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## **VISION:**

“To be a leading independent financial institution with specialized services and firm adherence to good corporate governance”

## **MISSION:**

1. To provide specialized services to target customers in our area of expertise.
2. To increase opportunities and enhance the potentials of customers in conducting their business.
3. To build a relationship with the customers as a business partner.
4. To develop and maintain a human resource group, which has expertise in specialized field with continuous development in technology and creativity.
5. To consistently focus on the development of good corporate governance while maintaining social responsibility.

## **VALUE:**

If a human body is used to represent the organization, then team work is truly the heart and brain of Kiatnakin. Every firm and steady step forward taken by our organization comes from a set of common values within all Kiatnakin personnel.

Our values are as follows:

Discipline	- being determined to perform our job in an orderly manner
Integrity	- being honest and adhering to the code of ethics
Expertise	- being determined to acquire great knowledge and skills
Team Work	- being determined to work as a team
Entrepreneurship	- being determined to drive the business and contribute to the bottom line.
Dynamic	- being adaptable to changes

## Financial Highlights

Consolidated Financial Statement	Amount (Million Baht)			Increase (Decrease) from previous year (%)	
	2003	2002	2001	2003	2002
Total Assets	42,671	37,851	37,489	13	1
Total Assets (company)	41,142	37,628	36,763	9	2
Total Liabilities	29,805	27,913	27,784	7	0
Shareholders' Equity	12,866	9,938	9,704	29	2
Shareholders' Equity (company)	12,835	9,903	8,270	30	20
Total Revenue	6,341	4,245	4,941	49	(14)
Total Expense	4,271	2,777	3,295	54	(16)
Minority Interest, NET	(5)	(62)	(257)	(92)	(76)
Net Profit (Loss)	2,065	1,406	1,389	47	1
Unrealized loss in Financial Claim Recorded in Shareholder's Equity	377	(575)	(832)	(166)	31

Financial Ratio	2003	2002	2001
Return on Equity (%)	18.11%	14.32%	15.00%
Return on Equity (%) (company)	18.16%	15.47%	18.48%
Return on Asset (%)	5.13%	3.73%	3.80%
Return on Asset (%) (company)	5.24%	3.78%	3.82%
Earning per share (Baht)	5.74	4.25	4.59
Book Value (Baht)	34.13	28.36	27.32
Tier 1 and Tier 2 Capital Ratio (%)	32.10%	30.32%	25.04%
Dividend (Baht)	Under consideration	2.00	2.00

## Message from the Board of Directors

During 2003, the Thai economy expanded with strength and stability despite the negative impact from SARS earlier in the year. GDP rose more than 6%, recording its highest level since the financial crisis in 1997. Such expansion was the result of a steady growth in domestic and export consumptions. In addition, the early repayment of debts to IMF before maturity and the upgrading of Thailand's credit rating helped in creating confidence and favorable climate for commerce and investment. As for the stock market's investment, the total turnover value rose significantly. The secure and stable financial system combined with low inflation and unemployment rates provided a strong foundation for the continued growth of the Thai economy.

The country's financial system over the past year can be characterized with excess liquidity, low interest rate, stable foreign exchange rate, and credit extension expansion of 4.8%, slightly above previous year's figure. Although different sectors of the economy had recovered, certain sectors still experienced excess production capacity. The financial system was still burdened with high level of non-performing loan (NPL) and slow resolution of issues, causing financial institutions to remain cautious in extending new loans to the general business sector. Lending was focused on the transportation industry, personal loan, and residential property segments. These segments had substantial and consistent growth and benefited from the low interest rates. Even though the excessively high liquidity combined with the historically low interest rates caused the country's savings to grow by only 4.4%, it was beneficial to the investment in the Stock Exchange of Thailand (SET). The average turnover value rose to Baht 28,000 million per day, and the SET index climbed up 117% from 356 to 772 points.

In 2003, Kiatnakin has generated above average financial results with net profit of Baht 2,065 million. Compared to the net profit in 2002 of Baht 1,406 million, this represents an increase of Baht 659 million or 47%. The total assets value as of 31 December 2003 was worth Baht 42,671 million, which is an increase of 13% when compared to Baht 37,851 million in 2002. The growth was mainly due to our company's ability to obtain new loans, which had a total value of Baht 24,304 million, an increase of Baht 10,219 million or 73%. Investments in financial claim reduced from Baht 11,792 million to Baht 9,465 million due to the success in debt restructuring. The provision for bad debts was set at Baht 3,112 million, which was higher than the regulatory requirements. This figure was a result of the transfer of our charged off loan back into the book (together with the relevant provision as required by the Bank of Thailand at Baht 1,164 million), and the additional provisions added during 2003. The total provision can be separated into two portions: Baht 1,848 million, which represent Bank of Thailand's requirement, and Baht 1,264 million, which represent additional bad debt provision set up in accordance with the company policy as an extra measure of precaution against future mishaps. In 2003, total borrowings and deposits amounted to Baht 19,748 million, a reduction of Baht 1,204 million from previous year. The company was able to reduce the cost of funds due the issuance of debentures worth Baht 3,000 million at a very attractive rate and the decline of interest rates, at large. Kiatnakin made special effort to achieve appropriate balance of assets and liabilities by matching their respective maturity profiles, thereby minimizing the mismatches. As a result, our company is unlikely to be negatively affected by the volatility of the interest rate or liquidity that may occur from time to time. For the securities business, Kiatnakin's brokerage fee went up by Baht 247 million in 2002 to Baht 518 million in 2003, an increase of 110%.

During this past year, Kiatnakin had set up the Selection Committee and the Risk Management Committee in order to take the corporate governance to the next level. We have set up a system to evaluate risks in all parts of the business as well as establish clear and concise risk management policy.

Regarding the trends in 2004, it is expected that the economy will grow significantly, as a continuation of the past year. Essential factors affecting the growth include measures to stimulate exports, income from inbound tourists, investment climate, and domestic consumption. The NPL problems in the financial system as well as the excess capacity of various industries are forecasted to fall substantially, leading to additional investments and higher demand for loan in the private sector.

For these reasons, Kiatnakin will continue to focus on expanding the loan business in all the sectors as follows: residential property development, hire-purchase, corporate, lending to various industries include, commerce, manufacturing, transportation, services and tourism. Growth in these sectors is expected to be on the high side.

In January 2004, the Finance Ministry unveiled the new Financial Master Plan, in which the key feature is the reduction of the financial institutions categories down to two types, namely the commercial bank and the retail commercial bank. One presence concept has also been introduced, in that a bank can no longer hold any share in another financial institute. Finance companies that are ready can upgrade their status to become any one out of the two types of commercial bank. To upgrade to be a commercial bank, the finance company must merge itself with at least one other finance company. Under these new regulations, Kiatnakin possesses all the essential requirements. Since our company has a 99.99% holding in Radanatun Finance Public Company Limited, which is ready to be merged, Kiatnakin is able to upgrade to be a commercial bank under the conditions set up by the authorities. Aside from this major development, it is expected that the government will introduce the Deposit Insurance Scheme Bill, which is likely to come into effect within 2004. This regulation limits the guarantee of deposits to be no more than Baht 1 million per account. The current practice has no limit on the guarantee amount. It is expected that the guarantee limit will be reduced gradually over the next 3 to 4 years. Kiatnakin has already made preparation for this change by expanding our retail deposit customer base, and having a credit rating agency rate our company, and the rating has improved each year. Currently, our company has Baht 12,835 million in equity and a tier one capital adequacy of 32.10%, which is considered to be a very strong capital base since the overall requirement is only 8.5%. When Kiatnakin were upgraded to a commercial bank in the near future and the economic conditions are favorable, it is certain that we will be able to fully expand the business. Even though the competition in the hire-purchase business is set to intensify because commercial banks will be allowed to compete for this business, the impact to Kiatnakin's business will not be significant due to the large market size coupled with Kiatnakin's extensive experience in the business.

