MANAGEMENT'S DISCUSSION & ANALYSIS FOR 3-MONTH PERIOD ENDED JUNE 30, 2004

1. ECONOMIC, INDUSTRY, AND FINANCIAL MARKETS CONDITIONS

The overall Thai economy in the second quarter of 2004 continued to grow however with some negative factors affecting the company's operation. In particular, interest rates started its rising trend with pressure from stronger inflation. According to the Bank of Thailand, the Gross Domestic Product (GDP) growth for the 1st quarter of 2004 was 6.5%, lowered from 7.8% in the 4th quarter of 2003. Nonetheless, automobile and motorcycle sales in May 2004 grew 15.2%, and 21.5% y-o-y, respectively, contributed to continuing growth in the hire purchase business.

With regard to capital market condition, the stock market became relatively sluggish when compared to the 1st quarter. Nevertheless, comparing with the same period of the previous year, the average daily turnover surged by 87.5% from 10,258.74 m to 19,237.47 m. Meanwhile, The SET index declined by 0.23%, comparing to an increase of 23.27% in the same period of the previous year, causing a negative impacts on returns from securities investment.

2. OPERATING RESULTS AND FINANCIAL POSITIONS

❑ OPERATING RESULTS FOR 3-MONTH PERIOD ENDED JUNE 30, 2004

Analysis of operating results for 3-month period ended June 30, 2004 was in comparison with the 3-month period ended June 30, 2003.

Operating Results

The Company and subsidiaries consolidated net profit for the 2nd quarter was B389.70m, a decrease of 11.4% y-o-y and 35.3% q-o-q. The decline of net profit was mainly due to the decrease of return on investment in securities, following a slowdown of the stock market, and the concentration of investment banking fee income recognition in different time periods. However, the interest and dividend income, net of bad debts and doubtful accounts, rose by 50.4% from B517.76m to B778.61m, following loan portfolio expansion and improved asset quality.

For the 6-month period ended June 30, 2004, the Company and subsidiaries net profit continued to increase to B991.94 m, a surge of 23.4% from the same period of the previous year. The profit fluctuation in each quarter was driven by the volatility of the capital market. It is believed that the economic fundamentals are still strong and will continue to support growth in profits of the Company and subsidiaries in the long run.

Diluted EPS for 3-month and 6-month periods ended June 30, 2004 were B0.54 and B1.37, respectively, compared with B0.61 and B1.11 in the same period of 2003. The average annualized ROEs (excluding minority interest) were 14.3% and 18.4%, respectively.

Table 1: Consolidated Revenue Structure

Type of Revenue	April-June 2004		April – June 2003		% Change
	Amount (Bm)	%	Amount (Bm)	%	
Interest and dividend income					
Loan and deposits	146.30	12.5	209.53	19.6	(30.2)
Hire purchase and financial lease	723.97	62.0	591.47	55.3	22.4
Investment in Securities	71.16	6.1	92.48	8.6	(23.1)
Expenses on borrowings	(261.81)	(22.4)	(304.65)	(28.5)	(14.1)
Net interest and dividend income	679.61	58.2	588.83	55.1	15.4
Reversal of Bad debts and doubtful accounts (Bad debts and doubtful accounts)	99.00	8.5	(71.07)	(6.6)	(239.3)
Interest and dividend income - net of bad debts and doubtful accounts	**778.61**	**66.7**	**517.76**	**48.4**	**50.4**
Non-interest income					
Brokerage fee	194.75	16.7	126.98	11.9	53.4
Fee and charges	187.37	16.0	214.22	20.0	(12.5)
Gain(loss)on trading securities	(25.84)	(2.2)	163.91	15.3	(115.8)
Others	32.66	2.8	46.48	4.3	(29.7)
Total non-interest income	**388.93**	**33.3**	**551.58**	**51.6**	**(29.5)**
Total	**1,167.54**	**100.0**	**1,069.34**	**100.0**	**9.2**

Revenue

Total revenue increased 9.2% to B1,167.55m. The proportion of interest and dividend income, and non-interest income substantially changed from 48.4% and 51.6% of total income to 66.7% and 33.3% of total income. This shift was due to continuing growth in interest income from finance business expansion while securities business and related business areas were affected by the slowdown of the stock market.

