

## **National Finance Public Company Limited**

### **Management Discussion and Analysis as of the end of the 1<sup>st</sup> quarter of 2005**

The first quarter of 2005 continued much like the year 2004 as considerable negative factors continued to affect the Thai economy. Unrelenting violence in the southern provinces with new terrorist treats across Thailand, increasing oil prices, and the post-tsunami affect on the Thai tourism industry all contributed in dampening the expectations for growth of the Thai economy.

Private Consumption remained at low levels during the first quarter of 2005 as consumer confidence levels were very low and the sales of gasoline decreased due to increased prices. Private Investment continued to expand mainly driven by construction growth.

Deposits at Commercial Banks continued to increase with year on year growth of 3.2% and 3.7% in January and February, respectively. While Private Credits at Commercial Banks also continued to grow, however at a decelerated pace, with year on year growth of 6.3% and 6.0% in January and February, respectively.

Domestic Spending grew however at a slower pace. Domestic car sales registered 51,894 units and 47,057 units in January and February, respectively. In the first quarter of 2005, the Stock Exchange of Thailand's average daily trading value was Baht 21,267 million compared to the previous quarter of Baht 18,280 million, or a 16.3% increase, however year on year the Stock Exchange of Thailand's average daily trading value was Baht 28,382 million, a decrease of 25.1%. Money market interest rates in the first quarter continued to increase as the R/P 14 day rate was 2.25% at the end of March and the Interbank rate was 1.90% at the end of March.

#### **The Overview**

The Group's consolidated financial statement as of the end of the 1<sup>st</sup> quarter of 2005 shows total assets of Baht 199,014 million, representing an increase of 7.6% or Baht 13,970 million from the end of last year. Most of this increase was a result of the outstanding hire purchase loans expansion, which increased by 36.8% or Baht 25,626 million, while the total net investment amount decreased by 4.4%. The public deposits amounted to Baht 137,736 million, a 3.4% increase or Baht 4,541 million from the end of last year.

The net earnings of the Company and its subsidiaries as of the end of the 1<sup>st</sup> quarter of 2005 was Baht 687 million, representing an increase of 16.4% or Baht 97 million from the same quarter last year. The earning per share was Baht 0.52.

The main contributing factor that generated significant growth in net profit for the 1<sup>st</sup> quarter of 2005 was the 36.8% expansion of the Company's automobile hire purchase loans which resulted in a 35.5% growth in hire purchase income. In addition, the net income of Thanachart Bank continued to grow even though the hire purchase business was not yet transferred to the bank and the operating expenses increased due to the expansion of its bank branches. National Insurance experienced high growth as insurance premium income increased year on year by 52.5%, however due to high levels of insurance reserves, for which there will be deferred revenue recognition, the net income for National Insurance was slightly positive. As a result of the low securities transaction volume including the decrease in the amount of initial public offerings, caused National Securities income to decrease significantly. The Company's subsidiaries performance are as follows

	(Unit: Baht million)		
	Q1, 05	Q1, 04	Change
Thanachart Bank Plc.	158	145	9.0%
National Securities Plc.	21	141	(85.1)%
National Asset Management	1	19	(94.7)%
National Insurance	1	28	(96.4)%
Zurich National Life Assurance	(1)	34	(102.9)%
NFS-AMC	15	9	66.7%
MAX-AMC	(1)	8	(112.5)%

## Financial Status

### 1. Assets

The Group's assets grew from Baht 185,044 million at the end of year 2004 to Baht 199,014 million as of the end of the 1<sup>st</sup> quarter of 2005, representing a 7.6% increase. The majority of this increase was a result of the combination of loans and accrued interest receivable which amounted to Baht 128,324 million or accounted for 64.5% of the total assets, while the net investment accounted for Baht 38,514 million or 19.4% of all assets, with details as follows:

1.1 As of the end of the 1<sup>st</sup> quarter of 2005, the total outstanding hire purchase loans were Baht 95,172 million, accounting for 69.8% of all total loans, representing an increase of 36.8% from Baht 69,546 million of the same quarter last year. The total contracts for hire purchase as of the end of the 1<sup>st</sup> quarter of 2005 amounted to 324,993 units, an increase of 27,805 units from the end of year 2004 and an increase of 107,655 units from the end of the same quarter last year, which resulted in a considerable increase in hire purchase income in the 1<sup>st</sup> quarter of 2005.