Lastly, on behalf of the Kiatnakin's Board of Directors, the management, and all staff members, we would like to extend our warmest thanks to all our shareholders, clients, and business partners for the continuing support.

The Board of Directors

## Report from the Audit Committee

Dear Shareholders,

The Audit Committee was appointed on 15 November 2002 by the Board of Director's resolution at the 10/45 meeting. Each member has a three-year term as stipulated by the Securities Exchange of Thailand. The Audit Committee is bounded by its charter, which clearly describes the extent of committee's authority in order to ensure good corporate governance and to induce effective and efficient performance. The committee consists of three independent directors and one senior executive from Internal Audit Office who is the secretary of the committee. The committee meetings can be held as often as needed, but there must be at least one meeting in every quarter.

The duties and responsibilities of the Audit Committee are as follows:

- To report to the Board of Directors on the preparation procedures
- To provide accurate, complete and reliable disclosure of financial reports
- To propose the name of the external auditors and the their remuneration to the Board of Directors in order to obtain an appointment at the Annual Shareholders meeting
- To ensure that the activities comply with the laws and regulations
- To coordinate with the Risk Management Committee in order for the operations to stay within the boundary of the risk management policies
- To ensure that there is no conflict of interest
- To supervise and provide recommendations as well as notifications on the operations of the Internal Audit Office
- To audit and concur with the annual internal audit's inspection plan

The Audit Committee reviewed the financial reports for 2003 by holding meetings with the internal auditors, external auditor, and the company's executives; considering the audit results; reviewing the internal control system of the Internal Audit Office; and ensuring that the operations comply with the rules and regulations of the government authorities. During the past year, the committee placed great emphasis on the audit of the loan operations, risk management operations as required by regulations, and information and computer systems. The committee also recognized the importance of developing responsibility boundaries for each department in order to encourage good corporate governance. The company's performance in 2003 was as anticipated. There were no abnormal activities or areas which required significant rectification. The Audit Committee's quarterly reports were prepared for the Board of Directors, and are disclosed in the company's annual report.

Tarnin Chirasoonton  
Chairman of the Audit Committee

## 1. General Information

### 1.1 General Information / Other References

Company	Kiatnakin Finance Public Company Limited
Nature of Business	Finance – has all required operating licenses from the Ministry of Finance
Registration Number	172
Address	12 <sup>th</sup> Floor, Amarin Tower, 500 Ploenchit Road, Pathumwan, Bangkok 10330 Tel. 0-2680-3333 Fax 0-2680-3000, 0-2256-9933 <a href="http://www.kiatnakin.co.th">www.kiatnakin.co.th</a>
No. of ordinary shares sold	376,077,652 shares as of December 31, 2003
Registrar	Thailand Securities Depository Company Limited 4 <sup>th</sup> Floor, 6-7 Stock Exchange of Thailand Building, 62 Rachadapisek Road, Klongtoey, Bangkok 10110 Tel. 0-2229-2800, 0-2654-5599 Fax: 0-2359-1259 Call Center: 0-2229-2888
Auditor	Suchart Luengsurawat PriceWaterHouseCooper ABAS Ltd. 15 <sup>th</sup> Floor, Bangkok City Tower 179/74-80 South Sathorn Road, Bangkok 10120 Tel. 0-2286-9999 Fax: 0-2286-5050
Legal Adviser	None
Consultant / Manager under None Contract Audit Committee	None

**1.2 Companies in which Kiatnakin holds 10% or more of the total registered shares  
(as of 31 December, 2004)**

<b>Name and Address</b>	<b>Business Type</b>	<b>% Shares owned by the company</b>	<b>No. of ordinary shares issued</b>
1. Chiangmai Yarnyon 1993 Company Limited 244/1 Wuaalaai Road, Haiya, Amphur Muang, Chiang Mai 50100 Tel. 0-5328-1836 Fax. 0-5320-2815	Car Dealer	10	6,500
2. BTM Leasing (Thailand) Company Limited 4 <sup>th</sup> Floor, Harindhorn Tower, 54 North Sathorn Road, Silom, Bangrak, Bangkok 10500 Tel. 0-2266-3060 Fax. 0-2266-3067	Leasing	10	600,000
3. Attakorn Company Limited 4 <sup>th</sup> Floor, Juldis Hadyai Plaza, 200 Niphat Uthit 3 Road, Hadyai, Songkhla 90110 Tel. 0-7435-4334-5 Fax. 0-7435-4336	Hire purchase	10	800,000
4. Kiatnakin Securities Company Limited 7 <sup>th</sup> Floor, Amarin Tower, 500 Ploenchit Road, Pathumwan, Bangkok 10330 Tel. 0-2680-2222 Fax. 0-2256-9787	Securities	99.99	65,000,000
5. Radanatun Finance Public Company Limited 10 <sup>th</sup> Floor, President Tower Building, Room Number 123, 971, 972 Ploenchit Road, Pathumwan, Bangkok 10330 Tel. 0-2652-1166 Fax. 0-2652-1177	Finance	99.99	50,000,000
6. Kiatnakin Fixed Income Fund Tisco Asset Management Company Limited 9 <sup>th</sup> Floor, Tisco Tower, 48/16-17 North Sathorn, Sathorn, Bangkok 10120 Tel. 0-2633-777 Fax. 0-2633-7300	Fund Management	10.33	7,221,224
7. Asia Recovery 1 Fund Thai Farmers Asset Management Company Limited 31 <sup>st</sup> Floor, Maungthai-Patra Tower 1, 252/38-41 Rachadaphisek Road, Huaykwang, Bangkok 10320 Tel. 0-2693-2300 Fax. 0-2693-2320	Fund Management	99.95	125,947,412
8. Asia Recovery 2 Fund Thai Farmers Asset Management Company Limited 31 <sup>st</sup> Floor, Maungthai-Patra Tower 1, 252/38-41 Rachadaphisek Road, Huaykwang, Bangkok 10320 Tel. 0-2693-2300 Fax. 0-2693-2320	Fund Management	99.59	187,239,308



