

National Finance

Company Overview

March 2005

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Section 1

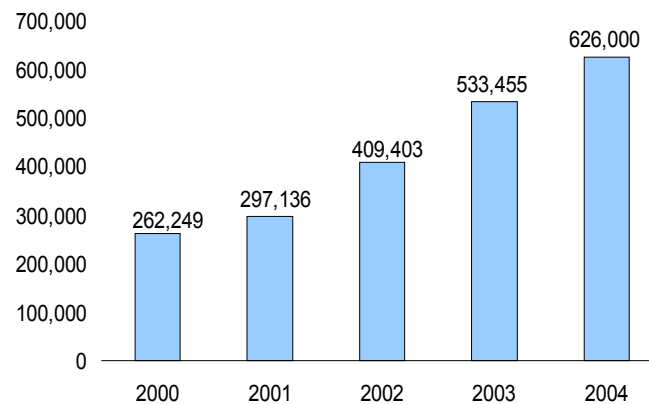
Situation Analysis

Strong Positions in Growing Markets

- National Finance is well positioned in high growth markets
- Consumer lending will continue to grow rapidly as its penetration rate in Thailand is still quite low

New Automobile Sales in Thailand

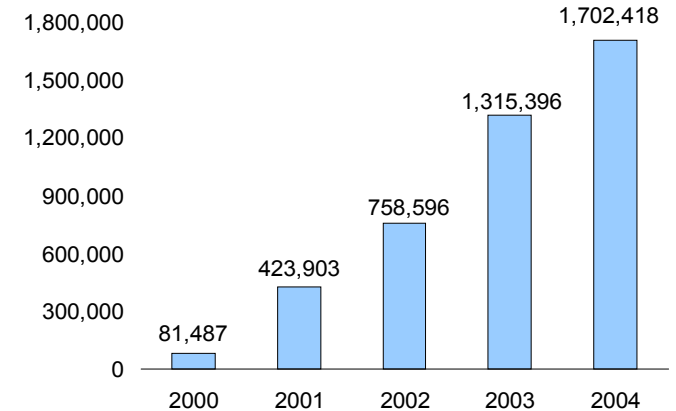
Units



Source Bank of Thailand

Hire Purchase Loans in Thailand

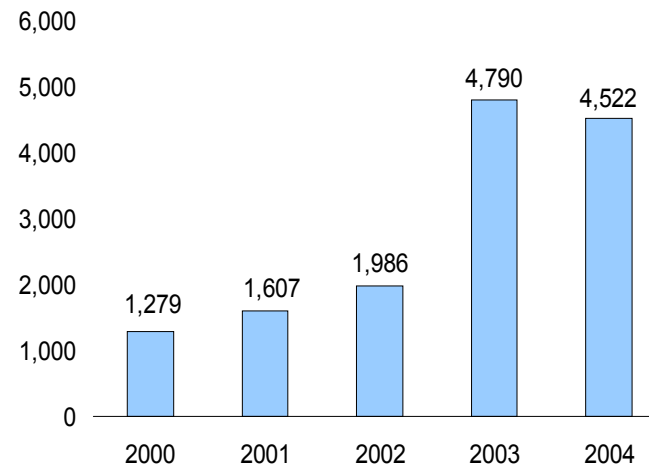
THB MN



Source Bank of Thailand

SET Market Capitalization

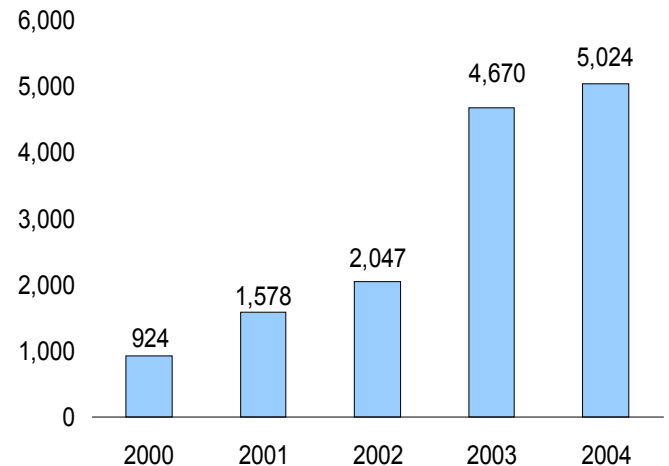
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Source SET

SET Trading Volume

THB BN



Source SET

- **Recent changes in Government policy will have a significant impact on competitive dynamics in Thailand going forward**

Situation Analysis

Implications of Changing Financial Landscape

Developments	Possible implication
Financial Sector Masterplan	<ul style="list-style-type: none">• Implicit incentives to increase scale• Consolidation of small finance companies / money lenders• Consolidation of foreign entities• Formation of universal banking groups
State-Bank consolidation	<ul style="list-style-type: none">• 2-3 state run / influenced banks• Effectiveness will depend on success of integration and independence of corporate governance
BOT Regulatory Tightening	<ul style="list-style-type: none">• Increased reserving and more stringent classification of TDRs
Deposit Insurance	<ul style="list-style-type: none">• Reduced funding costs for banks due to lower insurance charges relative to FIDF expenses
Privatization of SFIs	<ul style="list-style-type: none">• Significant public sector activities may be privatized overtime<ul style="list-style-type: none">– Post Office– Banks– Ex-Im Bank, Government Housing Bank, and Government Savings Bank

SWOT Analysis

Strengths

- Market leader in auto finance / hire purchase lending
- Efficient consumer finance distribution platform
- Short line of Command
- Complete Financial Products under One Control
- Quality Customer Base - Up-sell products
- Performance Based Compensation Scheme

Weaknesses

- Lack of Branches
- Heavy reliance on Interest Income
- Stability and cost of funding

Opportunity

- Growth in core businesses – hire purchase and retail lending
- Expand at lower network costs
- Increased demand for a variety of financial products
- Consolidation

Threats

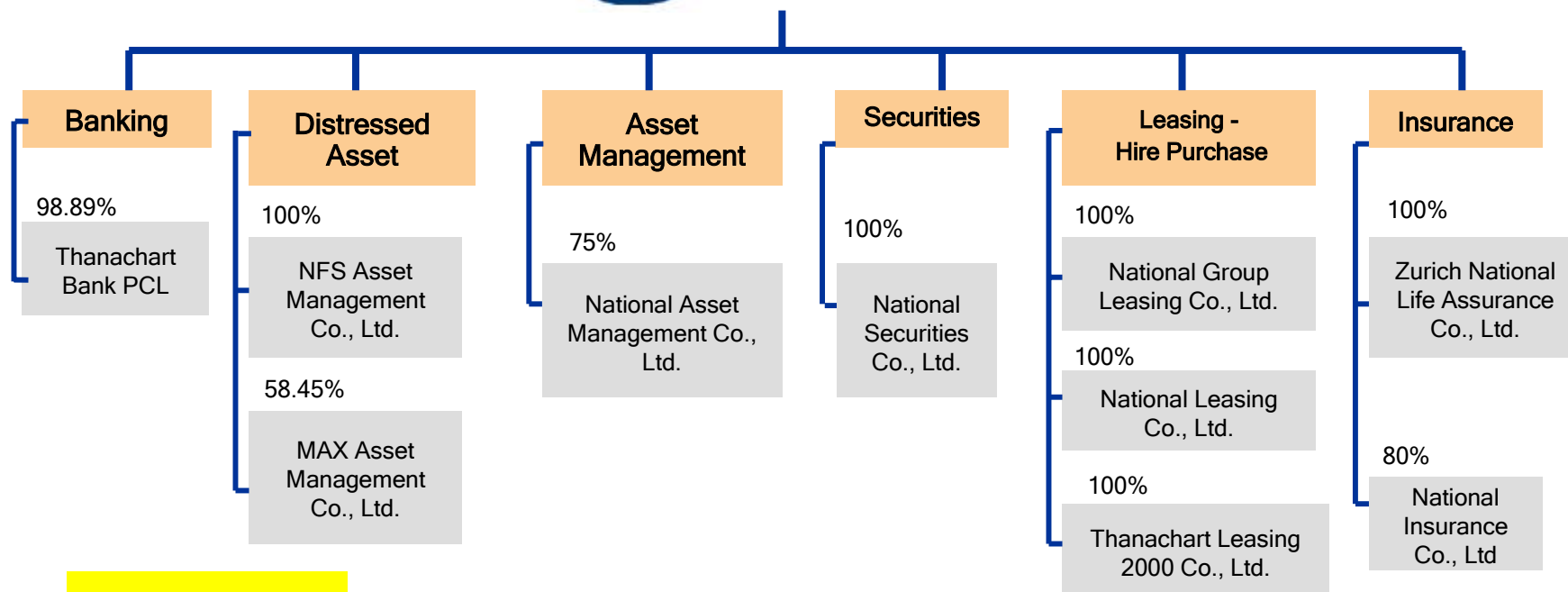
- Entry of large banks into hire purchase and securities business organically or by acquisition
- Consolidation
- Interest Rate Risk
- Lower liquidity in the Banking System