1.2 The net investment as of the end of the 1<sup>st</sup> quarter of 2005 was Baht 38,514 million, representing a decrease of 4.4% or Baht 1,760 million from the end of year 2004. This was mainly due to a considerable decrease of 3.5% in debt securities investment to Baht 26,678 million from Baht 27,643 million as of the end of year 2004. This was in line with the Company's policy to reduce investment in government bonds and debentures in order to decrease the risk from interest rate volatility. The details of investments were as follows:

(Unit: Baht million)

	Mar 31,05	%	Dec 31,04	%
1) Debt* (Bonds and Debentures)	26,678	69.3%	27,643	68.6%
2) Equity	9,855	25.6%	10,535	26.2%
3) Investment in Receivables Purchased	1,981	5.1%	2,096	5.2%
Total Investment	38,514	100.0%	40,274	100.0%

Note:\* Compose of (1) Treasury Bill and BOT Bonds 19.4%, (2) Government Bonds (less than 5 years) 20.0%, (3) Government Bonds (over 5 years) 53.9% and (4) Debentures 6.7% of total investment in debt securities.

1.3 Property foreclosed as of the end of the 1<sup>st</sup> quarter of 2005 was valued at Baht 7,397 million, an increase of Baht 108 million from the end of year 2004. For the 1<sup>st</sup> quarter of 2005, the Company and its subsidiaries registered gains of Baht 23 million on property foreclosed and appropriated a reserve of Baht 669 million for covering the related risks as of the end of the 1<sup>st</sup> quarter of 2005.

## 2. Quality of Assets

### Loans

The loans, receivables and accrued interest receivables of the Company and its subsidiaries increased 4.9% from Baht 129,944 million at the end of year 2004 to Baht 136,325 million at the end of the 1<sup>st</sup> quarter of 2005.

2.1 The total outstanding loans, receivables and accrued interest receivables were as follows:

	(Unit: Baht million)			
	Mar 31,05	%	Dec 31,04	%
1) Manufacturing & Commerce	7,059	5.2%	7,138	5.5%
2) Real Estate & Construction	5,185	3.8%	5,008	3.9%
3) Public Utilities & Services	10,695	7.8%	10,701	8.2%
4) Retail				
4.1 Hire Purchase	95,172	69.8%	88,874	68.4%
4.2 Housing loans	11,414	8.4%	11,824	9.1%
5) Others	7,329	5.4%	7,103	5.5%
Less Inter-company profits from loans	(529)	(0.4)%	(704)	(0.6)%
Receivables transferred				
Total	136,325	100.0%	129,944	100.0%

### 2.2 Non-performing Loans (NPLs)

As of the end of the 1<sup>st</sup> quarter of 2005, the NPLs of the Company and its subsidiaries amounted to Baht 11,317 million, which accounted for 8.3% of all total loans and receivables. The details of NPLs were as follows:

Breakdowns of the Group's NPLs by type of loan were as follows:

	(Unit: Baht million)			
	Mar 31,05	% Group loan	Dec 31,04	% Group loan
Hire Purchase	1,207	0.9%	1,054	0.8%
Others *	10,110	7.4%	10,102	7.8%
Total	11,317	8.3%	11,156	8.6%

Note: \* The major portion of these NPLs belong to the AMC.

Breakdowns of the Group's NPLs by company were as follows:

	(Unit: Baht million)			
	Mar 31,05	% Group loan	Dec 31,04	% Group loan
National Finance Plc.	1,577	1.2%	1,409	1.1%
Thanachart Bank Plc.	2,907	2.1%	2,622	2.0%
National Securities Plc.	426	0.3%	435	0.3%
NFS-AMC	5,663	4.1%	5,944	4.6%
MAX-AMC	655	0.5%	658	0.5%
Others	89	0.1%	88	0.1%
Total	11,317	8.3%	11,156	8.6%

### 2.3 Allowance for Doubtful Accounts

Since the 2<sup>nd</sup> quarter of 2004, the Company had stopped appropriating additional general reserve. In line with the One Presence Policy of the Bank of Thailand, the Company would be required to transfer loans and public deposits to Thanachart Bank Plc. The Company would then change its status to be a holding company. As a result, it would not be necessary for the Company to appropriate a reserve in line with the BOT's regulation thus further. Moreover, the Company's total outstanding loan which was the base for reserve provisions, would be gradually decreased and would finally cut totally. Therefore, the Company's existing general reserve for loan losses would be reversed as its subsidiaries appropriate higher specific reserve and the Company's outstanding loans decreased.

As of the end of the 1<sup>st</sup> quarter of 2005, the Company's total allowance for doubtful accounts amounted to Baht 3,821 million, which was Baht 2,142 million higher than the specific reserve of Baht 1,679 million required by the BOT. It is the Company's conservative policy to build up the level of reserves to protect against all types of risk in order to prevent a serious impact on the operating results. This will, in turn, lead to stability in the Company's long-term performance.

