

Management Discussion and Analysis

For the Second Quarter of 2005 ended June 30, 2005

## 2Q05 Highlights

TISCO and its subsidiaries posted 2Q05 net profit of Bt400.05mn, an increase of 2.6% y-o-y, with the remark as follows:

- ❑ Net Interest and dividend income after bad debt and doubtful accounts rose by 5.4% y-o-y, contributed mainly from the continued growth of hire purchase portfolio and the sustainable spread, the increase in dividend income from equity portfolio, and the write-back from provision of loan loss.
- ❑ Finance business loans and receivables grew by Bt18,521.35mn or 3.1% q-o-q. The expansion was mainly due to the continuing growth in hire purchase portfolio, accounted for 71.0% of the total finance business loans and receivables.
- ❑ Non interest income increased by 0.3% y-o-y. Following the slowdown of the economy and the stock market, and the decrease in trading volume, brokerage fees dropped. However, gain on securities rose slightly, comparing with loss on securities in 2Q04.
- ❑ NPL decreased from 5.9% to 5.6% q-o-q, contributed from the effective asset quality management and the bad debt write off.
- ❑ Operating expenses rose by 3.2% y-o-y due to the increase in sales promotional expenses and expenses for investment in preparation for bank upgrade.
- ❑ Diluted earnings per share for the second quarter and the first six months of 2005 were Bt0.55 and Bt1.26, respectively, comparing to Bt0.54 and Bt1.37 for those periods of 2004. Moreover, ROAE for the second quarter was 13.1%.
- ❑ For the first six-month period ended June 30, 2005, TISCO and its subsidiaries reported net profit of Bt917.16mn, dropped by 7.5% y-o-y because of lower investment banking fees and brokerage fees.

TISCO Finance Public Company Limited (“The Company”) obtains the commercial banking business license to operate commercial banking business and foreign exchange business from the Minister of Finance on June 29, 2005. The Company starts its banking business under the name of “TISCO Bank Public Company Limited” from July 1, 2005, and upgrades 14 provincial loan offices to branches of the TISCO Bank.

Consolidated Financial Summary	2Q05	1Q05	2Q04
Net Profit (Bm)	400.05	517.12	389.70
Diluted EPS (Bt)	0.55	0.71	0.54
ROAE (%)	13.1	16.8	14.3
ROAA (%)	2.2	3.0	2.5
Spread (%)	4.2	4.3	4.4
NIM (%)	4.5	4.6	4.6
Cost-to-Revenue (%)	54.5	45.7	59.2
CAR (%)	18.4	16.8	19.3

### Economic Conditions

- The overall Thai economy in the second quarter of 2005 still showed a slowdown with a decrease of GDP growth from 6.1% in 2004 to 3.3%, according to the research department of TISCO Securities Co., Ltd. The economic contraction was driven by the upsurge in global crude, and the public investment could be delayed due to current account deficit and political risk. 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 2.5%.
- The stock market condition was sluggish. The SET Index as of June 30, 2005 closed at 675.50 points, and the dairy average turnover in 2Q05 was Bt15,536.02mn.

The Management's Discussion and Analysis compares operating performance of the 2<sup>nd</sup> quarter of year 2005 and the 2<sup>nd</sup> quarter of year 2004. Meanwhile, financial position is a comparison between the financial position as of June 30, 2005 and March 31, 2005.

### Balance Sheet Movement

The Company and its subsidiaries' total assets as of June 30, 2005 were Bt73,535.56mn increased by Bt2,798.04mn or 4.0% q-o-q and increased by Bt10,713.69mn or 17.1% y-o-y. Details are presented below.

- Cash and deposits at financial institutions were Bt1,512.87mn, increased by Bt287.00mn or 23.4%. Besides, loans to financial institutions were Bt1,269.78mn increased by Bt129.40mn or 11.4%.
- Finance business loan portfolio was Bt59,735.08mn increased by Bt1,820.91mn or 3.1% driven by the increase of hire purchase loans which were Bt42,432.74mn. The hire purchase loan increased by Bt1,790.83mn or 4.4%, and the corporate loans grew by 1.6% to Bt11,118.29mn.
- Net investments in securities rose by Bt998.75mn or 15.2% to Bt7,573.02mn, following the increase in investment in fixed-income securities.
- The Company and its subsidiaries' total liabilities as of June 30, 2005 were Bt61,179.29mn increased by Bt2,209.96mn or 4.3% q-o-q and increased by Bt9,173.65mn or 17.6% y-o-y. The expansion was driven by the increase of borrowings and deposits from public which were Bt46,236.04mn, rose by Bt4,308.78mn or 10.3% q-o-q. Moreover, borrowings and deposits from banks were Bt2,271.46mn increased by Bt510.91mn or 29.0%.
- The Company and its subsidiaries' total shareholders' equity as of June 30, 2005 increased by Bt314.94mn or 2.6% to Bt12,356.26mn q-o-q, and increased by Bt1,540.04mn or 14.2% y-o-y.