Name and Addresses	Business Type	% Shares owned by the company	No. of ordinary shares issued
9. Asia Recovery Fund 3 Thai Farmers Asset Management Company Limited 31 <sup>st</sup> Floor, Maungthai-Patra Tower 1, 252/38-41 Rachadaphisek Road, Huaykwang, Bangkok 10320 Tel. 0-2693-2300 Fax. 0-2693-2320	Fund Management	99.97	190,832,895
10. Thai Restructuring Mutual Fund One Asset Management Company Limited 24 <sup>th</sup> Floor, Siam Tower Building, 989 Rama 1 Road, Pathumwan, Bangkok 10330 Tel. 0-2659-8888 Fax. 0-2659-8860-1	Fund Management	98.91	78,698,484
11. Asia Recovery Property Fund 1 One Asset Management Company Limited 24 <sup>th</sup> Floor, Siam Tower Building, 989 Rama 1 Road, Pathumwan, Bangkok 10330 Tel. 0-2659-8888 Fax. 0-2659-8860-1	Fund Management	99.50	34,102,781
12. Asia Recovery Property Fund 3 One Asset Management Company Limited 24 <sup>th</sup> Floor, Siam Tower Building, 989 Rama 1 Road, Pathumwan, Bangkok 10330 Tel. 0-2659-8888 Fax. 0-2659-8860-1	Fund Management	98.77	93,340,500

## 2. Nature of Business

### 2.1 Important Business Characteristics

Kiatnakin Finance Public Company Limited (KKF) has two subsidiaries

- Kiatnakin Securities Company Limited (KKS) – Operates the securities business and has a joint venture company name Devonshire Kiatnakin Company Limited, which operates the investment banking business.
- Radanatun Finance Public Company Limited (RT) – Operates the finance business

The nature of the business of Kiatnakin's group is categorized into 3 types as follows:

- 1) **Finance business** – consists of Kiatnakin Finance Public Company Limited and Radanatun Finance Public Company Limited
- 2) **Securities business** – consists of Kiatnakin Securities Company Limited and Devonshire Kiatnakin Company Limited
- 3) **Investment in mutual Funds** – consists of investments in six mutual funds: Asia Recovery 1 Fund, Asia Recovery 2 Fund, Asia Recovery Fund 3, Thai Restructuring Mutual Fund, Asia Recovery Property Fund 1, and Asia Recovery Property Fund 3.

### 2.2 Revenue Structure

Kiatnakin Finance Public Company Limited has the following revenue structures and shareholding in its subsidiary companies:

(Unit: Million Baht)

Product / Services	Operated by	% Shares Owned	2003		2002		2001	
			Revenue	%	Revenue	%	Revenue	%
Finance	Kiatnakin Finance Public Company Limited / Radanatun Finance Public Company Limited		3,888	61	2,637	62	2,032	41
Securities	Kiatnakin Securities Company Limited	99.99	682	11	304	7	189	4
Asset Management	Mutual Funds*	N/A	1,771	28	1,304	31	2,720	55
<b>Total</b>			<b>6,341</b>	<b>100</b>	<b>4,245</b>	<b>100</b>	<b>4,941</b>	<b>100</b>

\* Consists of 6 Mutual Funds as shown in section 1.2 Juristic entities in which our company holds at least 10% (sequence number 7-12)

### 2.3 Summary of Significant Changes in 2003

- § Received permission from Ministry of Finance to open 5 new lending offices, totaling 15 offices.
- § Able to acquire investment in financial claim from the Legal Execution Department in the amount of Baht 5,540 million
- § Received an evaluation from the Thai Institute of Directors (IOD) to be one of 50 companies with good corporate governance.
- § Appointed the Selection and Remuneration Committee
- § Appointed the Risk Management Committee
- § Increased amount of paid capital by Baht 269 million through the exercise of warrants by their unit holders

## 2.4 Competitive Status, Industry Trend, and Business Outlook

### Finance

At the end of 2003, there were a total of 18 finance companies in operation with total assets of more than Baht 300,000 million and total deposits and loans of more than Baht 200,000 million. These assets accounted for about 4% of the total assets held by commercial banks. Eight of these finance companies are listed in the Security Exchange of Thailand (SET), and their combined assets accounted for more than 80% of all the finance companies' assets.

*Competitive status and strategy* - Despite fewer competitors today when compared to the period before the 1996 financial crisis, the competition became even more fierced because the newcomers consisted of large foreign financial companies with more advanced technology and stronger financial support. Prior to the financial crisis, there were 91 financial companies with total assets, deposits and loans of Baht 1,768 billion, Baht 1,440 billion, and Baht 1,368 billion, respectively. These assets were equivalent to about 32% of total assets held by commercial banks.

*Business strategy of financial companies* - While financial companies focused on their core businesses, which provided high returns that is in line with the associated risks, and the use of modern technology to reduce capital and increase work efficiency, most of the loans were still consumer loans. Upon further analysis the loan structure of finance companies, the proportion of the consumer loans increased from 26% prior to the crisis to over 60% during the third quarter of 2003. The growth of the consumer loans were mainly in the hire purchase loan market, which has grown continuously from 45,922 million baht in 2001 to 79,328 million baht in 2002 and to 120,258 million baht in the third quarter of 2003, and only slightly affected by the economic situation. Growth of hire purchase loans are in accordance with the automobile sales as it's a necessity for people to have for traveling.

In the near future, it's very likely that all the finance companies will undergo major adjustments due to the Financial Master Plan that the Bank of Thailand intends to implement in 2004. The master plan has 2 key initiatives as follows:

1. Business development of financial institution – In order for a financial institution to remain operational depends on the institution's readiness. The types of institution will be reduced to commercial bank only and further categorized by size or type of services.
2. Development of service in areas which has no or insufficient service – This program aims to provide more access to financial service for people who live remotely in rural area and those with low income as well as small to medium size businesses.

### Security

Currently, there are a total of 39 security companies with a brokerage operating license, of which 37 are listed as members of the Security Exchange of Thailand (SET). In this past year, the investment status in the market has greatly improved based on the turnover value that jumped 128% from 2,047 billion baht in 2002 to 4,670 billion baht in 2003.

Throughout 2003, the competition among finance companies remained intense due to the increase in the number of companies. The setting up of additional mutual funds that invested in the stock market helped with the expansion of the finance business as well as those who raised funds from the public in order to launch mutual funds. Due to high liquidity in the financial market, the interest rates remained low causing investors to become increasingly interested in the stock market. The investment in the Stock Exchange of Thailand (SET) was continually boosted by providing education and information to investors through various media and exhibitions. The effort was extremely successful in creating awareness among investors and business owners and in increasing the turnover volume in 2003 when compared to 2002. In addition, SET officials formed mutual funds which focused on stocks of state enterprises, which created even more interests in the stock market.

### **3. Risk Factor and Risk Management**

The major types of risks involved in operating a financial business are as follows:

#### **Strategy Risks**

The company's strategy in 2003 was to focus the business on automobile hire purchase loans and real estate loans. Since these businesses may be affected by many external factors, our company performed an assessment for both internal and external risk factors, and used them to set business goals that corresponded with the economic condition as well as our company's ability to compete. The assessment was done on a quarterly basis in order to maintain competitiveness and provide efficient service. During the same time, we had also placed a stronger emphasis on personnel development in order to create expertise for each business areas as well as on ensuring the level of capital adequacy ratio was in line with the industry average in order to maintain a comfortable level of confidence for the shareholders and investors. As of 31 December 2003, our BIS ratio was 32.10%.