Net interest and dividend income after bad debts and doubtful accounts rose by 50.4%, resulted from a continued high growth rate of loan portfolio, which has exceeded the rate of 20% over the past 5 years, due to strong expansion of the hire purchase portfolio. In addition, the Company was also able to maintain interest rate spread at an average rate of 4% over the past 4 years, together with successes in loan restructuring and bad debt collections. In the 1st quarter of this year, most of bad debt write back was from stop-accrued interest income, which was then written back as interest income. Whereas in the 2nd quarter, bad-debt write-back was on the principal portion and thus recognized as income from reversal of bad debts and doubtful account.

The decrease of non-interest income was mainly due to trading loss on securities investment, affected from the decline of the stock market, which was perceived to be short run. Meanwhile, the brokerage fees rose by 53%, as a result of an increase of average daily turnover from B10,285.74m to B19,237.47m.

Operating Expenses

Resulting from the scheme to restructure company's operating costs to be more variable with business volume and operating performance, the operating cost of the Company and subsidiaries in the 2nd quarter increased 20.8% from the same period of the previous year to stand at B632.52 m. The personnel expense surged 47.6% to B321.0 m, as a result of the difference in timing of cost recognition. In 2004, the Company and subsidiaries distributed the personnel expense according to business volume and operating performance throughout the whole year. While, in 2003, a major portion of variable personnel expense was recorded in the second half of the year, causing the personnel expense in 2003 to be lower in the 1st half and higher in the 2nd half of the year.

Corporate Income Tax

The Company and subsidiaries' corporate income tax expense was B133.40m. The effective tax rate was 24.9%, compared with 17.8% of second quarter of 2003.

FINANCIAL POSITION AS OF JUNE 30, 2004

Analysis of financial position as of June 30, 2004 was in comparison to financial position as of December 31, 2003.

Table 2: Compositions of Assets, Liabilities, and Equity (Baht Million)

	June 30, 2004		December 31, 2003	
	Amount (Bm)	(%)	Amount (Bm)	(%)
Assets				
Corporate Loans	9,677.78	15.4	9,122.86	15.0
Retail Loans	41,623.19	66.3	36,441.32	60.5
Fixed-income	2,471.90	3.9	3,891.12	6.5
Equity	4,023.77	6.4	4,197.93	7.0
Other Assets	5,025.23	8.0	6,610.02	11.0
Total Assets	**62,821.87**	**100.0**	**60,263.25**	**100.0**
Liabilities				
Borrowings and Deposits	41,893.78	80.6	38,114.00	76.9
Debentures	5,941.00	11.4	5,941.00	12.0
Other Liabilities	4,170.86	8.0	5,488.00	11.1
Total Liabilities	**52,005.64**	**100.0**	**49,542.00**	**100.0**
Total Equity	**10,816.23**	**-**	**10,721.10**	**-**

For the 6-month period, total assets increased 4.3% from B60,263.25m at the end of 2003 to B62,821.87m as of June 30, 2004. The growth was driven by 14.2% expansion of retail loans portfolio, mostly contributed from the hire purchase business, with the proportion of retail loans value to total assets evidently increased from 60.5% at the end of 2003 to 66.3%. Meanwhile, investment in fixed-income securities decreased from 6.5% to 3.9% of total assets as it was anticipated that interest rates will rise continuously in the 2nd half of 2004, prompting a reduction in holding of fixed-income securities to only the level sufficiently required to manage liquidity.

Source of funds to support loan growth was mainly from borrowings and deposits, which increased from 76.9% to 80.6% of total liabilities, with emphasis on public deposits.

Shareholder's equity increased from B10,721.10m to B10,816.23m, contributed from six-month net profit of B991.94m, dividend payment of B648.53m in April 2004, and the decline in revaluation surplus on changes in the value of investment in equity, following a fall of the SET Index.

