

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE 3RD QUARTER ENDED SEPTEMBER 30, 2004**

ECONOMIC, FINANCIAL MARKETS, AND CAPITAL MARKETS CONDITIONS

The overall Thai economy in the 3rd quarter of 2004 had shown a slight slowdown with a decrease of GDP growth from 6.6% in the 1st quarter to 6.3% in the 2nd quarter. In terms of financial market condition, the Bank of Thailand raised its policy rate by 25bps to 1.50%, following strong inflationary pressure. The rising oil price and adjustment to the excise tax structure also contributed to the 7.2% reduction of car sales from the 2nd quarter. Nevertheless, total car sales continued to grow from the same period of previous year, contributing to the continued growth of hire purchase business. Concerning the capital market, contracting economic conditions resulted in a decline of stock market's average daily turnover and the SET index from the 2nd quarter by 16.1% and 0.3% respectively.

The Management's Discussion and Analysis compares operating performance of the 3rd quarter of year 2004 and the 3rd quarter of year 2003, and for the first 9-month period of year 2004 and first 9-month period of year 2003. Meanwhile, financial position is a comparison between the financial position as of September 30, 2004 and December 31, 2003.

SUMMARY OF OPERATING RESULTS

The operating performance for the 3-month period ended September 30, 2004 continued to fluctuate with the capital market condition, resulting in the Company and subsidiaries net profit of B347.19m, a 28.0% decrease. However, net interest and dividend income, after bad debts and doubtful accounts, rose by 10.1% from B538.98m to B593.64m, following loan portfolio expansion and lowering funding cost in the low interest rate environment.

For 9-month period, the Company and subsidiaries net profit increased by 4.1% to B1,339.13m. Securities business started to turn around in September, contributing to the highest net profit for the Company and its subsidiaries since last February.

Diluted EPS for the 3-month and 9-month periods ended September 30, 2004 were B0.48 and B1.83, respectively, compared with B0.66 and B1.77 in the same period of 2003. The average annualized ROEs were 12.6% and 16.3%, respectively.

INTEREST&DIVIDEND INCOME AND BALANCE SHEET GROWTH

Net interest and dividend income after bad debts and doubtful accounts in the 3rd quarter rose by 10.1% y-o-y, contributed mainly from a continued growth of hire purchase portfolio and the ability to maintain interest rate spread.

For the 9-month period, net interest and dividend income amounted to B2,049.58m, an increase of 24.8%, contributed by the growth in hire purchase portfolio, improved asset quality, and lower funding cost following declining interest rate from the previous year.

The Company and subsidiaries' total assets increased 8.6% from B60,263.25m to B65,428.84m as loan portfolio expanded by 15.2% to B52,486.18m. Hire purchase loan expanded by 21.4% to B35,384.89m while corporate loans grew by 7.1% to B10,349.68m.

The proportion of investment in fixed-income securities decreased to 2.8% of total assets as the Company has a policy to maintain investment in fixed-income securities to sufficiently manage liquidity in the rising interest rate environment.

The sources of funds to support loan growth was mainly from borrowings and deposits, which increased from 76.9% to 82.0% of total liabilities, with an emphasis on public deposits. The ratio of loans (excluding accrued interest) to total deposits and borrowings was 121.5%.

Shareholder's equity increased from B10,721.10m to B11,240.09m. The major change was contributed from the 9-month net profit of B1,339.13m and a reduction of revaluation surplus of B235.81m resulting from changes in the value of equity investment.

NON-INTEREST INCOME AND OPERATING EXPENSES

Non-interest income for the 3rd quarter declined by 31.1%, following the slowdown of capital market. However the stock market started to turnaround in September, causing the Company and subsidiaries to record gains from securities investment and increased commissions from brokerage business. Non-interest income for the month of September accounted for 47.4% of total non-interest income of the whole quarter.

As there was a goodwill write-off of B717.29m in September 2003, the operating expense for the 3rd quarter of 2004 was therefore significantly lower than that of the 3rd quarter of 2003. However, if the effect of goodwill write-off was excluded, the operating expense of the Company and subsidiary increased by 9.3% to B638.71m along with business expansion, while the personnel expense amounted to 293.04m, a 2.2% increase.

