2003	
	Bm	% of Total	Bm	% of Total
Fixed Income	3,531.66	55.5	3,719.99	52.7
Equity	2,642.94	41.5	3,329.67	47.2
FRA	187.31	3.0	6.53	0.1
Total	6,361.91	100.0	7,056.19	100.0

Loans and Receivables

Total loans and receivables grew 9.8% from B40,637.39m by the end of FY02 to B44,635.43m by the end of June 2003, representing 82.1% of total assets. Hire purchase took a major part in total loans and receivable of 63.8% as it expanded 19.4% from the end of FY02. The portfolio of the Group was well-diversified across various industries as illustrated below.

Table 3: Loans and Receivables Breakdown

	December 31, 2002		June 30, 2003	
	Bm	% of Total	Bm	% of Total
Wholesales				
Manufacturing and Commerce	3,667.88	9.0	3,923.46	8.8
Real Estate and Construction	3,080.08	7.6	1,562.80	3.5
Public Utilities and Services	2,609.61	6.4	2,123.92	4.7
Retail				
Hire Purchase	23,826.93	58.6	28,458.95	63.8
Housing	2,665.51	6.6	2,481.73	5.6
Others ¹	4,787.38	11.8	6,084.57	13.6
Total	40,637.39	100.00	44,635.43	100.0

¹ others included stock borrowing and lending account

Accrued interest receivables

Accrued interest receivables as at June 30, 2003 was B121.48m, representing 0.3% of net loans, receivables and accrued interest receivables. It increased from FY02 by 8.3%. Following our conservative interest income policy, the Company stops accruing interest income, reverses it off the books and recognizes 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. For borrowers under debt restructuring, interest income will be recognized upon cash payment.

Non-performing Loans

The Group focused on improving the quality of existing loans in all areas and put great effort into accelerating debt recovery. The Group's NPL as at the end of 2Q03 declined from B3,846.19m to B3,388.11m, representing 7.6% of total loans and receivables. In 1H03, loan restructured from corporate lending was B534.03m, and from Housing and Hire Purchase was B127.41m. The breakdown of the NPL by business area is as follows;

Table 4: NPL Breakdown by Area

	Dec 31, 2002		June 30, 2003	
	Bm	% of Total	Bm	% of Total
Wholesales Loans	2,068.51	53.8	1,564.05	46.2
Retail Loans				
Mortgage Loan	861.30	22.4	744.16	22.0
Car Hire Purchase	196.29	5.1	295.58	8.7
Motorcycle Hire Purchase	140.66	3.7	190.05	5.6
Others	579.42	15.0	594.26	17.5
Total	3,846.19	100.0	3,388.11	100.0

Allowance for Doubtful Account

As at June 30, 2003, the Group's allowance for doubtful account and loss on debt restructuring was B4,610.17m. Out of this amount, B3,740.06m was from TISCO Finance Plc whereby B2,735.36m was specific reserve (required by BoT), and B1,004.7m, was general reserve. With its internal prudent policy, TISCO Finance Plc had retained a high general reserve, making its total reserve to be 136.7% of the BOT requirement. The Group's allowance to NPL ratio by the end of 1H02 was 136.1%.

Property foreclosures:

The recovery of real estate market resulted in a continuation of sale of foreclosed assets. Property foreclosures of the Group declined from the year 2002 by 3.2% to B1,274.50m.

Liabilities

Total liabilities of the Group as at June 30, 2003 increased by 9.8% to B45,468.64m. Major items of liabilities are as follows;

Table 5: Liabilities Breakdown by Area

	Dec 31, 2002		June 30, 2003	
	Bm	% of total	Bm	% of Total
Public Borrowings	30,943.75	74.7	33,202.96	73.0
Debenture	5,131.00	12.4	5,131.00	11.3
Banks and Financial Institution Borrowings	3,264.22	7.9	3,844.19	8.5
Other liabilities	2,060.99	5.0	3,290.49	7.2
Total	41,399.96	100.0	45,468.64	100.0

The above table shows that the deposits from public borrowing continued to be the main source of funding which represented 73.0% of total liabilities as at June 30, 2003. TISCO plans to further expand retail depositor base to reduce concentration risk. The Group's average maturity of liabilities is two years, matching with the maturity of loans and receivables.

Shareholders' Equity

Shareholder's equity of TISCO and subsidiaries increased from B7,812.23m to B8,878.73m following net profit in the first six months of 2003 about B804.10m.