Section 2

Business Plan

NFS the Holding Company

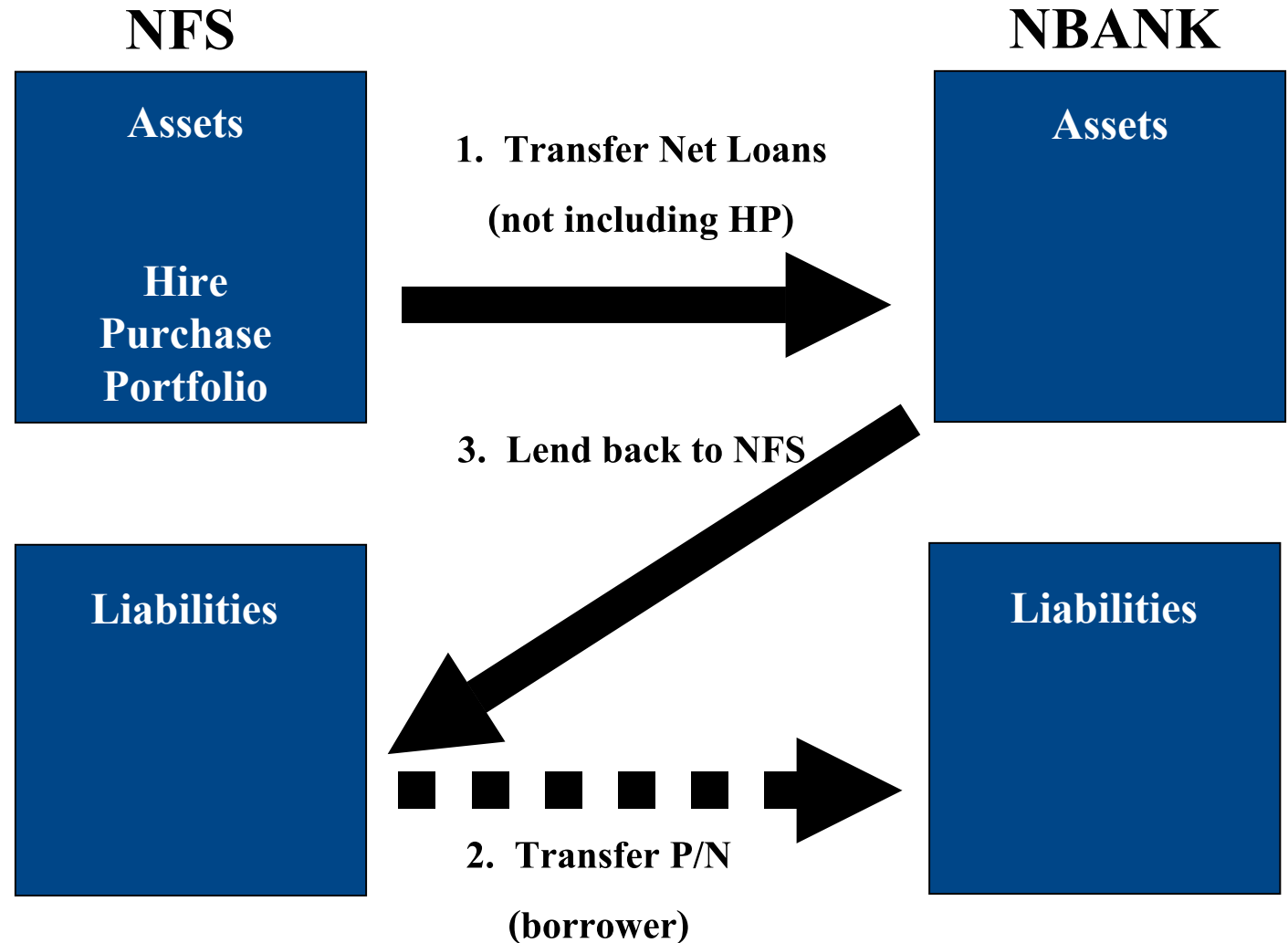
- On a consolidated basis there is no significant change



As of 1/3/2005

NFS “One Presence” Plan

- Currently the hire purchase business is done at NFS. However in accordance with the “One Presence” rule new hire purchase business will be done at Thanachart Bank
- Due to high transfer costs, the current hire purchase portfolio will wind down at NFS, while the new hire purchase loans will be booked at Thanachart Bank



Thanachart Bank Branch Expansion

- **The Thanachart Bank branch expansion will utilize strengths and address weaknesses placing the NFS group on a competitive level with other banks**

Strengths

- Market leader in auto finance / hire purchase lending
- Efficient consumer finance distribution platform
- Short line of Command
- Complete Financial Products under One Control
- Quality Customer Base - Up-sell products
- Performance Based Compensation Scheme

Weaknesses

- Lack of Branches
- Heavy reliance on Interest Income
- Stability and cost of funding

Utilize Strengths

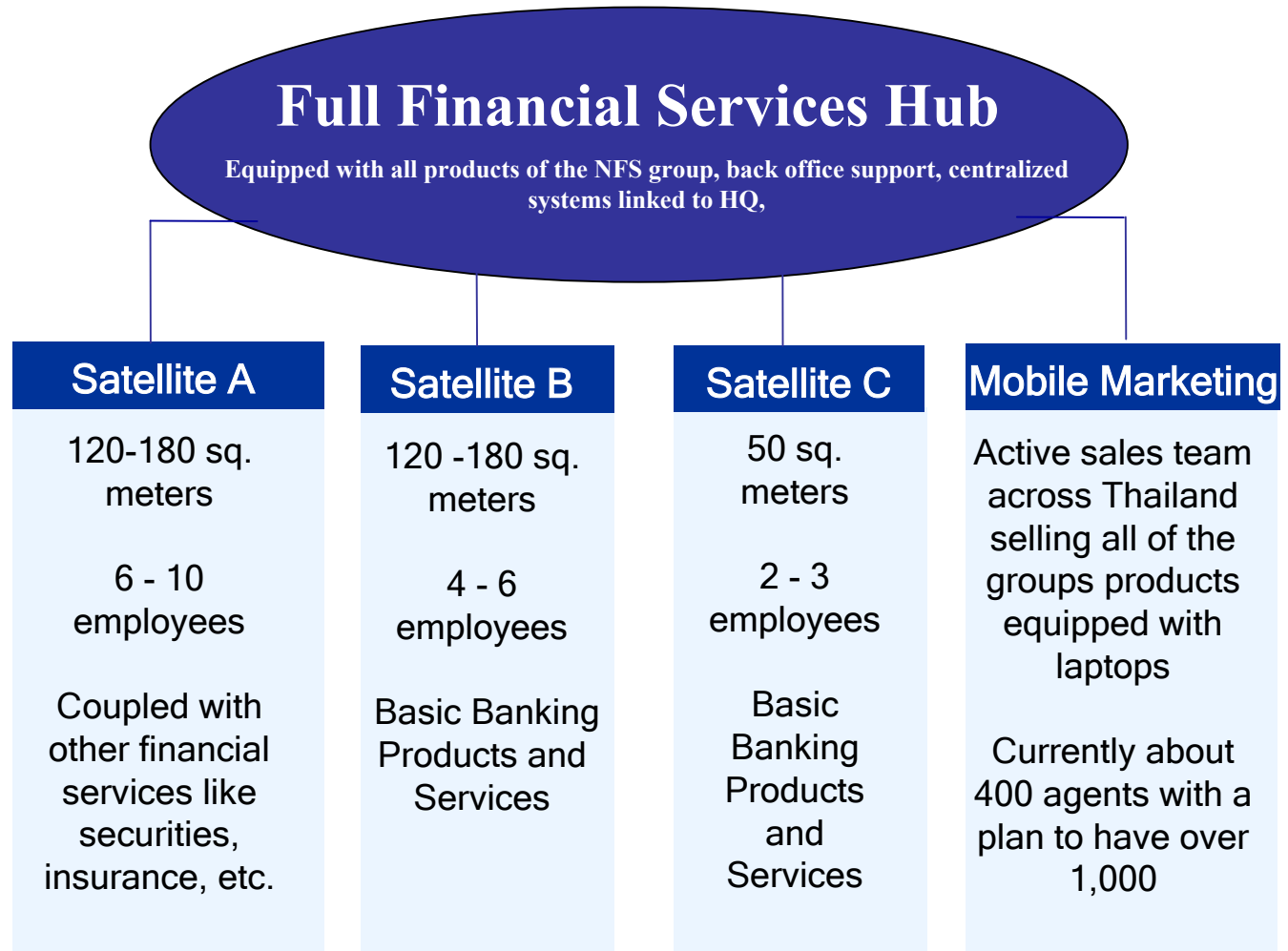
- Expand other financial business operations along with the banking branches
- Build on current customer database to cross-sell products
- Increase commission based marketing agents