For the 9-month period, the Company and subsidiaries' non-interest income was B1,588.67m, which was close to that of the same period of previous year. The operating expense before goodwill write-off of B758.38m in 2003 increased by 18.6% to B1,875.01m while the personnel expense increased by 26.3%, resulted from the difference in timing of expense recognition. In 2004, the Company and subsidiaries recognizes personnel expenses according to the business volume and operating results actually recorded throughout the year. Whereas in 2003, most of personnel expense was recognized in the second half of the year, resulting in a low expense in the first half and high expense in the second half.

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 6.4% at the end of 3rd quarter while the Company's NPLs to total loans ratio decreased from 6.7% to 5.9%. The Company's NPLs amounted to B2,736.17m. In determining 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 B4,157.21m (B3,486.79m for the Company and B670.42m for subsidiaries). The Company and subsidiaries' allowance for doubtful account and loss on debt restructuring to NPLs ratio was 120.9%.

From the total amount of allowance, the Company's allowance was B3,486.79m, consisting of B2,657.34m of specific reserve and B829.45m of general reserve, which was greater than the minimum requirement of the Bank of Thailand (BoT) of B2,464.00m. This follows a conservative provisioning policy aimed to protect the Company from potential risks to its operations. The Company's allowance for doubtful account and loss on debt restructuring was 141.5% of the requirement of the BoT.

BUSINESS SEGMENT PERFORMANCE

Business operations of the Company and its subsidiaries can be divided into 4 main groups as follows:

- Commercial finance business
- Retail finance business
- Securities business and
- Asset management business

Commercial Finance Business

Corporate loan portfolio of the Company and subsidiaries amounted to B10,349.68m, an increase of 7.1%. There was some large amount of loan repayment from major borrowers in the month of July. The NPL ratio slightly declined from 11.9% to 11.4%.

Retail Finance Business

Retail finance business comprised car and motorcycle hire purchase, mortgage loan, and other consumption loans. Hire purchase loans accounted for 93.5% of total retail loans. The hire purchase portfolio increased by 21.4%, driven by the company's aggressive expansion strategy and the ability to maintain penetration rate in the new car market. The average penetration rate of the Company and subsidiaries, calculated as hire purchase volume to total car sales ratio, was at 7.8%, compared to 6.6% at the end of 2003. New loan extended in the quarter amounted to B5,841.72m while the NPL ratio stood at 1.6%, increased from 1.5%.

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. As most of the clients are fundamental investors rather than speculative, their trading activities declined over the quarter, contributing to a slight reduction of market share and commission fee to 3.4% and B170.78m respectively.

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. Fee and service income was B8.92m, mostly contributed from financial advisory fees. The fees and services income for 9-month period

was B254.83m, most of which was recognized in the first quarter, compared to B67.06m in the same period of previous year. At present, TISCO Securities Co., Ltd. has been appointed financial advisor for securities offerings of Pacific Pipe Plc., Syrus Securities Plc., and Thainox Stainless Plc.

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 B64,760.35m, increased by 14.7% from B56,459.42m, resulting in a 9-month period basic management fee income of B148.10m. There was no other variable fee income due to the sluggish stock market condition.

Total market share of TISCO Asset Management Co., Ltd. on August was 7.0%, the 4th rank in the market. Market share of provident fund was at the 2nd rank of 13.7%, private fund at the 3rd rank of 12.3%, and mutual fund at the 14th rank of 1.0%.

RISK MANAGEMENT

In the 3rd quarter, Risk Capital - the amount of capital required to support integrated risk exposures, comprising credit risk, market risk, and operational risk, estimated from internal risk model - increased by 1.72% from the 2nd quarter to B6,076.08m. The risk increase was contributed mainly from a surge in market risk. Market risk increased 3.29% mainly due to additional investment in equity and a slight increase of interest rate risk. While, credit portfolio expanded by 4.44%, credit risk slightly rose by only 0.5%. This was a consequence of improvement in credit rating of hire purchase loans, reflecting improved overall credit quality of the portfolio.

The duration of both assets and liabilities decreased in the same direction from 1.27 to 1.19 and 1.00 to 0.83 respectively. The difference in the duration of assets and liabilities increased to 4 months from 3 months in the second quarter, as deposit profiles shifted toward shorter maturity during the interest rate in the uptrend period. However, the risk is perceived to be acceptable and can be managed to control the impact on interest income.