- The Company and its subsidiaries' NPLs to total loans ratio decreased from the end of 2004 to 5.6%, despite the continued growth of loan portfolio. The NPLs decreased by Bt16.96mn to Bt3,429.49mn (Bt2,668.12mn for the Company and Bt761.37mn 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 Bt4,137.95mn, and the ratio of the allowance for doubtful account and loss on debt restructuring to NPLs ratio was 120.7%. The Company's allowance was Bt3,477.87mn, consisting of Bt2,877.17mn of specific reserve and Bt600.69mn of general reserve. It was greater than the minimum requirement of the Bank of Thailand (BoT) of Bt2,380.17mn. This follows a conservative provisioning policy aimed to protect the Company from potential risks to its operations. The Company will consider recognizing these excess provisions as income when customers are capable to fulfill the debt restructuring conditions.

#### Q205 Performance

- Net interest and dividend income after bad debts and doubtful accounts for the 2nd quarter of 2005 rose by 5.4% to Bt820.13mn, 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 Bt119.17mn. The ratio of the net interest and dividend income to total income was 67.8%, increased from 66.7%.
- Non-interest income slightly increased by 0.3% to Bt390.05mn, mainly resulted from gain on securities of Bt6.37mn, comparing with loss on securities of Bt25.84mn in 2Q04, or a 124.7% y-o-y increase, following the stock market condition. Furthermore, other income grew by Bt22.05mn or 62.1% y-o-y to Bt57.53mn.
- The operating expense of the Company and subsidiaries increased by 3.2% to Bt652.63mn. The increase stemmed mainly from an increase in premises and equipment expenses and other expenses i.e. sales promotional expenses and non-personal expense. The premises and equipment expenses equaled Bt103.48, increased by Bt26.75mn or 34.8%, resulting from the expense for investment in preparation for bank upgrade, and the other expenses equaled to Bt294.06mn, an increase of Bt74.06mn or 33.6%, following higher volume of business activities. However, personnel expenses amounted to Bt235.22mn, decreased by 26.7%, following the decline in brokerage fee income.
- In 2005 the Company and subsidiaries start paying corporate tax at normal rate. In this quarter, the corporate tax amounted to Bt151.55mn or 27.2%.

## Business Segment Performances

The performance analysis for 3-month period ended June 30, 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*

- Financial business loans and receivables increased by 7.1% to Bt59,735.08mn. They were composed of 18.6% of corporate loans, 74.9% of retail loans, and 6.5% of other loans.
- Corporate loan portfolio of the Company and subsidiaries increased by 1.6% to Bt11,118.29mn, mainly resulted from the increase in manufacturing and commerce lending while the NPL ratio decreased from 9.6% to 8.9% q-o-q.
- Retail finance business consisted car and motorcycle hire purchase loans and mortgage loan. Hire purchase loans accounted for 94.9% of total retail loans. The outstanding hire purchase portfolio was Bt42,432.74mn, increased by 10.0%, which was driven by the company's aggressive expansion. New loan extended in this quarter amounted to Bt6,797.75mn, increased by 10.4%. The penetration rate for the first 5 months of 2005 was at 8.4%, compared to 7.6% at the end of 2004.

### *Securities Business*

- Brokerage business served 25.4% of foreign institutional customers, 25.0% of domestic institution customers, and 49.6% of retail customers. Following the lower market turnover, TISCO Securities' trading volume declined, resulting to a 33.8% decrease in brokerage fee income to Bt128.95mn, and the market share was 2.7%.
- Fee from investment banking amounted to Bt2.36mn, dropped by 84.6% from Bt15.36mn, The decrease followed the slow down in the stock market and therefore, the capital funding was delayed.

