

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR 3-MONTH ENDED SEPTEMBER 30, 2003**

The overall Thai economy in 3Q03 continued to expand due to an increase in agricultural production and recovery of tourism industry after the end of SARS situation. The expansion in private consumption and investment continued to be the main factors supporting economic expansion. However, Private Consumption Index (PCI) expanded at a declining rate as a result of slowdown in vehicle sales. The growth of passenger car sales decelerated from a strong rate of 80.0% y-o-y in 1Q03 to 22.4% y-o-y in August 2003. At the same time, the growth of motorcycle sales also declined. This was mainly due to seasonal effect and the marked increase in vehicle sales in the early of this year.

The Fiscal Policy Office (FPO), Ministry of Finance, has estimated that the Thai economy in 2003 continued to expand due to the government's policy to support growth by stimulating private consumption. The FPO has adjusted upward growth rate of the Thai economy in 2003 to 6.1%.

For the capital market, favorable economic stability and good corporate earnings have attracted capital inflow to the stock market. The average market daily turnover in 3Q03 surged from B5,740.54m in 3Q02 to B24,257.12m. As a result, the Stock Index closed at 578.98 points by the end of September 2003, which was the highest in 5-year periods.

**OPERATING RESULTS FOR 3-MONTH PERIOD ENDED SEPTEMBER 30,  
2003**

The Group's consolidated net profit of 3Q03 was B482.00m, an increase of 39.8% y-o-y. The major contribution to the net profit rise was a strong expansion of hire purchase business. While hire purchase portfolio grew 49.6% y-o-y, its interest income rose by 29.8% y-o-y to B627.88m. Meanwhile, brokerage commissions and fee income rose significantly by 249.3% to B247.61m, and 115.0% to B233.27m, respectively.

The operating results in 3Q03 contributed to the Group's nine-month net profit of B1,286.10m, an increase of 32.3% y-o-y. Fully diluted EPS were 0.66 baht in 3Q03, representing 37.5% growth y-o-y; and 1.77 baht for the nine-month period, representing 31.1% growth y-o-y. An average annualized ROE (excluding minority interest) was 20.8%

Revenue structure of the Group for the three-month period ended September 30, 2002 and 2003 was illustrated below.

**Table 1: Consolidated Revenue Structure**

Type of Revenue	For three-month ended September 30, 2002		For three-month ended September 30, 2003	
	Amount (Bm)	%	Amount (Bm)	%
Net interest and dividend income <sup>1</sup>	569.28	62.1	538.98	43.9
Non-interest income				
Brokerage fees	70.89	7.7	247.60	20.2
Fee and charges	108.52	11.8	233.27	19.0
Gain on investment	139.35	15.2	166.63	13.6
Other income <sup>2</sup>	29.11	3.2	41.17	3.4
Total non-interest income	347.87	37.9	688.67	56.1
Total	917.15	100.0	1,227.65	100.0

<sup>1</sup> Net interest and dividend income after deducting provision.

<sup>2</sup> Including, share of profit of associated companies, and others

### **Net Interest and Dividend Income**

Net interest and dividend income before provision for 3Q03 increased 5.4% y-o-y to B586.56m, a slower growth than that of loan portfolio expansion. This was due to a decline in interest income from wholesale loans and mortgage loans. Although hire purchase income increased with business expansion, net interest and dividend income after provision declined by 5.3% y-o-y mainly because the Group had written back loan loss in 3Q02 while making normal provisions for doubtful accounts in line with the business expansion.

### **Non-Interest Income**

Non-interest income for 3Q03 increased 98.0% y-o-y to B688.67m. This was due to increase in brokerage fees from B70.89m to B247.60m resulting from 298.1% y-o-y increase in trading volume of TISCO Securities in 3Q03 following a buoyant stock market condition.

The Group's fee income in 3Q03 increased 115.0% y-o-y to B233.27m following hire purchase business expansion and increase in fund management fee income. Gain on securities trading also grew 19.6% to B166.63m.

### **Operating Expenses**

Operating expenses for 3Q03 increased 138.2% y-o-y to B1,301.84m. This was mainly due to goodwill write-off of B708.91m (see details in "Goodwill"). In addition, the Group has changed the policy to provision for bonus expenses every month, instead of recognizing as a one-time expense at the year-end, since January 2003. Also, personnel expense structure has been adjusted to reduce the fixed portion and increase the variable portion that varies with operating performance. Consequently, the personnel expenses have increased with the company's operating performance to B286.85m in 3Q03, increased by 36.4% y-o-y.