The capital base rose by 3.92% to B11,240.09m, comparing with the estimated capital at risk that increased by 1.72% to B6,076.08m. Consequently, capital surplus rose from 44.8% to 45.9%, reflecting a continuously strong capital position to support future business expansion. Meanwhile, the regulatory capital adequacy ratio (BIS ratio) remained high at 18.6%, with a tier-I capital ratio of 16.2%, higher than the 8.0% minimum requirement of the Bank of Thailand. The net capital ratio (NCR) of TISCO Securities Co., Ltd. stood at 121.4% comparing with the minimum of 7.0% required by the SEC.

CORPORATE AND BUSINESS STRATEGIES ISSUES

Commercial Bank Upgrade

The Company is expected to obtain a preliminary approval for bank upgrade within the 4th quarter. At present, the Company is in the process of bank upgrade preparation, including the merger with Thai Permsap Finance Co.,Ltd. and the preparation of system platform and human resources. The merger process will commence immediately after approval from Ministry of Finance is granted. The total initial investment for office and branch improvement and computer system implementation is expected to be within B150.00m.

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

	September 30, 2004		December 31, 2003		% Change
	Amount (Bm)	%	Amount (Bm)	%	
Assets					
Corporate Loans	10,349.68	15.8	9,667.53	16.0	7.1
Retail Loans	37,831.92	57.8	31,699.97	52.6	19.3
Other Loans	5,813.84	8.9	7,624.68	12.7	(23.7)
Allowance	(4,157.21)	6.4	(4,599.63)	7.6	(9.6)
Fixed-income	1,842.59	2.8	3,891.12	6.5	(52.7)
Equity	4,139.45	6.3	4,197.93	7.0	(1.4)
Other earning assets	4,344.46	6.6	1,831.57	3.0	137.2
Other Assets	5,264.11	8.0	5,950.08	9.9	(11.5)
Total Assets	65,428.84	100.0	60,263.25	100.0	8.6
Liabilities					
Borrowings and Deposits	44,446.64	82.0	38,113.90	76.9	16.6
Debentures	5,941.00	11.0	5,941.00	12.0	0.0
Other Liabilities	3,801.11	7.0	5,485.25	11.1	(30.7)
Total Liabilities	54,188.75	100.0	49,542.15	100.0	9.4
Total Equity	11,240.09	-	10,721.10	-	4.8

Figure 2: Loans and Receivables Breakdown

Type of Business	September 30, 2004		December 31, 2003		% Change
	Amount (Bm)	%	Amount (Bm)	%	
Commercial Lending	10,349.68	19.7	9,667.53	21.2	7.1
Manufacturing and commerce	5,166.64	9.8	4,903.81	10.8	5.4
Real estate and construction	3,326.46	6.3	2,578.56	5.7	29.0
Public utilities and services	1,712.82	3.3	2,072.38	4.5	(17.4)
Others	143.75	0.3	112.79	0.2	27.4
Retail Lending	37,831.92	72.1	31,699.97	69.6	19.3
Hire purchase	35,384.89	67.4	29,154.27	64.0	21.4
Housing	2,447.03	4.7	2,545.70	5.6	(3.9)
Others	4,304.58	8.2	4,196.68	9.2	2.6
Total	52,486.18	100.0	45,564.18	100.0	15.2

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

Type of Business	September 30, 2004			December 31, 2003			% Change
	%NPL	Amount (Bm)	%	%NPL	Amount (Bm)	%	
Commercial	11.4	1,176.32	34.2	11.9	1,153.86	33.8	1.9
Retail							
Car hire purchase	1.6	573.62	16.7	1.5	434.77	12.7	31.9
Mortgage loans	15.8	386.62	11.2	17.8	452.80	13.3	(14.6)
Securities	34.3	518.21	15.1	15.4	529.14	15.5	(2.1)
Others	18.2	784.01	22.8	20.0	839.54	24.6	(6.6)
Total	6.4	3,438.78	100.0	7.0	3,410.01	100.0	0.8

Figure 4: Asset under Management Breakdown by Type of Fund

Type of Fund	September 30, 2004		December 31, 2003		% Change
	Amount (Bm)	%	Amount (Bm)	%	
Provident Fund	40,767.28	63.0	37,805.26	67.0	7.8
Private Fund	17,353.04	26.8	13,762.01	24.4	26.1
Mutual Fund	6,640.03	10.3	4,892.15	8.6	35.7
Total	64,760.35	100.0	56,459.42	100.0	14.7

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	
	Q3 2004	Q2 2004	Q3 2004	Q2 2004
Assets	1.19	1.27	175.43	167.69
Liabilities	0.83	1.00	-260.51	-183.26
Net Gap			-85.08	-15.57