#### **Credit Risk**

The main sources of revenue for our company were the interest earned from loans and deposits as well as income from hire purchase and promissory notes. As of 31 December 2003, we had total outstanding finance business loan of Baht 22,926 million, and non-performing loan outstanding of Baht 3,115 million or approximately 13.5% of the total outstanding loans. The company placed very high priority in managing credit risk by setting provision for doubtful debts at Baht 1,848 million as per Bank of Thailand's regulations, but we decided to set aside additional provision in the amount of Baht 1,264 million. Thus, the total provision for doubtful debt is Baht 3,112 million or 99.9% of NPL and 168% of Bank of Thailand's requirement.

#### **Interest Rate Risks**

In order to reduce the interest rate risks due to interest rate fluctuation, our company mostly offered floating rate loans to their customers. Since loans are assets that generate majority of the revenue for the company, reducing risks associated with loans greatly reduces the risks of the company. As of 31 December 2003, the total floating rate loans amounted to Baht 13,087 million or 53% of all the loans. This strategy was consistent with most of our company's funding sources. If the interest rate changes by 1%, then the net interest revenue changes by about 2%, which is much lower than our company's guideline of 10%.

#### **Liquidity Risks**

Kiatnakin has a policy to secure long term funding sources with the attempt to match the maturity profile of the asset side in investments and fixed term loans. About 60% of the source of funding included loans, deposits, and stocks that has more than 1 year remaining until maturity. The company realized the risk involved in being too dependent on large customers/deposits and thus, decided to reduce the risks by expanding the customer base. In 2002, the company had a total of 4,767 customer accounts. The risk was further reduced by maintaining liquidity to be at least 8% of total loans, which was higher than the 6% required by the law. At the end of 2003, the company had total asset liquidity of 9.75%

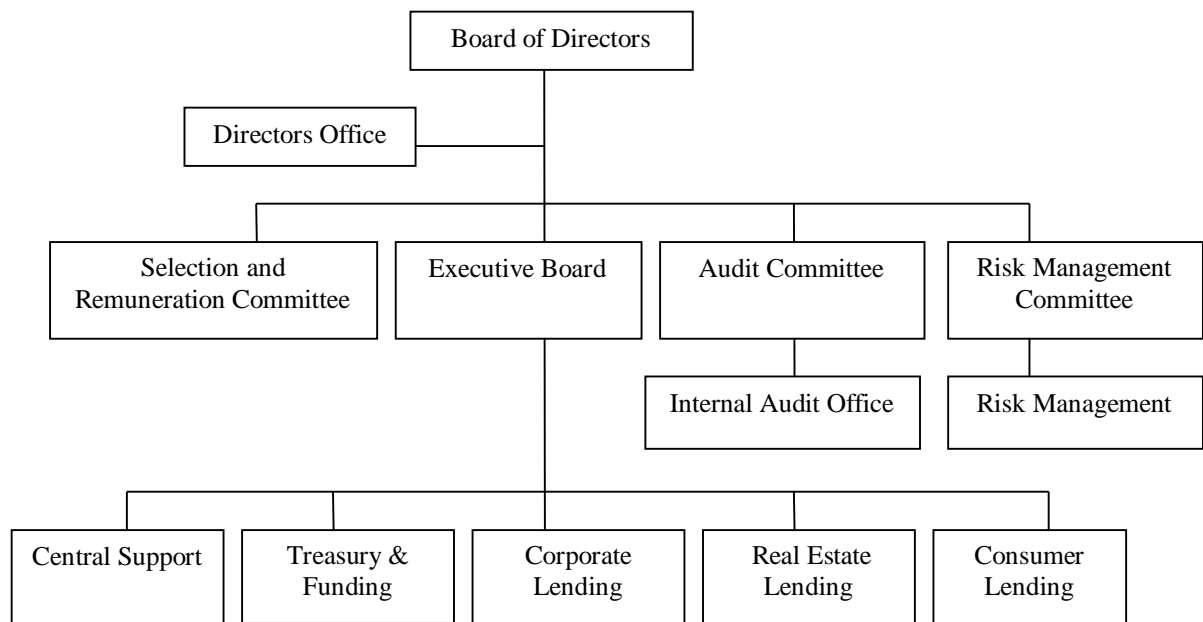
To better manage our interest rate and liquidity risks, we had set up an assets and liabilities management sub-committee. The purpose of the sub-committee was to take care and manage the risks from interest rate fluctuation so that the impact on the interest income was within an acceptable level. As for the liquidity risk, our company minimized it by specifying the level of dependency on various funding sources. The debt instrument's characteristics, investors' distribution as well as the maturity date were set to match our investment and lending plans. We have also evaluated early warning systems and prepared contingency plans to handle emergency situations in critical times.

## Operational Risks

Our company realized the importance of operational risks that could occur as a result of mistakes; insufficient work procedures, personnel, or systems; and external factors. These risks may inhibit the company from achieving its objectives or have effects on the revenues and deposits. We considered the damaging effects of the risks in terms of the monetary and non-monetary value, such as the company's reputation and stability.

At present, the Risk Management Team is developing procedures to manage operational risks by allowing personnel at all level take ownership of risk management activities including analysis, assessment, follow-up and reporting. This is to ensure that problems can be taken care of quickly and appropriately with measurable results. There is an internal auditor whose job is to inspect and ensure completeness, correctness and transparentness as well as control or minimize the damage to an acceptable level within the risk management framework of the company.

## **4. Shareholding and Management Structure**



The company has no major shareholders or groups of shareholders as defined by the SEC.

### **4.1 List of 10 Largest Shareholders (as of March 28, 2003)**

<b>Name</b>	<b>Number of shares</b>	<b>Percentage</b>
Ms. Panida Thepkanchana	26,701,748	7.60
Ms. Thitinan Wattanavekin	17,605,800	5.01
Eastern Sugar Company Limited	17,300,000	4.92
Ms. Chansamorn Wattanavekin	14,973,520	4.26
HSBC (Singapore) Nominees Pte., Ltd.	13,578,400	3.86
Ms. Vansamorn Wannamethee	11,781,953	3.35
N.C.B. Trust Limited-General UK Resident-Treaty	8,743,000	2.49

Name	Number of shares	Percentage
A/C Client		
Royal Trust Corporation of Canada	6,485,200	1.84
State Street Bank and Trust Company	5,439,298	1.55
Mr. Supol Wattanavekin	5,373,216	1.53

Source: Top 20 Major Shareholder's Report, Thailand Securities Depository Company Limited.

## 4.2 Management

### 1) Management Structure

The management structure of Kiatnakin Finance Public Company Limited consists of 5 panels as follows: Board of Directors, Audit Committee, Executive Committee, Risk Management Committee, Selection and Remuneration Committee.

### § Board of Directors

The Board of Directors has the authorities and responsibilities as follows:

- Conduct business in accordance with governing laws, company's objectives, company's regulations, as well as resolutions adopted from the shareholders meeting.
- Have the authority to take actions as specified in the memorandum of association.
- Empower a person or a group of persons to carry out a specific activity on their behalf.
- Set framework for policies, objectives, and business plans, including overseeing and supervising the company's operations.
- Comply with the roles, duties, and responsibilities of the Board of Directors as stipulated in the various governing laws relating to integrity, business ethics, ongoing responsibility to the shareholders, etc.
- Set framework for approaches for managing risks in the company's operations.
- Hold the Board of Directors' meeting at least once every quarter.