As capital expenditure has been managed to never exceed 0.2% of total asset, the Group was able to control the non-personnel expense to increase at only a small rate.

**Corporate Income Tax:**

The Group recognized a tax benefit of B573.62m from corporate income tax. This was because the Group retroactively recognized deferred income tax benefits in 3Q03 after suspended the deferred income tax recording since 2000. (see details in “Deferred Tax Assets”)

**FINANCIAL POSITION AS OF SEPTEMBER 30, 2003**

**Assets**

Total assets increased 16.0% from the end of FY02 to B57,094.06m, driven by 33.0% expansion of hire purchase portfolio from B23,473.97m to B31,228.17m. Investment in securities as of September 30, 2003, increased 27.7% from the end of FY02 to B7,892.56m.

**Investment in Securities**

As of September 30, 2003, total investment in securities increased from the end of FY02 by 27.7% to B7,892.56m. Investment in equity increased 27.2% to B3,362.96m, mainly due to marking-to-increased-market-price in the available for sale account, while the increase in fixed income investment was for liquidity reserve purpose.

**Table 2: Investment in Securities Breakdown**

Type of Securities	December 31, 2002		September 30, 2003	
	Amount (Bm)	%	Amount (Bm)	%
Fixed income	3,531.64	57.1	4,523.07	57.3
Equity	2,642.96	42.8	3,362.96	42.6
FRA	6.53	0.1	6.53	0.1
Total	6,181.13	100.0	7,892.56	100.0

**Loans and Receivables**

As of September 30, 2003, total loans and receivables increased 13.9% from the end of FY02 to B46,511.79m, representing 81.5% of total assets. Details of loans and receivables breakdown are illustrated below.

**Table 3: Loans and Receivables Breakdown**

Type of Business	December 31, 2002		September 30, 2003	
	Amount (Bm)	%	Amount (Bm)	%
Wholesales				
Manufacturing and commerce	3,806.12	9.3	3,533.25	7.6
Real Estate and construction	3,080.08	7.6	1,849.12	4.0
Public utilities and services	2,655.39	6.5	1,604.71	3.5
Other wholesales	2,688.31	6.6	2,533.04	5.4
Retail				
Hire purchase	23,473.97	57.5	31,228.17	67.1
Housing	2,665.51	6.5	2,413.03	5.2
Securities business receivable	1,099.60	2.7	1,785.30	3.8
Others	1,357.21	3.3	1,565.17	3.4
Total	40,826.19	100.0	46,511.79	100.0

Hire purchase portfolio accounted for 57.5% and 67.1% of total loans and receivables as of FY02 and September 30, 2003, respectively. The hire purchase portfolio continuously expanded from B23,473.97m as of FY02 to B31,228.17m as of September 30, 2003, or 33.0% increase.

**Non-performing Loans**

The Group non-performing loan, following the new BOT definition, declined from B3,846.19m as of FY02 to B3,590.51m, representing 7.7% of total loans and receivables, due to the restructuring of wholesales and mortgage loans. The breakdown of the NPL by business area is as follows.

**Table 4: NPL Breakdown by Area**

	December 31, 2002		September 30, 2003	
	Amount (Bm)	%	Amount (Bm)	%
Wholesales	2,068.51	53.8	1,788.47	49.8
Retail				
Mortgage loans	861.30	22.4	728.65	20.3
Car hire purchase	196.29	5.1	298.68	8.1
Motorcycle hire purchase	140.66	3.7	159.32	4.4
Others	579.42	15.1	615.39	17.1
Total	3,846.19	100.0	3,590.51	100.0

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

As of September 30, 2003, the Group's allowance for doubtful account and loss on debt restructuring was B4,554.69m. Out of this amount, B3,772.12m was from TISCO Finance Plc., of which B3,000.74m was specific reserve (required by BoT) while the remaining B771.39m was for general reserve. With conservative provisioning policy, TISCO Finance Plc. had a total reserve of 125.7% of the BOT requirement. Also, the Group's allowance to NPL ratio at the end of 3Q03 was 126.9%.

**Deferred Tax Assets:**

In accordance with TISCO's accounting policy, the Group provides 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 tax assets" in the balance sheets. This will be allocated to future periods when the income is realized, or the expenses provided for are actually incurred and considered deductible for income tax purposes. The Group recognizes tax benefits as assets in its book of account if it is highly probable that the Group will generate sufficient profits from their future operations to utilize these benefits.