Reduce Weaknesses

- Build on existing network and expand Banking Branches
- Develop new hybrid products and grow new products
- Increase and diversify funding base
- Increase fee and service income from other business units

Investing for the Future

- **20 hubs and one head office, 4 hubs in the four corners of Bangkok, 16 hubs nationwide (mainly converted lending offices) and satellites in surrounding areas**
- **Hubs will provide all back office support and be a one stop service center offering all of the group's products**
- **About 160 satellites nationwide acting as customer contact points and selling basic banking products**
- **Total cost including IT and network is expected to be about 3 billion Baht for 180 branches over the next three years**



Defending Our Turf

How can NFS defend its market?

1. Utilize close dealer relationships
2. Leverage customer credit database
3. Expertise and experience in retail lending
4. Economies of scale
5. Increase the quality and effectiveness of marketing staff
6. Utilize the controlling group structure to create more competitive products
7. Take advantage of #1 marketshare position and volumes

Why NFS can grow?

1. NFS will increase the number of marketing staff
2. Proactive sales strategy to seek out customers - customer centric
3. There is still room to grow especially in the used car market
4. There are still many businesses for NFS to enter into
5. Fully integrated Financial Services Group - Cross Sell

Growing a Core Business

Why the used car market is expected to expand

1. Vehicle penetration in Thailand is still low compared to neighboring countries (Thailand 125 to 1,000 people, Malaysia 252, Korea 293)
2. The replacement cycle in Thailand is shortening from 5 years to 4 years
3. Opportunity cost of cars is increasing due to the introduction of newer models, causing depreciation. In addition, if firms are financing their fleets rising interest rates and higher carrying costs will lead to increased turnover of cars
4. Rates for used cars are very attractive, offering higher yields than new cars yet NPL figures are only slightly higher

Why NFS can grow

1. The used car market is still not completely formalized thus there still exists a substantial untapped market, especially personal sales (not selling through dealers)
2. Advantage over competitors in cost of funding as well as credit system, blue book valuation, and economies of scale. There is room for NFS to gain market share from current competitors as well as take the portion of the market that is growing
3. A breadth of new products - private used car sales, cash your car, corporate hire purchase, and auction financing

Increasing ROE

NFS aims to increase a sustainable ROE

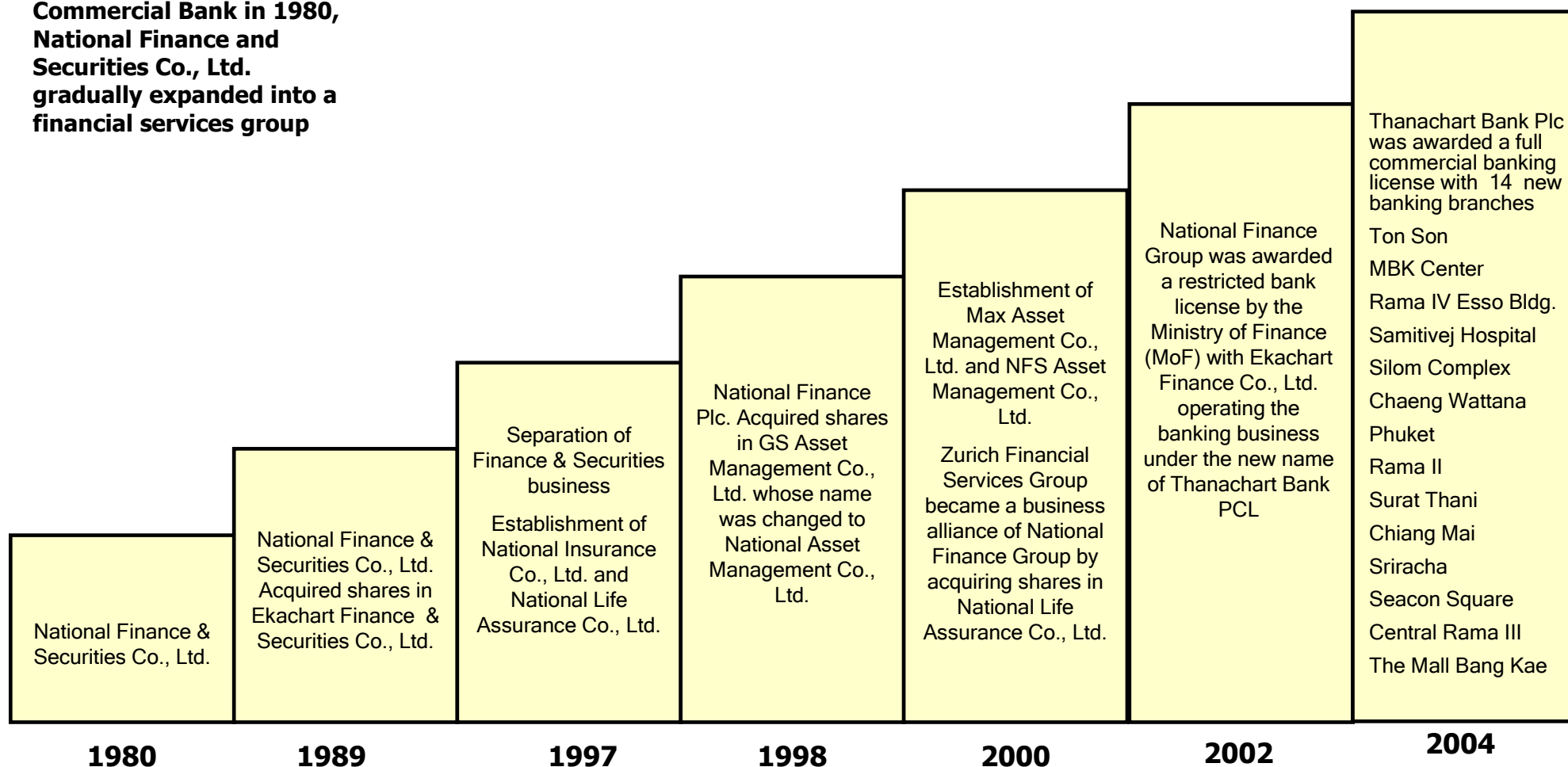
1. Through increasing sales channels NFS will be able to sell more financial products as well as increase the customer base
2. More banking branches will generate more service and fee income as well as allow the NFS group to introduce new products like trade finance, foreign exchange, and overdraft facilities
3. Expansion of the bank will also allow for expansion of subsidiary companies. NFS expects subsidiaries to significantly increase their contribution to the group's bottom line
4. Eventually, expensive promissory notes will be replaced with cheaper savings deposits, lowering the cost of funds
5. With more branches NFS will pay less premium for public deposits over the big banks
6. Growth in the used car hire purchase market will increase the lending yields
7. NFS plans to control costs by increasing the ratio of employees that are commission based

Section 3

NFS Group Financials and Highlights

National Finance Group Milestones

- Acquired by Siam Commercial Bank in 1980, National Finance and Securities Co., Ltd. gradually expanded into a financial services group



National Finance Group Business Structure



Automobile Hire-Purchase (new and used), Leasing, Deposits, and Financial Advisory Services.



Fully Licensed Bank, Corporate and Mortgage Loans, Deposits, and Financial Advisory Services.

Max Asset Management Co., Ltd.
NFS Asset Management Co., Ltd.

Purchase and management of distressed assets.



Mutual fund, Private Fund, and Provident Fund services.