### *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 Bt74,044.05mn, increased by Bt1,449.23mn or 2.0%, following the increase in funds' NAV, additional investments from investors, and increase in customer base.
- The basic fee was Bt55.85mn, increased by Bt6.05mn or 12.1%, and 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 as of May 2005 was 7.1%, the 4<sup>th</sup> rank in the market. Market share of provident fund was at the 2<sup>nd</sup> rank of 14.9%, market share of private fund was also at the 2<sup>nd</sup> rank of 13.9%, and market share of mutual fund was at the 15<sup>th</sup> rank of 1.2%.

## Risk Management

- In the second quarter of 2005, the capital base was slightly decreased to B12,356.26m, owing to annual dividend payment during the quarter. The estimated capital at risk decreased by 1.0% from B6,209.20m to B6,148.70m, due mainly to declining market risk exposure and improving hire purchase credit quality. Capital surplus remained high at 50.3% of total capital, reflecting a strong capital position to support future business expansion. The regulatory capital adequacy ratio (BIS ratio) remained high at 18.36%, with a tier-I capital ratio of 16.44%, higher than the 8.0% and 4.0% minimum requirement of the Bank of Thailand. The net capital ratio (NCR) of TISCO Securities Co., Ltd. stood at 117.74% comparing with the minimum of 7.0% required by the SEC.
- Comparing with the first quarter of 2005, the credit risk capital rose from B2,992.81m to B3,022.06m mainly due to continuing automobile hire purchase loan expansion. With the improving credit quality of automobile hire purchase loan during the period, credit risk grew at a slower pace comparing with hire purchase loan portfolio expansion. Meanwhile, the market risk capital decreased from B2,569.67m to B2,452.87m, mainly due to decreasing market value of investment portfolio. For interest rate risk, the durations of assets and liabilities increased from 1.18 and 0.74 to 1.27 and 0.76 respectively. The difference in the duration of assets and liabilities increased from 5.28 months to 6.12 months. Interest rate risk increased slightly, however the risk still perceived to manageable in terms of potential impact to overall interest income.

## TISCO Financial Summary (Consolidated) 2Q05

<i>Balance Sheet (Bt mn)</i>	2Q05	1Q05	QoQ (%)	2Q04	YoY (%)
<b>Assets</b>					
Corporate Loans	11,118.29	10,947.36	1.6	10,788.25	3.1
Retail Loans	44,716.37	42,977.55	4.0	36,786.82	21.6
Other Loans	5,313.24	5,781.31	(8.1)	6,289.86	(15.5)
Allowance	(4,137.95)	(4,245.91)	(2.5)	(4,262.28)	(2.9)
Fixed-income	3,230.11	2,126.30	51.9	2,471.90	30.7
Equity	4,342.91	4,447.97	(2.4)	4,023.77	7.9
Other Assets	8,952.59	8,702.94	2.9	5,091.54	75.9
<b>Total Assets</b>	<b>73,535.56</b>	<b>70,737.52</b>	<b>4.0</b>	<b>62,821.87</b>	<b>17.1</b>
<b>Liabilities</b>					
Borrowings and Deposits	50,825.44	47,164.82	7.8	41,893.78	21.3
Debentures	5,941.00	5,941.00	0.0	5,941.00	0.0
Other Liabilities	4,412.85	5,590.36	21.0	4,170.86	5.9
<b>Total Liabilities</b>	<b>61,179.29</b>	<b>58,696.18</b>	<b>4.3</b>	<b>52,005.64</b>	<b>17.6</b>
<b>Total Equity</b>	<b>12,356.27</b>	<b>12,041.33</b>	<b>2.6</b>	<b>10,816.23</b>	<b>14.2</b>
<b>Income Statement (Bt mn)</b>					
Interest & Dividend Income	1,141.10	1,072.67	6.4	941.43	21.2
Net Interest Income	806.68	775.77	4.0	679.61	18.7
Provisions	13.69	(66.55)	(120.6)	99.00	(86.2)
Net Interest Income after provisions	820.37	709.22	15.7	778.61	5.4
Total Non Interest Income	390.05	591.94	(34.1)	388.93	0.3
Operating Expenses	652.63	625.30	4.4	632.52	3.2
Corporate Tax	(151.55)	(150.79)	0.5	(133.40)	13.6
<b>Net Income</b>	<b>400.05</b>	<b>517.12</b>	<b>(22.6)</b>	<b>389.70</b>	<b>2.6</b>