The Board of Directors consists of ten directors and one secretary as follows:

Mr. Supol	Wattanavekin	Chairman
Mr. Vichien	Jearkjirm	Vice-Chairman
Mr. Tarnin	Chirasootorn	Chairman of the Audit Committee
Mr. Pichai	Dachanapirom	Member of the Audit Committee
Mr. Soomboon	Chaidechsuriya	Member of the Audit Committee
Mr. Chet	Patrakornkul	Managing Director - Consumer Lending
Ms. Thitinan	Wattanavekin	Managing Director - Treasury and Funding
Mr. Tawatchai	Sudtikitpisan	Managing Director - Real Estate Lending
Mr. Pravit	Varutbangkul	Managing Director - Central Support
Mr. Sarawut	Charuchinda	Managing Director - Corporate Lending
Ms. Mayuree	Puangkanok	Secretary

### § Audit Committee

The Audit Committee was established with the Board of Directors' approval to be an independent body whose function is to support and act on behalf of the Board of Directors in reviewing the financial reports that are being presented to the shareholders and other concerning parties. The roles, authorities and duties of the Audit Committee are as follows:

- Audit to ensure the accuracy and sufficiency of the company's financial reports.
- Audit to ensure that the company's internal control and internal audit are appropriate, effective, and efficient.
- Audit to ensure that the company operates according to the laws regarding the Securities & Exchange Act for finance business as well as other laws related to the company's operations.



- Review, select, and propose the company's external auditor and their remuneration.
- Review to ensure the accuracy and completeness of any disclosure of company's information when there are related transactions and/or conflict of interests.
- Prepare the Audit Committee's report regarding its supervisory role, and disclosing the information in the company's annual report. The committee's report must be signed by the committee's chairperson.
- Review, select, relocate, transfer, or terminate Internal Audit Office personnel.
- Prepare reports on the committee's governance for the Board of Directors.
- Coordinate with the Risk Management Committee in order to ensure their operations are within the scope of the company's risk management policy

In addition, the Audit committee has the authority to inspect and interrogate relevant personnel regarding any related issues as well as to recruit or bring in specialist(s) to assist with the inspection and interrogation as appropriate.

The Audit Committee must meet at least four times a year, but can meet as often as needed. The committee may invite management team or relevant personnel to join the meeting in order to provide additional information. The committee can perform other duties assigned by the Board of Directors with the approval of the committee.

The Audit Committee consists of three members and one secretary as follows:

Mr. Tarnin	Chirasooton	Chairman of the Audit Committee
Mr. Pichai	Dachanapirom	Member of the Audit Committee
Mr. Soomboon	Chaidechsuriya	Member of the Audit Committee
Mr. Kriengsak	Sukhanaphorn	Secretary

## **§ Executive Board**

The Executive Board is responsible for preparing business plan, selecting senior executives, setting the company's regulations, and directing the company's operations according to the Board of Directors' policy. The Executive Board also has additional authorities and responsibilities as follows:

- Appoint one or more sub-committees with as many members as the committee deemed appropriate to perform general duties, specific duties, or temporary duties for the benefit of the company.
- Approve the business plan and budgets.
- Approve appointments, promotions and terminations of management personnel ranging from Vice President to Senior Vice President.
- Approve the standards practice in order to operate and manage the business unit.
- Review and propose other matters to the Board of Directors for approval, .0 operational regulations of the business unit; employee related regulations; the nomination of management positions at the assistant managing director and deputy managing director's level; and the company's risk management approaches.
- Hold an Executive Committee meeting at least once a month.

The Executive Board consists of eight directors and one secretary as follows:

Mr. Supol	Wattanavekin	Chairman
Mr. Chet	Pattrakornkul	Managing Director - Consumer Lending
Ms. Thitinan	Wattanavekin	Managing Director - Treasury and Funding
Mr. Tawatchai	Sudtikitpisan	Managing Director - Real Estate Lending
Mr. Pravit	Varutbangkul	Managing Director - Central Support
Mr. Sarawut	Jaruchinda	Managing Director - Corporate Lending
Mr. Thanawat	Neamsub	Deputy Managing Director - Consumer Lending Group
Ms. Sineenath	Tejagupta	Deputy Managing Director - Credit Risk Management
Ms. Mayuree	Puangkanok	Secretary

## § **Risk Management Committee**

The risk management committee has the following authorities:

- Set the overall risk management policy for the company, which covers the major types of risk, such as strategy risk, credit risk, marketing risk, interest rates risk, liquidity risk, and operational risk.
- Develop strategies that are consistent with the company's risk management policy, and ensure that the risk level can be assessed, tracked and controlled to be within an acceptable level.
- Constantly review the sufficiency, effectiveness, and practicality of the risk management policy and system.
- Regularly report to the Board of Directors regarding the progress and adjustments made in order to maintain close alignment with the specified policy and risk management standards. Periodically inform the progress to the Audit Committee.

The Risk Management Committee must hold a meeting at least once every quarter. There must be no less than half of all the committee members present at each meeting and the meeting resolutions are based on the voting majority of the attendees. The Risk Management Committee consists of four members and one secretary as follows:

Mr. Supol	Wattanavekin	Chairman
Ms. Thitinan	Wattanavekin	Director
Mr. Pravit	Varutbangkul	Director
Ms. Sineenath	Tejagupta	Director
Mr. Kriengsak	Sukhanaphorn	Director and Secretary

## § **Selection and Remuneration Committee**

The Selection and Remuneration Committee has the following authorities:

### ● **Selection Committee**

- Set the policy, standards, and procedures for searching and selecting directors or senior executives, starting from deputy managing director level onward. Qualified candidates are proposed to the Board of Directors for approval.
- Select and propose individuals with appropriate qualifications for the following positions:
  - ◆ Company Directors
  - ◆ Directors in every committee panels that has been authorized and made responsible directly by the Board of Directors.
  - ◆ Senior executives, starting from assistant to the managing director level onward.
- Ensure that the Board of Directors has the appropriate size and constituent for the company by making the necessary modification as the environment changes. The committee recognized that in order to be on the Board of Directors, an individual must be knowledgeable, capable, and have appropriate experiences in various areas.
- Disclose the selection policy as well as the detailed procedures in the company's annual report.

### ● **Remuneration Committee**

- Set the remuneration policy and other benefits for the directors and senior executives, starting with deputy managing director level onward. The package is set according to the pre-approved standards by the Board of Directors and implemented in a transparent and precise manner.
- Ensure that the directors and senior executives, starting with deputy managing director level onward, receive appropriate remunerations for the duties and responsibilities.
- Set the guidelines on how to evaluate the performance of directors and senior executives, starting with deputy managing director level onward, in order to adjust



the annual remuneration package. The performance evaluation should take into account the responsibility, associated risks, and ability to increase long-term shareholder values.

- Disclose the remuneration policy and available options; the development of remuneration reports; the details of the business goals; and the opinion of the Remuneration Committee in the company's annual report.

The Selection and Remuneration Committee must hold at least two meetings a year. There must be no less than half of all the committee members present at each meeting and the meeting resolutions are based on the voting majority of the attendees.