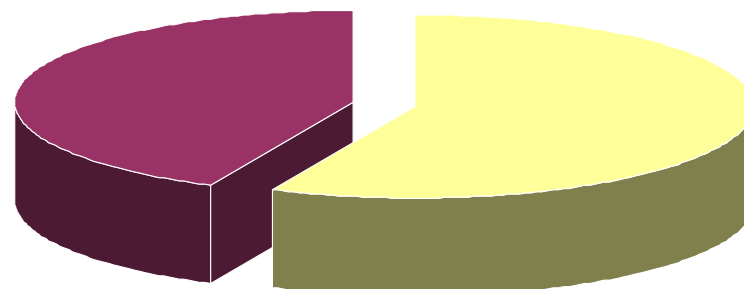
Brokerage, Underwriting, and Financial Advisory Services



Various types of life insurance (Zurich National Life Assurance Co., Ltd.) and non-life insurance such as marine and cargo insurance, fire and household insurance, motor insurance etc. (as National Insurance Co., Ltd.). Leader in group Life insurance.

Shareholding Structure

Top Ten Major
Shareholders
43%



Minority
Shareholders
57%

- **National Finance is owned by a diverse range of foreign investors, mostly institutional, reaching the 49% foreign ownership ceiling**
- **NFS has been listed on the Stock Exchange of Thailand since 1982**

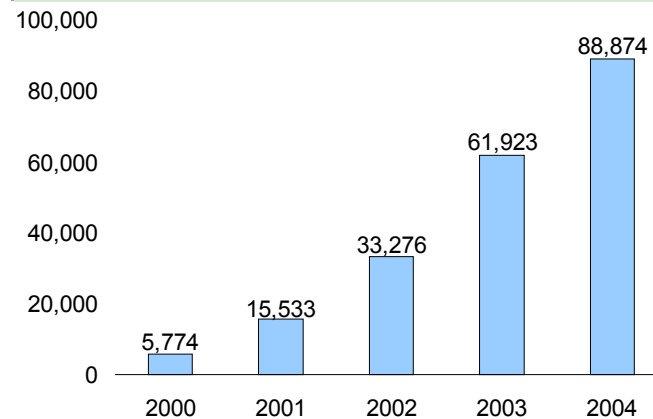
Top Ten Shareholding (as of November 2004)	Holding
1. Com-link Co., Ltd.	9.38%
2. TSD Leasing Co., Ltd.	9.10%
3. Chase Nominees Limited 42	4.50%
4. Thai NVDR Co., Ltd.	3.74%
5. Government of Singapore Investment Corp.	3.60%
6. State Street Bank and Trust Company	3.45%
7. Clearstream Nominees Ltd.	3.15%
8. Morgan Stanley & Co. International Limited	2.91%
9. HSBC (Singapore) Nominees Pte. Ltd.	2.11%
10. Boston Safe Nominees Limited	1.85%
Total	43.79%

Improving Performance

- National Finance has been able to capitalize on the current operating environment to grow loans and income

Auto Hire Purchase Loans

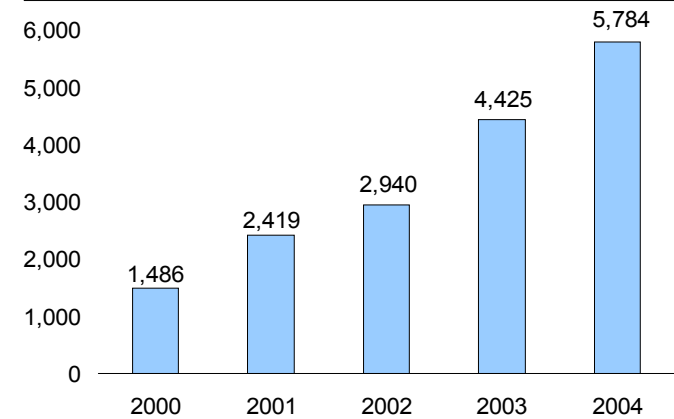
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Source Company Data

Net Interest Income

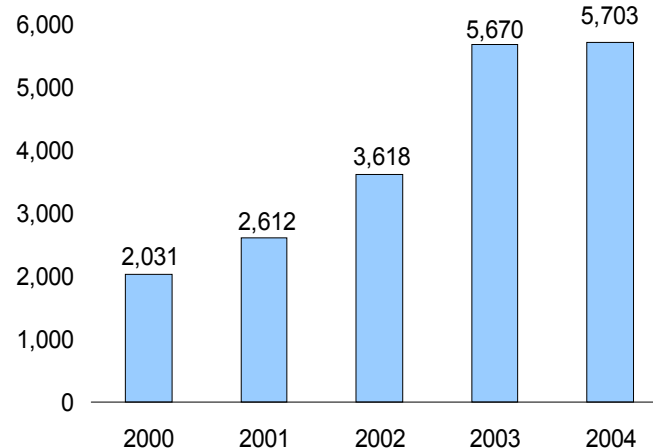
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Source Company Data

Pre-Provision Profit

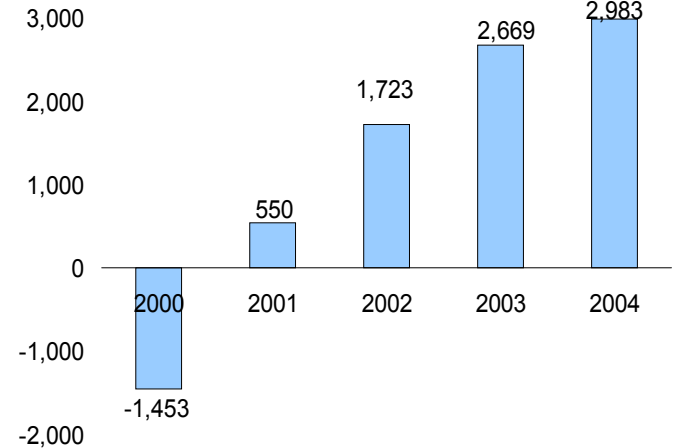
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Source Company Data

Net Profit

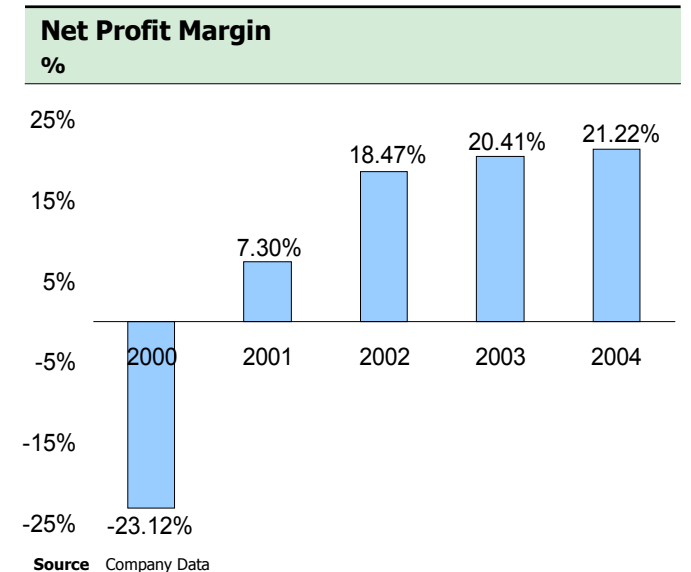
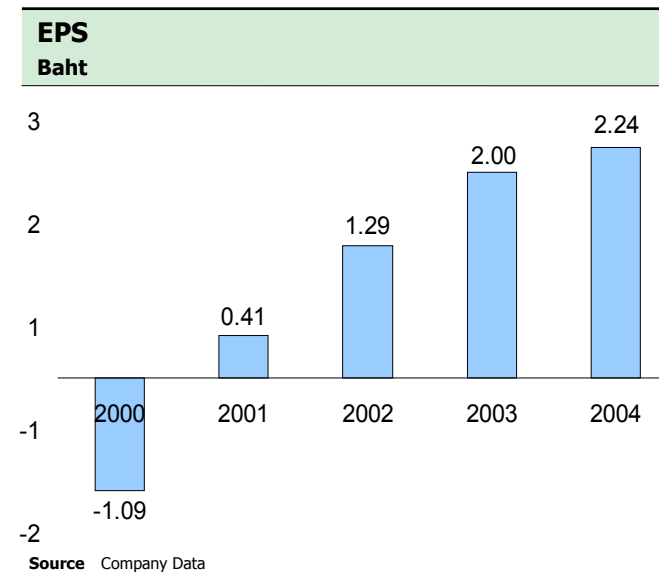
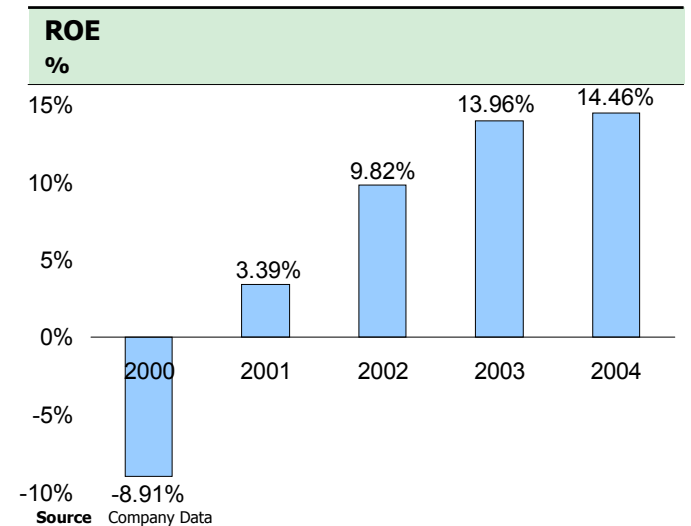
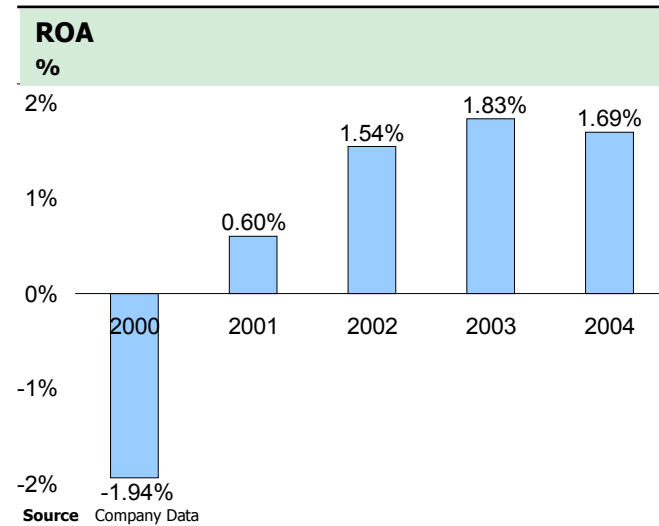
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Source Company Data