The Company's loans, receivables and accrued interest receivables as of March 31, 2005 were as follows:

	Outstanding		Total Company's Reserve		
	Amount	Percent	Required by BOT	Addition	Total
Normal	104,039	92.2%	878	1,756	2,634
Special Mention	7,194	6.4%	139	-	139
Substandard	584	0.5%	111	-	111
Doubtful	600	0.5%	173	-	173
Bad Debt	394	0.4%	378	-	378
Total Outstanding	112,811	100%			
Total Specific Reserve			1,679	1,756	3,435
General Reserve			-	386	386
Total Company's Reserve			1,679	2,142	3,821

Note: The Company's outstanding balances and receivables of the normal loans and special mention loans did not include accrued interest receivables

The consolidated allowance for doubtful accounts of the Company and its subsidiaries amounted to Baht 7,876 million. They consisted of a specific reserve of Baht 4,996 million and a reserve of Baht 2,880 million for future potential risks.

The following table shows a breakdown of the Group's allowance for doubtful accounts by type of loans

	(Unit: Baht million)			
	Mar 31,05	% : NPL	Dec 31,04	% : NPL
Hire Purchase	1,631	135.1%	1,473	139.8%
Others	3,365	33.3%	3,372	33.4%
Reserve for Potential Risks in the Future	2,880	-	2,799	-
Total	7,876	69.6%	7,644	68.5%

The total allowance of the doubtful accounts of the Groups was Baht 7,876 million, or 69.6% of the Group's NPLs. It can be broken down by company as follows:

	(Unit: Baht million)			
	Mar 31,05	% : NPL	Dec 31,04	% : NPL
National Finance Plc.	3,821	242.3%	3,589	254.7%
Thanachart Bank Plc.	1,133	39.0%	1,104	42.1%
National Securities Plc.	434	101.9%	434	99.8%
NFS-AMC	2,199	38.8%	2,233	37.6%
MAX-AMC	188	28.7%	188	28.6%
Others	101	113.5%	96	109.1%
<b>Total</b>	<b>7,876</b>	<b>69.6%</b>	<b>7,644</b>	<b>68.5%</b>

The allowance of doubtful debts for Thanachart Bank Plc amounted to Baht 1,133 million with its specific reserve amounting Baht 478 million and its general reserve amounting to Baht 655 million.

### 3 Source of Funds

#### 3.1 Total Liabilities

Borrowings and public deposits serve as major sources of funds of the Company and its subsidiaries, which are considered normal in the financial sector. The funds have grown consistently each year. As of the end of the 1<sup>st</sup> quarter of 2005, the borrowings and public deposits of the Company and its subsidiaries which are the major sources of funds to support the substantial growth of the hire purchase loan amounted to Baht 167,487 million, representing a 5.9% increase from the end of year 2004. The details are shown as follows:

	(Unit: Baht million)				
	Mar 31,05	%	% Change	Dec 31,04	%
From Public	137,736	82.2%	3.4%	133,195	84.2%
From Financial Institution	22,108	13.2%	27.3%	17,372	10.9%
From Foreign Country	87	0.1%	-	87	0.1%
From Debenture	7,556	4.5%	-	7,556	4.8%
<b>Total</b>	<b>167,487</b>	<b>100.0%</b>	<b>5.9%</b>	<b>158,210</b>	<b>100.0%</b>

#### 3.2 Shareholder's Equity

As of the end of the 1<sup>st</sup> quarter of 2005, the Company and its subsidiaries had shareholders' equity of Baht 22,212 million, a 3.3% increase from Baht 21,494 million at the end of year 2004. This increase was a result of the performance of the Company and its subsidiaries.

The BIS ratio of the Company as of the end of the 1<sup>st</sup> quarter of 2005 was 9.8% which was higher than the minimum of 8.0% required by the BOT.