The Selection and Remuneration Committee consists of three members and one secretary as follows:

Mr. Supol	Wattanavekin	Chairman
Mr. Vichien	Jearkjirm	Vice-Chairman
Mr. Tarnin	Chirasooton	Independent Director
Mr. Pornchai	Saengaroon	Secretary

### **Details of company directors, executives and controlling authorities (educational background and training)**

#### **Profiles of Kiatnakin's Directors and Executives**

##### 1. Mr. Supol Wattanavekin\*

Position	Chairman
Education	Master of Management, Sasin Graduate Institute of Business Administration of Chulalongkorn University
Certificate	Chairman 2000, Thai Institute of Directors (IOD)
Experience	1986 - Present Chairman, Kiatnakin Finance Public Company Limited

##### 2. Mr. Vichien Jearkjirm\*\*

Position	Vice-Chairman
Education	Master of Business Administration (Finance), Indiana University, USA
Certificate	Directors Certificate Program (DCP12/2001), Thai Institute of Directors (IOD)
Experience	2002 - Present Vice-Chairman, Kiatnakin Finance Public Company Limited 2000 - Present Chairman, Kiatnakin Securities Company Limited 2000 - 2002 President, Association of Finance Companies 1986 - 2002 Managing Director, Kiatnakin Finance Public Company Limited

##### 3. Mr. Tarnin Chirasooton

Position	Chairman of the Audit Committee and Independent Director
Education	Bachelor of Law, Ramkhamhaeng University
Certificate	Directors Certificate Program (DCP10/2001), Thai Institute of Directors (IOD)
Experience	1998 - Present Chairman of the Audit Committee and Independent Director, Kiatnakin Finance Public Company Limited 1993 - 1998 Managing Director, Prof. Kamthon Panlab Law Company Limited

##### 4. Mr. Pichai Dachanapirom

Position	Member of the Audit Committee and Independent Director
Education	Bachelor of Accountancy, Thammasart University
Experience	1994 - Present Member of the Audit Committee and Independent Director, Kiatnakin Finance Public Company Limited 1986 - Present Director and Managing Director, Dharmaniti Auditing Company Limited

## Profiles of Kiatnakin's Directors and Executives

### 5. Mr. Soomboon Chaidechsuriya

Position Member of the Audit Committee and Independent Director  
 Education Bachelor of Law, Thammasart University  
 Experience 1989 - Present Member of the Audit Committee and Independent Director, Kiatnakin Finance Public Company Limited  
 1998 - Present Member of the Audit Committee and Independent Director, Amarin Plaza Public Company Limited

### 6. Mr. Chet Pattrakornkul

Position Managing Director - Consumer Lending  
 Education Master of Marketing (Certificate program), Thammasart University  
 Certificate Directors Certificate Program (DCP9/2001), Thai Institute of Directors (IOD)  
 Experience 2002 – Present Managing Director, Kiatnakin Finance Public Company Limited  
 2000 – 2002 Assistant Managing Director, Kiatnakin Finance Public Company Limited

### 7. Mr. Pravit Varutbangkul

Position Managing Director - Central Support  
 Education Master of Business Administration (Operations Research) University of Santa Clara, California, USA.  
 Certificate Directors Certificate Program (DCP5/2000), Thai Institute of Directors (IOD)  
 Experience 2002 - Present Managing Director, Kiatnakin Finance Public Company Limited  
 1993-2002 Assistant Managing Director, Kiatnakin Finance Public Company Limited  
 1998-1992 Vice President and Country Operation Officer, Bank of America Bangkok Branch

### 8. Ms. Thitinan Wattanavekin\*

Position Managing Director - Treasury and Funding  
 Education Master of Management, Sasin Graduate Institute of Business Administration of Chulalongkorn University  
 Certificate Directors Certificate Program (DCP1/2000), Thai Institute of Directors (IOD)  
 Experience 2002 - Present Managing Director, Kiatnakin Finance Public Company Limited  
 1987 - 2002 Director and Assistant Managing Director, Kiatnakin Finance Public Company Limited

### 9. Mr. Sarawut Charuchinda

Position Managing Director - Corporate Lending  
 Education Master of Business Administration, University of Mississippi, Mississippi, USA.  
 Certificate Directors Certificate Program (DCP31/2000), Thai Institute of Directors (IOD)  
 Experience 2002-Present Managing Director, Kiatnakin Finance Public Company Limited  
 2000-2002 Assistant Managing Director, Kiatnakin Finance Public Company Limited

### 10. Mr. Tawatchai Sudtikitpisan

Position Managing Director - Real Estate Lending  
 Education Master of Business Administration, Master of Science in Electrical Engineering, The University of Texas at Austin, Texas, USA  
 Certificate Directors Certificate Program (DCP31/2000), Thai Institute of Directors (IOD)  
 Experience 2002 - Present Managing Director, Kiatnakin Finance Public Company Limited  
 2001 - 2002 Assistant Managing Director, Kiatnakin Finance Public Company Limited  
 1999 - 2001 Executive Director, Asia Recovery Management Company Limited

## Profiles of Kiatnakin's Directors and Executives

### 11. Ms. Sineenath Tejagupta

Position Deputy Managing Director - Credit Risk Management  
 Education Master of Business Administration, Mississippi University for Women, Mississippi, USA  
 Experience 2002- Present Deputy Managing Director, Kiatnakin Finance Public Company Limited  
 1991- 2002 Assistant Managing Director, Kiatnakin Finance Public Company Limited

### 12. Mr. Thanawat Neamsub

Position Deputy Managing Director - Consumer Lending Group  
 Education Bachelor of Law, Ramkamhaeng University  
 Experience 2002 - Present Deputy Managing Director, Kiatnakin Finance Public Company Limited  
 1998 - 2002 Assistant Managing Director, Kiatnakin Finance Public Company Limited  
 1996 - 1998 Managing Director, Mae Ping Leasing Company Limited

### 13. Mr. Visut Sattabudsutthi

Position Assistant Managing Director - Treasury and Funding  
 Education Master of Account, Thammasart University  
 Certificate FINNEX # 7  
 Experience 2002 - Present Deputy Managing Director, Kiatnakin Finance Public Company Limited  
 1981 - 2002 Assistant Managing Director, Industrial Finance Corporation of Thailand (IFCT)

### 14. Mr. Kriengsak Sukhanaphorn

Position Senior Vice President - Internal Audit  
 Education Bachelor of Accounting, Thai Chamber University  
 Certificate Certificate of Internal Auditor - CIA, Young Banker's Executive Development Program # 5  
 Experience 2002 - Present Senior Vice President, Kiatnakin Finance Public Company Limited  
 1992 - 2002 Vice President, Kiatnakin Finance Public Company Limited

### 15. Mr. Pornchai Saengaroon

Position Senior Vice President - Human Resource Department  
 Education Executive MBA (Management), Kasetsart University  
 Experience 2001 - Present Senior Vice President, Kiatnakin Finance Public Company Limited  
 2/2001 – 6/2001 Personnel Manager, Bangjark Petroleum Company Limited

### 16. Mr. Pakpoom Hunsajarupan

Position Senior Vice President - Loan Operations 1  
 Education Executive MBA, Thammasart University  
 Experience 2003 - Present Senior Vice President  
 1994 - 2003 Vice President, Kiatnakin Finance Public Company Limited