Loans and Receivables

Table 3: Loans and Receivables Breakdown

Type of Business	June 30, 2004		December 31, 2003		% Change
	Amount (Bm)	%	Amount (Bm)	%	
The Company and subsidiaries					
Commercial Lending	**9,677.78**	**18.9**	**9,122.86**	**20.0**	**6.1**
Manufacturing and commerce	3,463.82	6.8	3,283.95	7.2	5.5
Real estate and construction	2,349.75	4.6	1,666.21	3.7	41.0
Public utilities and services	1,371.93	2.7	1,559.92	3.4	(12.1)
Others	2,492.28	4.9	2,612.78	5.7	(4.6)
Retail Lending	**41,623.19**	**81.1**	**36,441.32**	**80.0**	**14.2**
Hire purchase	37,552.15	73.2	32,619.36	71.6	15.1
Housing	2,439.03	4.8	2,431.38	5.3	0.3
Others	**1,632.01**	**3.2**	**1,390.58**	**3.1**	**17.4**
Total	**51,300.97**	**100.0**	**45,564.18**	**100.0**	**12.6**

Loans and receivables rose from the end of 2003 by 12.6% to B51,300.97m. While commercial loans portfolio started to expand by 6.1% from B9,122.86m to B9,677.78m, the hire purchase portfolio continued to expand at a fast pace of 15.1%. This was in line with the company's business plan and market condition in which commercial sector loan started to expand to service loan demand from private sector investment following economic growth in the high capacity utilization environment. Meanwhile, private consumption continued its growth which positively contributed to the high growth of the country's automobile industry.

Table 4: NPL Breakdown by Area

	June 30, 2004		December 31, 2003		% Change
	Amount (Bm)	%	Amount (Bm)	%	
The Company and subsidiaries					
Commercial	1,840.22	52.0	1,739.50	50.9	5.8
Retail					
Mortgage loans	584.73	16.5	624.12	18.3	(6.3)
Car hire purchase	396.92	11.2	319.50	9.4	24.2
Motorcycle hire purchase	140.37	4.0	148.24	4.3	(5.3)
Others	577.23	16.3	584.06	17.1	(1.2)
Total	**3,539.47**	**100.0**	**3,415.42**	**100.0**	**3.6**

The Company and subsidiaries' NPLs to total loans ratio decreased from 7.5% to 6.9% while the Company's NPLs to total loans ratio decreased from 6.7% to 6.2%. The Company's NPLs amounted to B2,823.72m.

The Company and its subsidiaries' allowance for doubtful account and loss on debt restructuring was B4,262.28m (B3,541.77m for the Company and B720.51m for subsidiaries). The Company and subsidiaries allowance for doubtful account and loss on debt restructuring to NPLs ratio was 120.4%.

From the total allowance, the Company's portion of allowance amounted to B3,541.77m, consisted of B2,722.46m in specific reserve and B819.31m in general reserve, which was greater than the minimum requirement of B2,579.12m of the Bank of Thailand (BoT), following the conservative provisioning policy to protect the Company from potential risks. The Company's allowance for doubtful account and loss on debt restructuring was 137.3% of the minimum requirement of the BoT.

3. BUSINESS PERFORMANCE BY AREA

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

- Finance business
- Retail business
- Securities business and
- Asset management business

Analysis of the business performance for 3-month period ended June 30, 2004 was in comparison with that of the same period of the previous year, while analysis of business volume was in comparison with that as of December 31, 2003. Details are presented below.

Commercial Finance Business

Commercial lending business started to pick up from 5 successive years of portfolio contraction. Commercial loan portfolio of the Company and subsidiaries amounted to B9,677.78 m, expanded by 6.1% from the end of 2003. The NPL ratios slightly declined from 19.1% of the end of 2003 to 19.0%.

Retail Finance Business

Retail finance business comprised car and motorcycle hire purchase, mortgage loan, and other consumption loans. Hire purchase loans accounted for 90.2% of total retail loans, a slightly increase from 89.5% from the end of 2003, following the company's aggressive expansion strategy and supportive market condition. Total car sales for first 5-month of 2004 was 248,172 units, representing a 22.2% increase. The average penetration rate of the Company and subsidiaries, calculated as hire purchase volume per total car sales ratio, for the first 5-month was 7.3%, increased from 7.0% of the previous year. New loan extended in this quarter was B6,156.24m, increased by 14.7%, or 13,315 units, increased by 23.4%.