Due to economic crisis and uncertainty of deferred tax benefits utilization considering net loss during 1997-1999, the Group decided to suspend deferred income taxes recording since FY00. It has been 3 consecutive years that the Group has generated profit and the economy has shown good sign of recovery. Therefore, the Group retroactively recognized deferred income tax benefits in 3Q03 for the amount of B688.97m. This amount of tax benefit came from the temporary differences in provisioning and income recognition under conservative accounting policy. In this, the Group had set aside loan loss provisioning in excess of the BoT's requirement and this excess expense could not be recognized as taxable expenses. Also the Group stopped accruing interest income of wholesale loans with more than 1 month overdue and/or was under a debt restructuring and recognizing income only on cash basis. This practice was more stringent than the BoT's standard which require to stop accruing income for borrowers with more than 3-month overdue. This income difference amount was treated as taxable income.

As a result, deferred tax assets as of 3Q03 stood at B743.88m, increased from B260.70m as of FY02.

**Goodwill:**

As of September 30, 2003, the Group's goodwill declined 91.0% from the end of FY02 to B75.10m. This was mainly due to goodwill write-off in an amount of B708.91m, in accordance with TISCO conservative accounting policy, as a result of the Group's restructuring of TISCO Finance as the direct shareholder in Tru-Way Group and TISCO Asset Management Co., Ltd. in order to reduce the shareholding redundancy.

**Liabilities**

Total liabilities of the Group as of September 30, 2003 were B47,564.74m, 14.9% increase from the end of FY02. This was due to 12.8% increase in public borrowings and the issuance of B400m unsecured debenture by Hi-Way Co., Ltd. due 2006. The debenture obtained BBB+ rating from TRIS Rating Co., Ltd. and coupon rate of 3.25% p.a.

Furthermore, as of October 6, 2003, Thai Commercial Auto Co., Ltd. issued unsecured amortizing debenture of B500m, due 2006. The debenture also obtained BBB+ from TRIS Rating Co., Ltd. and coupon rate of 3.20% p.a.

As of September 30, 2003, securities business payable increased from B431.45m at the end of FY02 to B1,873.78m, resulting from the active stock market in 3Q03. Major items of liabilities are as follows:

**Table 5: Liabilities Breakdown by Area**

Type of Borrowings	December 31, 2002		September 30, 2003	
	Amount (Bm)	%	Amount (Bm)	%
Public borrowings	30,943.75	74.7	34,915.04	73.4
Debenture	5,131.00	12.4	5,441.00	11.4
Banks and financial institutions borrowings	3,264.22	7.9	3,764.76	7.9
Other liabilities	2,060.99	5.0	3,443.94	7.2
Total	41,399.96	100.0	47,564.74	100.0

The above table shows that deposits from public borrowing continued to be the main source of funding, representing 73.4% of total liabilities as of September 30, 2003.

For borrowing and lending business, the movement of interest rates may affect the Company's net interest income through the mismatch between the timing of interest payments and receipts from assets and liabilities. The Company's interest rate risk position was very low, as most of the differences in interest rate profile have been offset or closed out by portfolio matching so that the Group can manage interest spread and remain low on interest rate risk.

**Shareholders' Equity**

Shareholder's equity of the Group as of September 30, 2003 increased from B7,812.23m at the end of FY02 to B9,529.32m following the 9-month net profit of B1,286.10m, together with increase in capital gain from revaluation of market price of available-for-sale securities.

The BIS capital adequacy ratio of TISCO Finance remained solid at 20.1% comparing to the minimum of 8.00% required by BOT. The net capital ratio (NCR) of TISCO Securities stood at 72.7% comparing with the minimum of 7.0% required by SEC.

**BUSINESS PERFORMANCE BY AREA**

Details of the Group's business performance by core business functions are presented below.