Financial Ratios

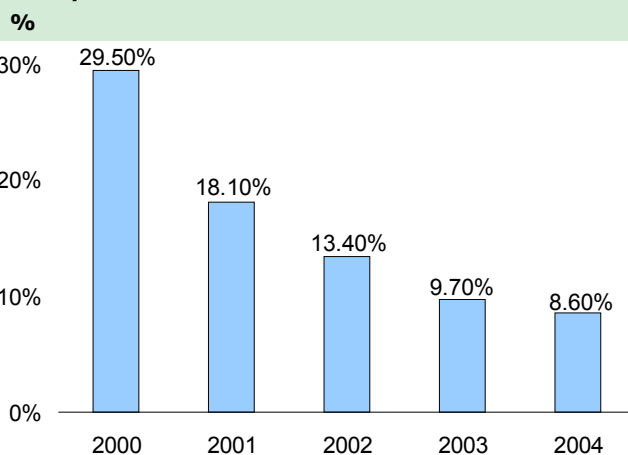
- Since the financial crisis financial ratios at National Finance have consistently improved



Strengthened Asset and Capital Profile

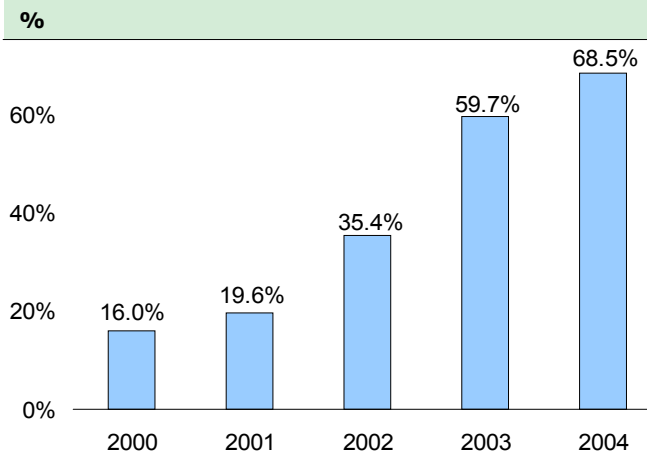
- National Finance has also been able to strengthen its asset and capital profile