### 17. Ms. Piradee Chongsiriwanchai

Position Senior Vice President - Treasury & Funding  
 Education Bachelor of Finance, Dhurakijbandit University  
 Experience 1995 - Present Senior Vice President, Kiatnakin Finance Public Company Limited

## Profiles of Kiatnakin's Directors and Executives

### 18. Mr. Somkiat Pongjunyakul

Position Senior Vice President - Management Information System  
Education Master of Science in Statistics, National Institute of Development Administration (NIDA)  
Experience 2001 - Present Senior Vice President, Kiatnakin Finance Public Company Limited  
1999 - 2001 Senior Vice President, Kiatnakin Securities Company Limited  
1991 - 1999 Senior Vice President, Pattrathanakit Finance Public Company Limited

### 19. Ms. Somlak Artamnoyvipas

Position Senior Vice President - Treasury and Funding  
Education Bachelor of Accounting, Chulalongkorn University  
Certificate Young Banker's Executive Development Program # 9  
Experience 1994 - Present Senior Vice President, Kiatnakin Finance Public Company Limited

### 20. Ms. Suree Harnpinijsak

Position Senior Vice President - Accounting Department  
Education Master of Accounting, Chulalongkorn University.  
Certificate Young Banker's Executive Development Program # 9  
Experience 2002 - Present Senior Vice President, Kiatnakin Finance Public Company Limited  
1991 - 2001 Vice President, Kiatnakin Finance Public Company Limited

### 21. Ms. Upsorn Sinswade

Position Senior Vice President - Credit Risk Management  
Education Master of Business Administration (Marketing), Chulalongkorn University  
Certificate Young Banker's Executive Development Program # 5  
Experience 2002 - Present Senior Vice President, Kiatnakin Finance Public Company Limited  
1995 - 2002 Vice President, Kiatnakin Finance Public Company Limited

#### Remark:

\* Do not have authority in the subsidiary company, Kiatnakin Securities Company Limited, as a Director

\*\* Have authority in subsidiary company, Kiatnakin Securities Company Limited, as the Chairman of the Board of Directors.

Every executive at Kiatnakin Finance Public Company Limited do not have a history of illegal conduct, have not declared bankruptcy, or had criminal offenses in the past ten years.  
(History of executives as of 31 December, 2003)

## 2) Selection Procedures for Company Directors

The process of selecting directors begins with the nomination of candidates by the shareholders, directors, and senior executives. The name and detailed personal history must be provided in order for the Selection and Remuneration Committee to evaluate the qualifications, appropriateness, and determine suitable remuneration and make a proposal at the Board of Directors meeting. The final selection is done by the shareholders at the shareholders meeting.

## 3) Executive's Remuneration

§ Financial Remuneration

§ Other Remuneration

(Details are shown in the Corporate Governance section)

#### 4) Corporate Governance

Our company maintained good corporate governance in each of the following areas: Shareholders and Stakeholders, Directors, Internal Control and Internal Audit Systems, Disclosure of Information and Transparency, and Business Ethics Aspects. The good corporate governance practices are summarized as follows:

- **Shareholders and Stakeholders**

- Equitable Treatment of Shareholders

- Our company stipulates that the Annual General Shareholders Meeting must be held once a year, within four months after the last day of the previous financial year. In 2003, the company held our 33<sup>rd</sup> annual shareholders meeting. The company sent out meeting invitations and agenda to all the shareholders at least 10 working days prior to the meeting date. Each agenda item included the opinion of the Board of Directors, which was recorded accurately, completely, and sufficiently for the shareholders to utilize in decision making.

- Rights of the Stakeholders

- The company recognize the rights of each group of stakeholders, both internally, such as employees and senior executive of the company and its subsidiaries, and externally. When a business transaction occurs between the company and an individual and/or business, our company continually report the details of the business transactions in the annual report. We realized that strong stakeholders' support can help enable our company build our capability to compete, which ultimately leads to long term success.

- Shareholders meeting

- For the past several years, the chairman of our company's shareholders meeting has given all the shareholders equal opportunities to examine, question, share their opinion, and make suggestions regarding the company's operations. The shareholders were also given opportunities to propose the names of potential new director. In addition, a group of independent directors were also invited to join the meeting in order to provide additional information to the shareholders.

- **The Director**

- Corporate Governance Policy

- Kiatnakin's Board of Directors has established the policy on corporate governance upon recognizing its importance and necessity, and has full intention of adhering to the principles. As a result, the policy and guidelines of corporate governance was set up with an emphasis on the internal control and internal audit systems in order to efficiently supervise the company's executives and ensure compliance within the scope of the laws and business ethics. Internal evaluations are conducted on the director's operating results and on the internal control system. In addition, we have appointed a Risk Management Committee and Selection Committee as well as set their remuneration in accordance with good governance.

- Leadership and Vision

- The Board of Directors participated in the determination and implementation of the company's vision, mission, strategies, goals, business plan, and budget. In addition, they also help supervised company's executives in order to ensure that businesses are operated effectively, efficiently, and in accordance with the set objectives and budget. The Board also setup a reliable internal control system to monitor the business and manage the risk. Additionally, all of the company's directors have received training from the Thai Institute of Directors Association (IOD).

### Merger or Separation of the Director's Position

Since the company's Chairman and Managing Director is not the same person, it was possible to separate the policy setting responsibilities from the day-to-day operations.

### Other Committees that support the senior executives and the monitoring of operations

The Board of Directors has appointed the Audit Committee, Risk Management Committee, and Selection and Remuneration Committee in order to help monitor the company's businesses. Details of each committee's authorities are specified under the Management Structure topic in the Management section.

### Board of Directors' Report

The Board of Directors is responsible for the consolidated financial statements of the company and its subsidiaries, including the financial information published in the annual report. This consolidated financial statement was prepared in accordance with the generally accepted accounting standards. An appropriate accounting policy was carefully selected and consistently used, which allowed the best possible accounting method to reflect the company's business. The chosen accounting policy has allowed the company to disclose sufficient amount of important information in the notes to the financial statements.

The Board of Directors has put in place an effective internal control system in order to ensure that the accounting records are accurate, complete and sufficient to reflect the company's assets. The system should also highlight any weaknesses as well as prevent fraud and major operational misconduct.

### Selection and Remuneration Committee's Report

The company has set up a clear and transparent policy on the remuneration of directors and executives, which was approved in the shareholders meeting. The remuneration level is in line with the finance and securities industry and has been set at a level adequate enough to retain the directors who have the desirable qualities.

The executive's remuneration is in accordance with the principles and policies specified by the Board of Directors, and it ties in with the company's performance as well as the performance of each executive. In 2003, the company has made various remuneration payments to the directors and the executives. The payment details are as follows:

- Remuneration for the three Audit Directors was at Baht 1.96 million and Baht 1.21 million for 2002, respectively.
- The total remuneration in 2003 was Baht 46.93 million for 17 executives and in 2002 was Baht 61.52 million for 16 executives.