**Finance Business**

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

**Hire Purchase**

Other than TISCO Finance, hire purchase business also operates under TISCO's subsidiaries including 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 33.0% from FY02 to B31,228.17m. The growth was 49.6% on a y-o-y basis. The breakdown of hire purchase business among TISCO Finance and subsidiaries is as follows:

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

Company	December 31, 2002		September 30, 2003	
	Amount (Bm)	%	Amount (Bm)	%
TISCO Finance	18,671.44	79.5	26,316.24	84.3
Thai Commercial Auto	2,658.97	11.3	2,957.83	9.5
Hi-Way	1,148.40	4.9	1,235.94	4.0
TISCO Leasing	910.79	3.9	677.55	2.2
Tru-Way	84.36	0.4	40.62	0.1
Total	23,473.97	100.0	31,228.17	100.0

**Commercial Lending**

For commercial lending business, the Company mainly focused on maintaining market share because of insignificant market expansion. The Company also emphasized on accelerating the debt restructuring process to reduce NPLs. Gross loan portfolio of commercial lending area by 3Q03 was B9,520.12m, which reduced from B12,229.90m as of FY02.

**Mortgage Loan**

Similar to commercial lending, the Company's policy in mortgage financing is to focus on maintaining market share. Due to debt restructuring, the amount of mortgage loan declined from B2,665.51m at the end of FY02 to B2,413.03m.

### **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 to foreign investors who are interested in investing in Thailand, including China and Hong Kong.

TISCO Securities was recently selected the sole winner for the “Best Brokerage Service” and “Best of Research House” awards by the Stock Exchange of Thailand. The awards were based on quality of service to retail investors and quality of TISCO research center, respectively.

### **Securities Brokerage**

TISCO Securities focused on providing quality service and research to both 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 and reach the broader international markets. The average market daily turnover in 3Q03 surged from B5,740.54m to B24,257.12m on y-o-y basis. As a result, TISCO's brokerage fee increased 249.3% to B247.60m in 3Q03. TISCO Securities Hong Kong's brokerage fee in 3Q03 also increased. However, in the last nine months, TISCO's market share had slightly declined to 3.4% as the increase in market turnover mainly came from net settlement clients which were not TISCO's focused client group.

### **Investment Banking**

TISCO has maintained its leading position in Investment Banking that it has been chosen as financial advisor for privatization of several state enterprises, equity listing, and underwriting.

### **Asset Management**

Asset management business is operated under TISCO Asset Management Co., Ltd. (TISCO Asset). It offers a range of investing choices in provident fund, private fund and mutual fund (including Retirement Mutual Fund). With the combined asset under management of B43,980.01m at the end of 3Q03, the fee income in 3Q03 increased 255.7% 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		September 30, 2003	
	Amount (Bm)	%	Amount (Bm)	%
Provident Fund	31,742.84	80.7	34,954.22	79.5
Private Fund	4,005.78	10.2	4,945.98	11.2
Mutual Fund	3,586.86	9.1	4,079.81	9.3
Total	39,335.48	100.0	43,980.01	100.0



**Other Business**

Thai Information Technology continued to be the subsidiary providing IT services within the Group. TISCO Global Investment Holding Ltd. was set up in Hong Kong to act a holding company. TISCO acquired Thai Permsap Finance Co., Ltd. in 2001 as part of its plan to upgrade into restricted bank in the future. Currently, TISCO has no plans to operate any business under Thai Permsap.

**RISK MANAGEMENT**

Financial position of TISCO continued to strengthen with increased risk absorption capability. As the end of 3Q03, TISCO's capital base, adjusted back with excess loan loss reserve, stood around B10,552m, sufficient to cover the total risk, including credit, market, and operational risk, which could be measured into capital of B4,688m. This implied a capital surplus of 60.5 % in excess of the risk position. The total risk was mainly contributed from credit risk and equity risk, which accounted for 48.4% and 32.3%, respectively.

Development over 3Q03 mainly focused in the risk monitoring system of retail loan portfolio and stress testing. For the risk monitoring, various detailed analyses were performed on the hire purchase portfolio concerning portfolio delinquency rates in various aspects such as loan originations, term payment and down payment. A monitoring standard was then designed and performed on a regular basis to provide in-depth information to senior management to better detect the area of high risk and portfolio movements.

For stress testing, a standard was set up to consistently perform stress testing of a maximum loss to TISCO's asset and capital adequacy under extreme downside scenarios every 6-month periods. This standard was applied consistently to TISCO portfolios as of June 2002, December 2002, and June 2003. The June 2003's result showed that our capital base combining with loan loss reserve is more than sufficient to cushion against the stress loss in an extreme market crisis scenario. The risk position has also considerably strengthened from the previously year, with stress loss reduced by 20.5%, due to higher risk management standard, including an appropriate in risk management policy and the Group's business risk structure.