### Operating Results of the Company and its subsidiaries for the 1<sup>st</sup> quarter of 2005.

The operations of the Company and its subsidiaries resulted in net earnings were Baht 687 million, representing an increase of 16.4% or Baht 97 million from the same quarter last year. The increases were attributable to the following factors:

## 1. Interest and Dividend Income

For the 1<sup>st</sup> quarter of 2005, the interest and dividend income of the Company and its subsidiaries amounted to Baht 2,396 million, representing an increase of 18.0% or Baht 366 million from the same quarter last year. The related three main factors were:

- 1.1 The loans and deposit income of the Company and its subsidiaries for the 1<sup>st</sup> quarter of 2005 increased by 7.4% or Baht 36 million from the same quarter last year to Baht 523 million. This was due to an increase of the interest income from the interbank and money market item.
- 1.2 The automobile hire purchase income increased by 35.5% or Baht 412 million from the same quarter last year to Baht 1,573 million for the 1<sup>st</sup> quarter of 2005. This was due to the Company's growth in the automobile hire purchase business for both new and used cars.
- 1.3 For the 1<sup>st</sup> quarter of 2005, interest and dividend income from investment was Baht 300 million, a decrease of 21.5% or Baht 82 million from the same quarter last year. This was due to the policy to reduce the portion of the investment in medium to long-term bonds as previously mentioned.

## 2. Expenses on Borrowings

Total borrowing and deposits of the Company and its subsidiaries as of the end of the 1<sup>st</sup> quarter of 2005 was Baht 167,487 million, increased by Baht 22,747 million from Baht 144,740 million of the same quarter last year, representing an increase of 15.7%. While the expenses on borrowings and deposits were Baht 913 million, an increase of 13.7% or Baht 110 million from the same quarter last year, due to the increase of total borrowing and deposits.

## 3. Bad debt and doubtful accounts

For the 1<sup>st</sup> quarter of 2005, the allowance for doubtful accounts of the Company and its subsidiaries amounted to Baht 184 million, a decrease of Baht 303 million from the same quarter last year, due to debt restructuring and closures of some lending accounts of its subsidiaries and the Company's Policy to discontinue appropriating additional general reserve as previously mentioned.

## 4. Non-interest income

For the 1<sup>st</sup> quarter of 2005, the non-interest income of the Company and its subsidiaries amounted to Baht 1,137 million, a decrease of 8.8% or Baht 109 million from the same quarter last year. The most important determinants were:

- 1) Brokerage fee was Baht 152 million, a decrease of 33.9% or Baht 78 million.
- 2) Gains on investment decreased by 62.9% or Baht 173 million.
- 3) Fees and charges decreased by 54.3% or Baht 83 million.
- 4) Discounted income on insurance premium was Baht 115 million, an increase of 19.8% or Baht 19 million.
- 5) Gains on debt settlements were Baht 76 million, a decrease of 15.6% or Baht 14 million.
- 6) Insurance premium income was Baht 251 million, an increase of 70.8% or Baht 104 million.

- 7) Gains on property foreclosed decreased by 68.5% or Baht 50 million.
- 8) Share of profits from investments accounted decreased by 17.0% or Baht 10 million.

## 5 Operating Expenses

For the 1<sup>st</sup> quarter of 2005, operating expenses amounted to Baht 1,551 million, representing an increase of 43.9% or Baht 473 million from the same quarter last year. Commission charged on hire purchase and other operating expenses for hire purchase increased by 22.7% or Baht 45 million, as a result of the immense growth of the Company's hire purchase portfolio as explained previously. Insurance underwriting expenses increased by 117.8% or Baht 106 million from the same quarter last year. Personnel expenses and premises and equipment expenses increased 38.9% and 38.7%, respectively. This was a result of the tremendous expansion of the Company and its subsidiaries to accommodate future businesses.

### Statements of Earnings of the Company and its subsidiaries

	(Unit: Baht million)	
	Q1, 05	Q1, 04
Interest and dividend income	2,396	2,030
Expenses on borrowings	913	803
Net interest and dividend income	1,483	1,227
Bad debts and doubtful accounts	(184)	(487)
Gains (losses) on debt restructuring	(70)	(57)
Net interest and dividend income after bad debt and doubtful accounts and loss on debt restructuring	1,229	683
Non-interest income	1,137	1,246
Operating expenses	(1,551)	(1,078)
Earnings before income tax and minority interest	815	851
Corporate income tax	(128)	(246)
Earnings before minority interest	687	605
Losses (gains) on minority interest in net earnings in subsidiary companies	-	(15)
Net earnings	687	590

### Operating Results of its Subsidiaries for the 1<sup>st</sup> quarter of 2005

Thanachart Bank Plc.	% of holding	98.9%	Net profit	Baht	158 million
National Securities Plc.	% of holding	100.0%	Net profit	Baht	21 million
National Asset Management	% of holding	75.0%	Net profit	Baht	1 million
National Insurance	% of holding	70.0%	Net profit	Baht	1 million
Zurich National Life Assurance	% of holding	100.0%	Net loss	Baht	1 million
NFS-AMC	% of holding	100.0%	Net profit	Baht	15 million
MAX-AMC	% of holding	58.5%	Net loss	Baht	1 million