## Loan Breakdown (Bt mn)

<i>Type of Business</i>	2Q05	1Q05	QoQ (%)	2Q04	YoY (%)
<b>Commercial Lending</b>	<b>11,118.29</b>	<b>10,947.36</b>	<b>1.6</b>	<b>10,788.26</b>	<b>3.1</b>
Manufacturing and commerce	5,770.77	5,641.05	2.3	5,505.62	4.8
Real estate and construction	3,536.93	3,528.62	0.2	3,284.73	7.7
Public utilities and services	1,629.08	1,616.60	0.8	1,877.54	(13.2)
Agriculture and mining	181.51	161.09	12.7	120.36	50.8
<b>Retail Lending</b>	<b>44,716.37</b>	<b>42,977.55</b>	<b>4.0</b>	<b>36,786.82</b>	<b>21.6</b>
Hire purchase	42,432.74	40,641.91	4.4	34,314.44	23.7
Housing	2,283.64	2,335.64	(2.2)	2,472.38	(7.6)
<b>Others</b>	<b>3,900.42</b>	<b>3,989.26</b>	<b>(2.2)</b>	<b>3,725.88</b>	<b>4.7</b>
<b>Total</b>	<b>59,735.08</b>	<b>57,914.17</b>	<b>3.1</b>	<b>51,300.97</b>	<b>16.4</b>

**NPL Breakdown by TISCO Business Area of the Company and subsidiaries (Bt mn)**

Type of Business	2Q05	1Q05	QoQ (%)	2Q04	YoY (%)
Commercial Lending	987.56	1,046.69	(5.6)	1,840.22	(46.3)
Manufacturing and commerce	375.88	442.32	(15.0)	N/A	-
Real estate and construction	595.73	595.33	0.1	N/A	-
Public utilities and services	14.97	8.29	80.5	N/A	-
Agriculture and mining	0.99	0.75	32.0	N/A	-
Retail Lending	1,339.77	1,281.32	4.6	1,220.02	9.8
Hire purchase	980.86	919.75	6.6	537.29	82.6
Housing	359.33	361.57	(0.6)	584.73	(38.5)
Others	1,102.16	1,118.44	(1.5)	577.23	90.9
Total	3,429.49	3,446.45	(0.5)	3,539.47	(3.1)

**Asset under Management Breakdown by Type of Fund (Bt mn)**

Type of Fund	2Q05	1Q05	QoQ (%)	2Q04	YoY (%)
Provident Fund	47,418.87	46,862.94	1.2	40,203.07	17.9
Private Fund	19,667.29	19,099.93	3.0	17,086.67	15.1
Mutual Fund	6,957.89	6,631.95	4.9	4,616.51	50.7
Total	74,044.05	72,594.82	2.0	61,906.25	19.6

**Average Duration Mismatch of Assets and Liabilities and Its Impact (Bt mn)**

Type of Fund	Duration		1-Y Net interest income* change to 1% interest rate increase	
	2Q05	1Q05	2Q05	1Q05
Assets	1.17	1.18	210.37	224.96
Liabilities	0.70	0.74	(287.66)	(273.64)
Net Gap			(58.95)	(48.69)

**Revenue Breakdown (Bt mn)**

	2Q05	1Q05	QoQ (%)	2Q04	YoY (%)	6M05	6M04	YoY (%)
Net Interest and Dividend Income	806.68	775.77	4.0	679.61	18.7	1,582.45	1,452.36	11.0
Provision	13.69	(66.55)	(120.6)	99.00	113.8	(52.86)	30.59	272.8
Net Interest and Dividend Income after Provision	820.37	709.22	15.7	778.61	5.4	1,529.59	30.59	5.1
Fee from finance business	203.13	176.21	15.3	150.22	35.2	379.34	309.91	5.1
Fee from securities business	131.32	220.70	(40.5)	210.07	(37.5)	352.02	752.10	(53.2)
Fee from asset management	49.23	72.28	(31.9)	54.49	(9.7)	121.51	107.93	12.6
Trading Gain	6.37	122.74	(94.8)	(25.84)	124.7	129.12	(55.80)	331.4
Total non-interest income	390.05	591.93	(34.1)	388.94	0.3	1,509.30	1,114.15	(11.9)
Total net income	1,210.41	1,301.16	(7.0)	1,167.93	3.6	2,511.57	2,570.09	(2.3)