NPL / Total Loans



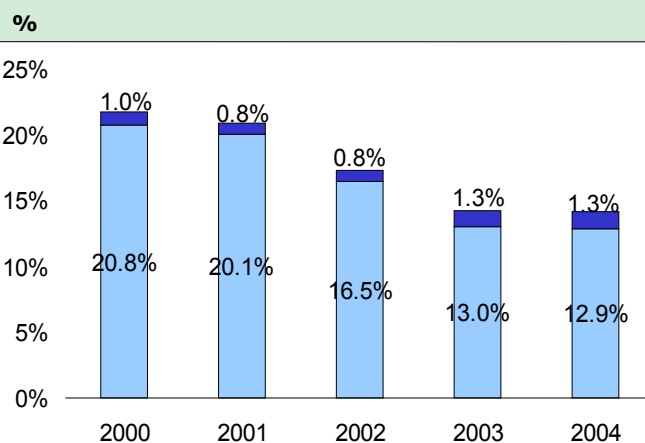
Source Company Data

LLR / NPL



Source Company Data

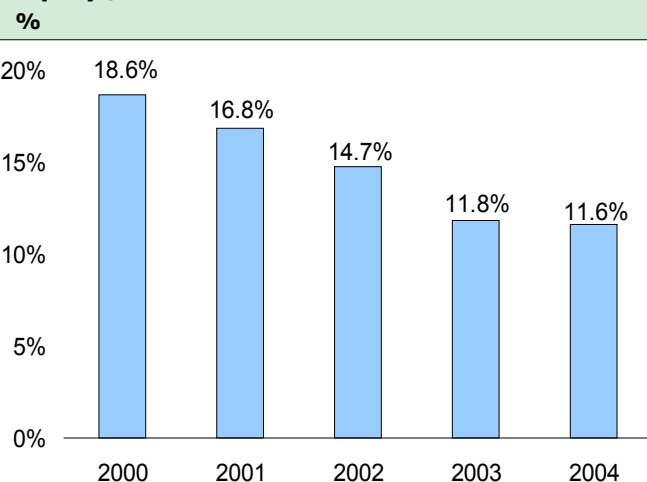
BIS Ratio



■ Tier 1 ■ Tier 2

Source Company Data

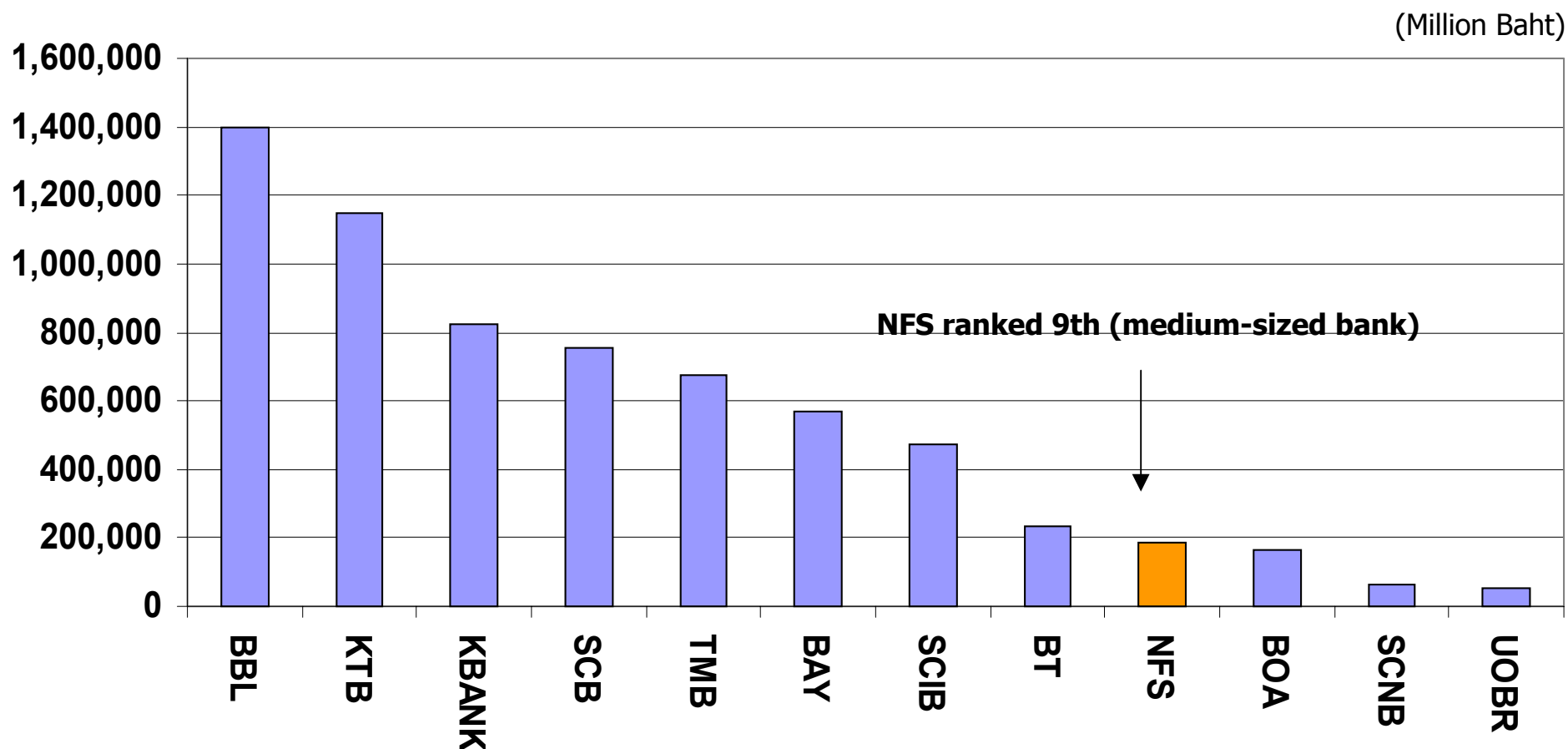
Equity / Asset



Source Company Data

Position in the market

Asset Size (as of 31 December 2004)



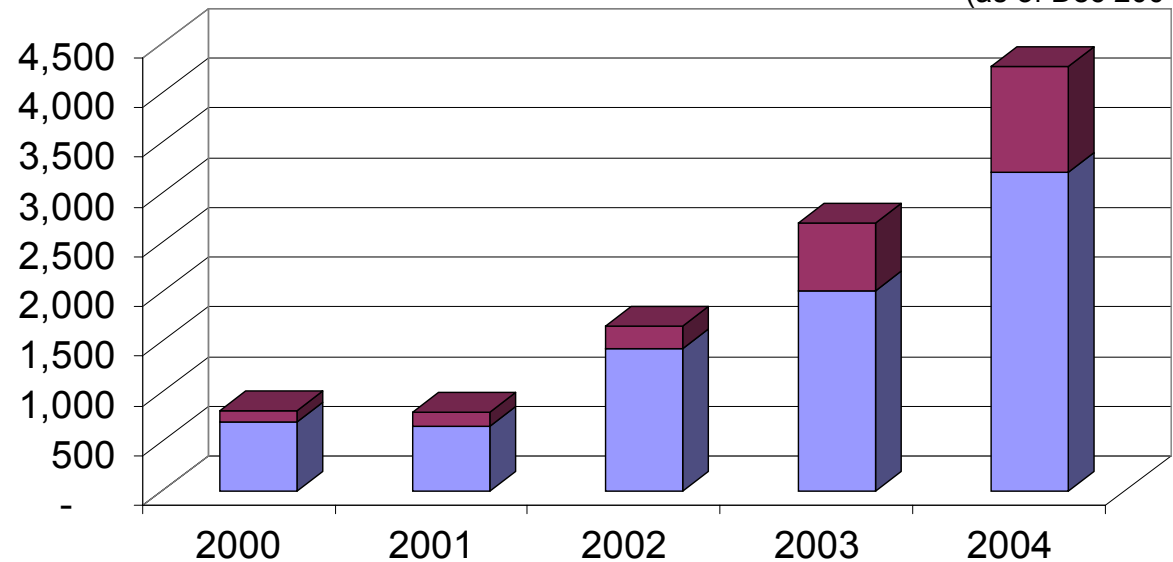
NFS is a medium sized bank with a niche in consumer finance and retail lending. With about 3% market share the target is 5% market share within the next 3 years and a plan to grow assets by 20% per annum.

NFS Group Staff

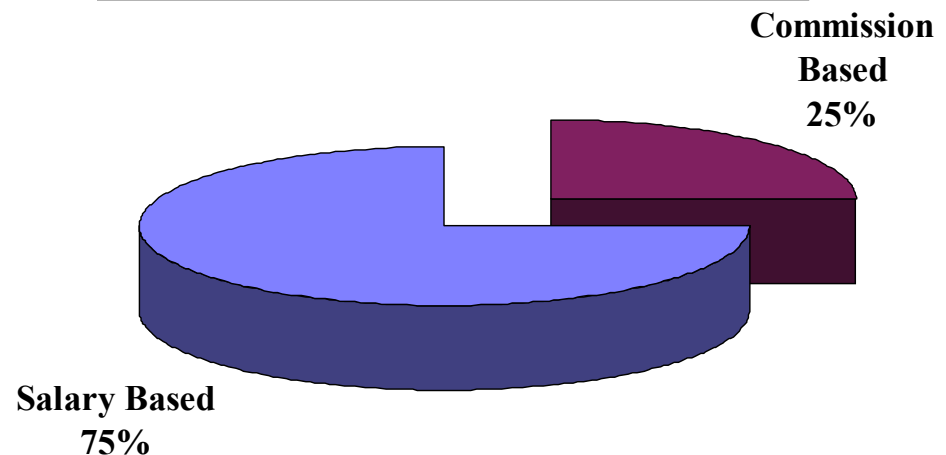
- The National Finance Group is increasingly moving towards a commission based compensation scheme to reduce and control expenses, provide incentive to sell the group's products, and to create an active culture of salesmanship

NFS Group Staff

(as of Dec 2004)



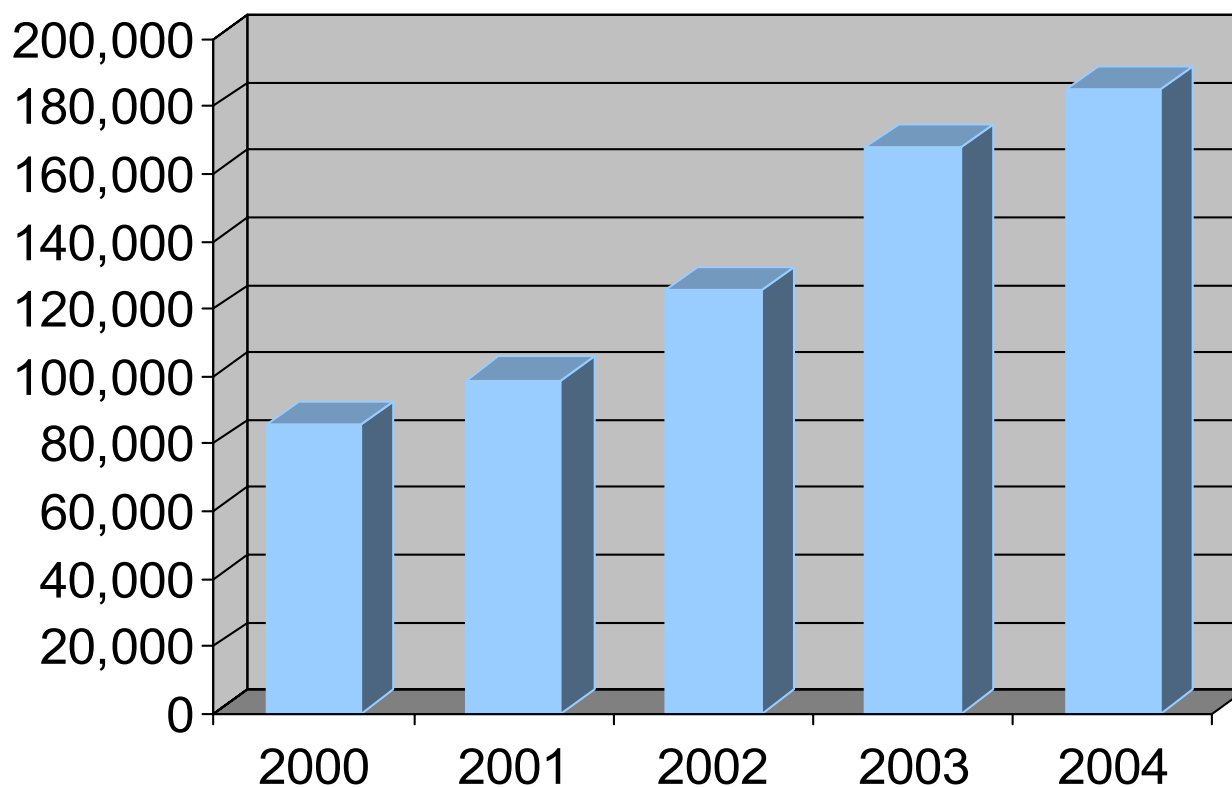
Salary based Commission based



NFS Group Assets

- National Finance has steadily grown its assets since the financial crisis

Million Baht	2000	2001	2002	2003	2004
Total assets	85,444	98,724	125,486	167,675	185,044
Growth	33%	16%	27%	34%	10%