Securities Business

Securities business mainly comprised securities brokerage and investment banking businesses. For securities brokerage, the market share of TISCO Securities Co., Ltd. was at

3.5% with a brokerage volume of B77,498.49m, a 62.1% increase following the surge of overall market turnover. The increase in brokerage volume caused the brokerage fee to increase by 61.3% to B186.67m.

TISCO Securities Co., Ltd. still maintained its lead position in Investment Banking, as evidenced in the company's being appointed as financial advisor and underwriter for several securities offerings and listings. Fee and service income surged 128.5% from B7.80 m to B17.82m, mostly contributed from financial advisory fees.

Asset Management

Asset management business operated under TISCO Asset Management Co., Ltd. Its services covered provident fund, private fund, mutual fund and retirement mutual fund with a range of investment choices. The total assets under management was B61,906.25m, increased by 9.7% from B56,459.42m, resulting an increase in the fund management fee. However variable fee income moved lower with the sluggish stock market condition.

Total market share of TISCO Asset Management Co., Ltd. as of May 2004 was 6.8%, the 5th rank in the market. Market share of provident fund was at the 2nd rank of 13.8%, private fund at the 3rd rank of 12.1%, and mutual fund at the 13th rank of 0.9%.

Table 5: Asset under Management Breakdown by Type of Fund

Type of Fund	June 30, 2004		December 31, 2003		% Change
	Amount (Bm)	%	Amount (Bm)	%	
Provident Fund	40,203.07	64.9	37,805.26	67.0	6.3
Private Fund	17,086.67	27.6	13,762.01	24.4	24.2
Mutual Fund	4,616.51	7.5	4,892.15	8.6	(5.6)
Total	**61,906.25**	**100.0**	**56,459.42**	**100.0**	**9.7**

4. RISK MANAGEMENT

In the second quarter, Risk Capital - the amount of capital required to support integrated risk exposures estimated from internal risk model - increased by 12.2% to B5,973m. The risk increase was contributed from a surge in both market risk and credit risk. Credit risk increased 7.1% during the period along with the growth in car hire purchase portfolio as planned. Market risk rose by 21.6% mainly due to additional investment in equity market and a slight increase of interest rate risk.

With interest rate in the uptrend, interest rate risk has become more crucial and should be closely monitored. Over the past quarter, duration of both assets and liabilities increased in the same direction from 1.16 to 1.27 and 0.94 to 1.00 respectively. The interest rate sensitivity, estimated from potential net interest income reduction over the next 12 months to 1.0% interest rate increase stood at B15.57m if no actions were undertaken. However, the difference in the duration of assets and liabilities of approximately only 3 months is perceived to be low and can be managed to reduce the impact on interest income.

Table 6: Average Duration Mismatch of Assets and Liabilities and Its Impact

	Duration		1-Y Net interest income* change to 1% interest rate increase	
	Q2 2004	Q1 2004	Q2 2004	Q1 2004
Assets	1.27	1.16	167.69	174.52
Liabilities	1	0.94	-183.26	-253.21
Net Gap			**-15.57**	**-78.69**

Unit : * million baht

The capital base of the Company was at B10,816.23m. Comparing with the estimated capital at risk of B5,973.42m, the capital base was in excess of the requirement by as much as 44.8%, reflecting a strong capital position to support future business expansion. Meanwhile, the regulatory capital adequacy ratio (BIS ratio) remained high at 19.3%, with a tier-I capital ratio of 16.8%, higher than the 8.0% minimum requirement of the Bank of Thailand. The net capital ratio (NCR) of TISCO Securities Co., Ltd. stood at 71.5% comparing with the minimum of 7.0% required by the SEC.

5. CORPORATE AND BUSINESS STRATEGIES ISSUES

Commercial Bank Upgrade

The Company has submitted the application for setting up a full-service commercial bank to Bank of Thailand on April 28, 2004 and expects to obtain approval around the end of 2004. The new commercial bank is expected to commence its operation no later than July 2005. Upgrading into a commercial bank will benefit the Company's operations in the future as it will be able to provide a greater variety of financial services at a lower cost. When becoming a commercial bank, the Company will become less reliant on other banks and yield the economy of scale in terms of the scope of serviceable businesses, which should enhance efficiency and reduce operating costs.