The BIS capital adequacy ratio of TISCO Finance remained solid at 17.99% while the net capital adequacy ratio of TISCO Securities was 78.25%.

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 retail lending (including hire purchase), commercial lending, and mortgage finance.

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's hire purchase portfolio expanded 19.4% from FY02 to B28,458.95m. The growth was 49% on a y-o-y basis. The breakdown of hire purchase business among TISCO Finance and subsidiaries by 2Q03 was as follows;

Table 6: Hire Purchase Portfolio Breakdown By Company

	Dec 31, 2002		June 30, 2003	
	Bm	% of Total	Bm	% of Total
TISCO Finance	19,004.67	79.8	22,998.11	80.8
Thai Commercial Auto	2,657.07	11.2	3,013.21	10.6
Hi-Way	1,147.30	4.8	1,276.98	4.5
TISCO Leasing	905.52	3.8	1,112.92	3.9
Tru-Way	112.37	0.5	57.73	0.2
Total	23,826.93	100.0	28,458.95	100.0

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 2Q03 was B7,610.18m.

With focus on improving asset quality, in 2Q03 Commercial Lending area accomplished B534.03m of loan restructure, and this caused the non-performing loans to decline B504.46m, or 24.4% compared with December 2002. By the end of June 2003, the NPL was of Commercial Lending was B1,564.05m, or 3.5% of total loans and receivables.

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. The NPL of mortgage loan declined by 117.14 million to B744.16m, or 13.6% compared with FY2002. This was 1.67% of total loans and receivables.

Securities Business

TISCO Securities Co.,Ltd. mainly operates in securities brokerage and investment banking businesses. Meanwhile, TISCO Securities Hong Kong Ltd. provides stock brokerage services covering Asian and European markets.

Securities Brokerage

TISCO Securities focused on providing quality service and research 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 markets. This effort made TISCO's market share increase to 3.89%, ranking number six in the market. As a result, brokerage fee increased 22.1% to B126.98m in 2Q03.

TISCO brokerage clientele is decomposed as follows;

Table 7: Brokerage Volume Breakdown By Client

	% of TISCO's Total Trading	
	June 30, 2002	June 30, 2003
Private Sales	36.4	39.6
Foreign	36.6	36.3
Local Institution	15.9	14.5
Internet	8.7	7.2
Others	2.4	2.4
Total	100.0	100.0

Investment Banking

TISCO has maintained its leading position in Investment Banking area as it has consistently been chosen to serve clients in the area of State Owned Enterprise privatizations, IPOs deals, and underwriting. Fee income from Investment Banking in 1H03 so far had gone beyond three fourth of that of 1H02.

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 B42.2bn by 2Q03, TISCO has been trusted by an increased number of clients. Fee income in 2Q03 increased 70.1% y-o-y. The breakdown of funds under management is shown below.

Table 8: Asset Under Management Breakdown by Type of Fund

	Dec 31, 2002		June 30, 2003	
	Bm	% of Total	Bm	% of Total
Provident Fund	31,742.84	80.7	33,857.14	80.2
Mutual Fund	3,586.86	9.1	3,597.77	8.5
Private Fund	4,005.79	10.2	4,784.21	11.3
Total	39,335.49	100.0	42,239.12	100.0

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.

For Thai Information Technology, the subsidiary, continued to provide internal services to the Group as its main business. TISCO Global Investment Holding Ltd. is set up to be a holding company in Hong Kong.

RISK MANAGEMENT

In the 2Q03, the risk reporting system was entirely upgraded under the new risk policies and guidelines launched in the 1Q03, which were revised to be in line with the new BIS capital accord expected to be released in the near future. New sets of risk reports and communication procedures were designed and implemented to assist the board and senior management to understand all key aspects of the firm's risk profiles from the very top view down to all detailed, but critical, risk components. The reports are performed on a timely and consistent manner and are communicated appropriately through out the organization to promote good risk awareness.

In terms of risk capital assessment, operational risk measurement was incorporated using the basic indicator approach as guided by the BIS consultative paper for new capital accord, to produce a complete picture of corporate risk profile. The total risk capital estimated from all key risk classes - credit, market, and operational risks - amounted to B4,495m as of June 30, 2003, increased from the previous quarter by B317m mainly due to business growth. This level of risk is significantly below our capital capacity, which

Management's Discussion & Analysis

should be able to absorb risk capital (estimated using the current definition of 99% confidential, 1-year period) of up to B9,638m, taking into account the available equity and excess loan loss reserves. Liquidity position also remained in comfort zone, provided large excess liquidity in the financial system and our effective management.