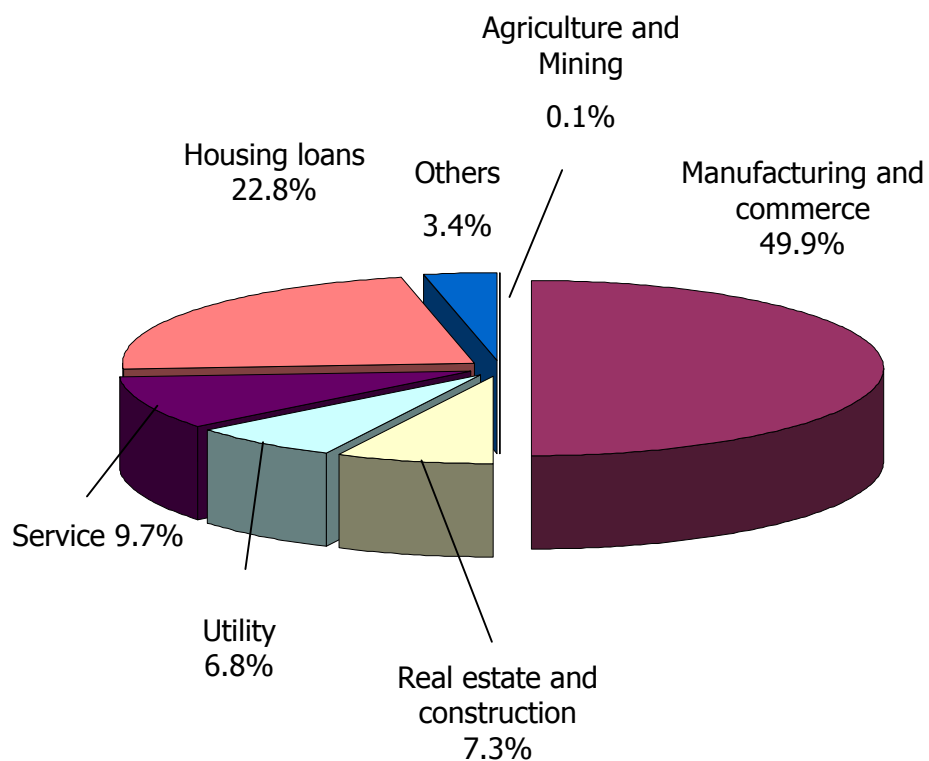


NFS Group Assets

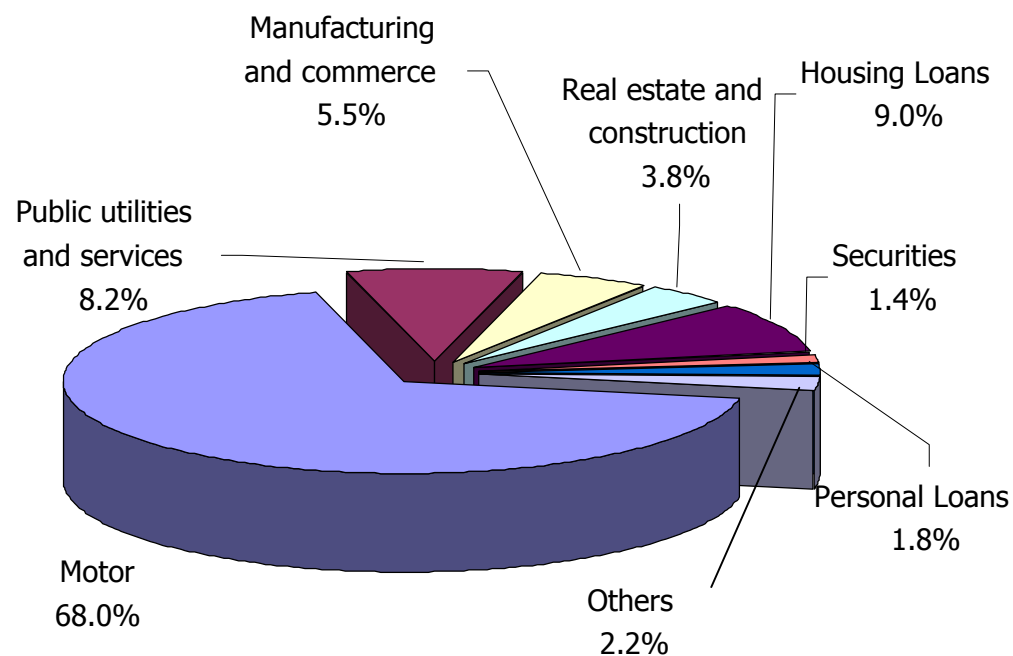
Million Baht	2003	2004
Investment in Securities :		
Current investments-net	10,418	7,105
- Equity	220	8
- Debt	10,198	7,097
Long-term investments-net	43,387	31,410
- Equity	8,506	8,768
- Debt	32,630	20,546
- Investment in receivables	2,251	2,096
Investment in subsidiary companies	1,666	1,759
Total loans-net	100,212	122,443
- Motor	59,891	85,775
- Non-motor	40,321	36,668
Property Foreclosed-net	6,752	7,289
Others	5,240	15,038
Total	167,675	185,044

Loan Portfolio

NBANK Standalone Dec 2004 (%)



Consolidated basis Dec 2004 (%)



Loan Portfolio

(Consolidated)

Million Baht	2001	%	2002	%	2003	%	2004	%
Motor	15,533	27.27%	33,276	43.50%	61,923	57.52%	88,874	68.03%
Non-motor								
Public utilities and services	12,973	22.78%	13,014	17.01%	13,382	12.43%	10,701	8.19%
Manufacturing and commerce	10,581	18.58%	11,150	14.57%	9,008	8.37%	7,138	5.46%
Real estate and construction	7,910	13.89%	5,246	6.86%	5,573	5.18%	5,008	3.83%
Housing Loans	4,052	7.11%	6,366	8.32%	10,040	9.32%	11,824	9.05%
Securities	850	1.49%	596	0.78%	2,357	2.19%	1,839	1.41%
Personal Loans	3,399	5.97%	1,262	1.65%	1,305	1.21%	2,353	1.80%
Others*	1,656	2.91%	5,590	7.31%	4,066	3.78%	2,911	2.23%
Total	56,954	100.00%	76,500	100.00%	107,654	100.00%	130,648	100.00%
<u>Less</u> Inter company profit from loans and receivable transferred	(1,147)		(1,027)		(956)		(704)	
Total	55,807		75,473		106,698		129,944	

* Others includes loans to financial institutions

Outstanding Non Performing Loans

- About 29% of National Finance's NPLs are purchased loans with low carrying costs, collateral backed, and very low purchasing price
- Actual non-performing loans that originated at the National Finance Group only account for about 5.8% of total loans

NPL - At Peak Figures

(Million Baht)

Company and subsidiary loans (as of Dec 1998)	35,978
Loans purchased from Bank/Finance (1999 - Mar 2004)	9,178
Loans from credit foncier acquired (as of May 2001)	696

NPL - Outstanding as of December 31, 2004

	(Million Baht)	% (approx)
Company and subsidiary loans	7,476	5.8%
Loans purchased from Bank/Finance	3,266	2.5%
Loans from credit foncier acquired	414	0.3%
Total	11,156	8.6%

Provisions

- National Finance has consistently set aside conservative provisions
- NFS provisioning is 1.2 times higher than the regulatory requirement
- Actual LLR for NFS originated NPLs equals 96.88%

Million Baht	2000	2001	2002	2003	2004
Total Loans*	43,981	55,361	75,273	106,243	129,944
Non-performing Loan (NPL)	12,963	10,025	10,090	9,848	11,156
Provision for Possible Loan Losses	2,074	1,965	3,573	6,190	7,644
Bad Debts Written Off	4,296	267	9	1	0
BOT's and SEC's Requirement	1,930	1,148	1,948	4,628	6,394
Non-performing / Total Loans (%)	29.47%	18.11%	13.40%	9.65%	8.59%
Allowance / Total Loans (%)	4.72%	3.55%	4.75%	5.81%	5.88%
Allowance / Non-performing (%)	16.00%	19.60%	35.41%	60.23%	68.52%
Allowance / BOT's Requirement (%)	107.46%	171.17%	183.42%	133.75%	119.55%
General Reserve / Total Loans	0.33%	1.48%	2.16%	1.47%	0.96%

* Not including accrued interest receivable

Borrowings and Deposits

- As banking branches expand an increased portion of funding will originate from public savings deposits
- Increased deposits will help to diversify funding sources

Million Baht	2000	2001	2002	2003	2004
From public	61,078	73,736	98,175	122,699	133,195
- Deposits	-	-	29,634	40,770	44,865
- Promissory notes	60,280	73,463	68,327	81,046	87,447
- Others	798	273	214	883	883
From financial inst.	3,928	4,932	4,531	8,227	17,372
- Deposits	-	-	753	324	237
- Promissory notes	3,755	3,921	2,940	3,353	1,295
- Others	173	1,011	838	4,550	15,840
Foreign borrowings	341	78	94	93	87
Total	65,347	78,746	102,800	131,019	150,654
Debentures	2,208	1,450	1,450	7,556	7,556
Total	67,555	80,196	104,250	138,575	158,210

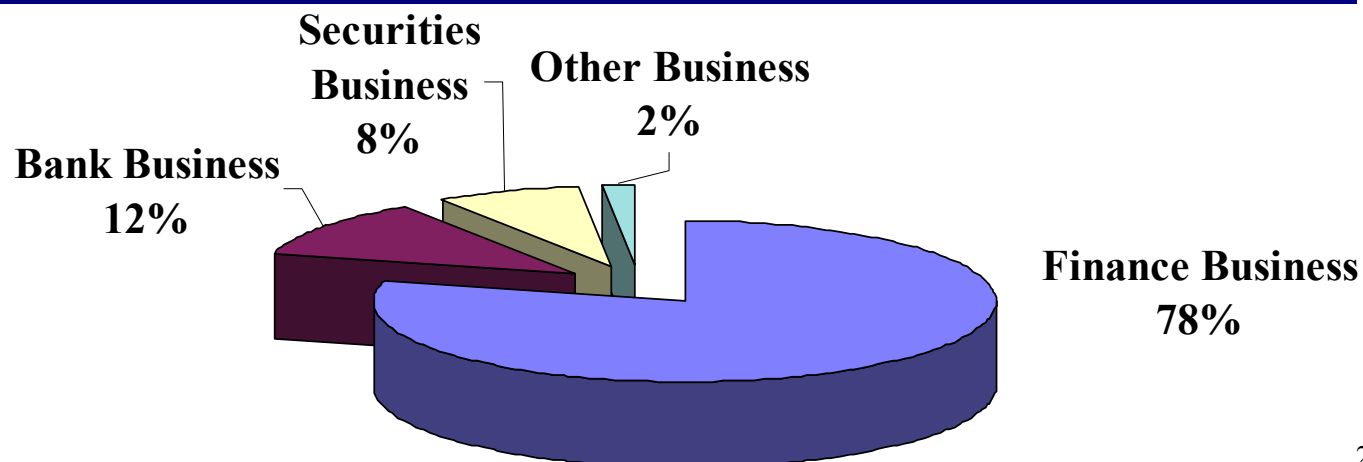
Revenue Breakdown

Million Baht	2000	2001	2002	2003	2004
Net Interest Income	1,486	2,419	2,940	4,425	5,784
Share of Profits from Investments in Associated Companies Under Equity Method - Net	(60)	780	120	215	157
Gain on Investment/ Trading in Securities	1,097	128	1,390	1,806	590
Fees & Charges	562	308	526	973	1,105
Other Income*	546	1,076	1,562	2,288	3,097
Total	3,631	4,711	6,538	9,707	10,733

* Other income includes Gain from Property Foreclosed

Subsidiary Contribution

(Baht Million)	% of Holding	Net Profit 2004
Thanachart Bank Plc.	98.90%	550.9
National Securities	100.00%	291.5
National Asset Management	75.00%	64.6
National Insurance	70.00%	59.6
Zurich National Life Assurance	50.00%	(71.4)
NFS-AMC	100.00%	283.2
MAX-AMC	58.50%	497.9
Total		1,676.3



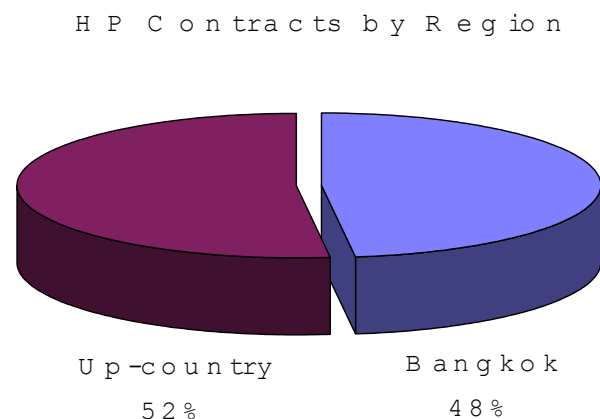
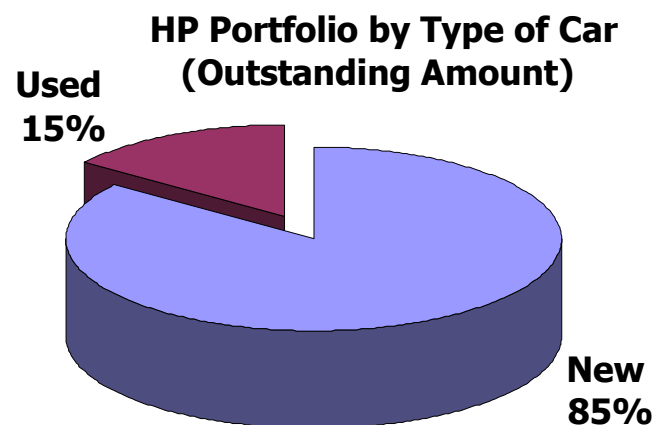
Capital Fund and BIS Ratio

(Million Baht)	2000	2001	2002	2003	2004
Registered share capital	14,512	14,512	14,512	23,332	23,332
Issued and fully paid - up	13,332	13,332	13,332	13,332	13,332
Premium on share capital	8,486	8,486	2,066	2,066	2,066
Retained earning, Tier II	(6,802)	6,343	610	2,540	4,617
Total Capital	15,016	15,475	16,008	17,938	20,015
Revaluation on investments	(1,083)	(70)	(21)	75	57
Net Capital Fund	13,933	15,405	15,987	18,013	20,072
Risk assets (Estimated)	64,083	73,781	92,371	125,054	141,005
Tier I	13,298	14,801	15,232	16,302	18,172
Tier II	635	604	776	1,636	1,843
Revaluation on investments	(1,083)	(70)	(21)	75	57
BIS ratio	21.74%	20.88%	17.31%	14.40%	14.23%

Hire Purchase Growth

- The NFS hire purchase loan portfolio has experienced steady growth for five years

	2003	2004	Growth Y on Y %
Domestic New car sales	533,447	626,024	17.4%
Number of NFS HP leases (Units)	109,832	135,070	23.0%
Total number of NFS HP leases (Units)	189,630	297,188	56.7%
Amount of NFS HP loans (Baht Million)	45,808	53,754	17.3%
Total outstanding NFS HP loans (Baht Million)	61,923	88,874	43.5%



Hire Purchase Asset Quality

- The NFS hire purchase portfolio has very low levels of NPLs
- In addition, the recovery rate on NPLs for auto hp average about 82%

Baht Million

Dec 2004	New Cars		Used Cars		Car Fleet	Total
	Bangkok	Other Areas	Bangkok	Other Areas		
PL	34,549	39,868	5,067	6,881	1,286	87,651
	98.89%	99.00%	97.62%	98.48%	97.95%	98.82%
NPL	387	404	124	106	27	1,048
	1.11%	1.00%	2.38%	1.52%	2.05%	1.18%

Investor Relations

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