## Warrants Allocations to Directors

Name	Position	ESOP Warrant (Unit)	ESOP Warrant Exercised in 2003 (Unit)
Mr.Supol Wattanavekin	Chairman	250,000	62,500
Mr.Vichien Jearkjirm	Vice-Chairman	200,000	0
Mr.Tarnin Chirasoonton	Chairman of the Audit Committee and Independent Director	50,000	12,500
Mr.Pichai Dachanapirom	Member of the Audit Committee and Independent Director	50,000	0
Mr.Soomboon Chaidechsuriya	Member of the Audit Committee and Independent Director	50,000	0
Mr.Chet Pattrakornkul	Managing Director	100,000	75,000
Ms.Thitinan Wattanavekin	Managing Director	100,000	50,000
Mr.Tawatchai Sudtikitpisan	Managing Director	100,000	0
Mr.Pravit Varutbangkul	Managing Director	100,000	0
Mr.Sarawut Charuchinda	Managing Director	100,000	25,000

## Number of Ordinary Shares Held by Executives in 2003

Name	Position	Number of Shares	Changes in 2003
Mr.Supol Wattanavekin	Chairman	5,435,716	increase 62,500 shares
Mr.Chet Pattrakornkul	Managing Director	-	no change
Ms.Thitinan Wattanavekin	Managing Director	17,605,800	no change
Mr.Tawatchai Sudtikitpisan	Managing Director	-	no change
Mr.Pravit Varutbangkul	Managing Director	25,000	no change
Mr.Sarawut Charuchinda	Managing Director	20,000	decrease 5,000 shares
Mr.Thanawat Neamsub	Deputy Managing Director	21,000	decrease 5,000 shares
Ms.Sineenath Tejagupta	Deputy Managing Director	20,000	decrease 25,000 shares
Mr.Visut Sattabudsutthi	Assistant Managing Director	-	no change
Mr.Kriengsak Sukhanaphorn	Senior Vice President	200	increase 200 shares
Mr.Pornchai Saengaroon	Senior Vice President	-	no change
Mr.Pakpoom Hunsajarupan	Senior Vice President	-	no change
Ms.Piradee Chongsiriwanchai	Senior Vice President	5,000	decrease 5,000 shares
Mr.Somkiat Pongjunyakul	Senior Vice President	25,000	increase 12,500 shares
Ms.Somlak Artamnoyvipas	Senior Vice President	2,000	decrease 3,000
Ms.Suree Harnpinijisak	Senior Vice President	12,500	no change
Ms.Upsorn Sinswade	Senior Vice President	12,500	no change

### The Board Meeting

The Board of Directors schedules the Board meeting in advance with a clearly defined agenda. The Secretary of the Board Director is responsible for arranging the meeting and sending the meeting invitations along with the agenda at least seven days in advance, in order to allow sufficient time for the directors to consider matters prior to attending the meeting. In 2003, the Board of Directors held ten meetings, which lasts around three hours per meeting. The formal meeting minutes were prepared, approved by the Board, and made available for the Board and any related person to examine the content.

Name	Position	Number of Meetings Attended
Mr.Supol Wattanavekin	Chairman	10
Mr.Vichien Jearkjirm	Vice-Chairman	6
Mr.Tarnin Chirasoonton	Chairman of the Audit Committee and Independent Director	8
Mr.Pichai Dachanapirom	Member of the Audit Committee and Independent Director	10
Mr.Soomboon Chaidechsuriya	Member of the Audit Committee and Independent Director	5
Mr.Chet Pattrakornkul	Managing Director - Consumer Lending	10
Ms.Thitinan Wattanavekin	Managing Director - Treasury and Funding	10
Mr.Tawatchai Sudtikitpisan	Managing Director - Real Estate Lending	9
Mr.Pravit Varutbangkul	Managing Director - Central Support	10
Mr.Sarawut Charuchinda	Managing Director - Corporate Lending	9

### Conflicts of Interest

In order to prevent any conflicts of interest, the Board of Directors exercised utmost care in monitoring those transactions which may have potential to cause conflicts of interest. Kiatnakin has formally set up the policy and procedures for the approval of related transactions in writing. Company executives must report any changes of their securities holding to the Office of the Securities and Exchange Commission (SEC) in accordance with the Article 59 of the Securities and Exchange Act (B.E. 2535).

#### o **Internal Control and Internal Audit Systems**

The company has emphasized the importance of having an efficient internal control system at the management and operational level. Formal limits of authorities and duties of the operational staff and executives has been put in place and specified in writing. Control has been instigated to ensure all assets are used to create benefits in the most optimal way. The duties of the operational staffs, supervisors, and authorized personnel have been separated in order to create an appropriate check and balance system and allow appropriate audit. The financial reports were also subjected to a control system, and were submitted to the responsible executives.

We have an Internal Audit Office that is responsible for inspecting the core operations and important financial activities of the company in order to ensure that set guidelines have been strictly followed and in line with relevant regulations and local laws. To enable the Internal Audit Office to work independently and perform the audit's work efficiently and with proper checks and balance, the Board of



Directors specifically required the Internal Audit Office to send the audit results directly to the Audit Committee and the Board of Directors.

The Board recognized the importance of risk management; therefore, it had set up a Risk Management Committee and Risk Management Unit. Measures pertaining to risk prevention and management were determined as well as monitored in accordance with the related laws and regulations. Relevant reports were appropriately prepared.

- **Disclosure of Information and Transparency**

- Relationships with Investors

- The Board highlighted the importance of accurate, complete, transparent, and comprehensive disclosure of financial, general, and other important information that can affect the security price of the company. The company publicized the aforementioned information to investors and other related parties through the company's website and various channels and media of the Securities Exchange of Thailand. An Investor Relations Unit was established in order to provide information and news about the company's activities to the investors, shareholders, analysts, and the general public. Investors can contact the Investor Relations Unit by calling 0-2680-3160 –1 , visiting our website [www.kiatnakin.co.th](http://www.kiatnakin.co.th), or sending E-mail to [investor\\_relation@kiatnakin.co.th](mailto:investor_relation@kiatnakin.co.th). In addition, the company periodically arranges meetings with analysts, in cooperation with the Securities Analyst Association, in order to directly disseminate company related information.

- **Business Ethics**

- The company issued the Code of Professional Ethics, in order to provide guidance toward proper conduct, and set up standards for executives related to the Code of Professional Ethics. The Code serves as a guide for ethical business practices. When implementing the company's mission, one must do so with honesty, integrity and fairness toward company and all the stakeholders. The company regularly communicates the Code to our employee and follows up to ensure that everyone abides by it.

## **5) Policies and Methods to Monitor Executives on Usage of Non-Public Information**

In order to prevent employees from using non-public information about the company for personal benefits, the company required all the directors and executives prepare reports on their securities holdings in the company, including the holdings of the spouse, children (below age of 18), and/or those who are related to them within 3 working days starting from the day of the trade. The company prevents their employees and directors from using their position or opportunities at work to seek any benefits which is immoral, unethical, unprofessional, against corporate culture and/or against the company best interests.

The Internal Audit Office regularly reviews the use of non-public information and the adherence to the Code of Professional Ethics. Any violations or misconduct will be reported to the Audit Committee and the Board of Directors for further consideration of the punishment in accordance with the company's regulations.

## **6) Internal Control**

The company's assessment of the internal control system was done in accordance with the principles of good governance by considering 5 important factors as follows:

- w Control Environment**

- The company encourages every employee to recognize the necessity of the internal control system and help create a good control environment by defining the clear and measurable mission and goals; having policy and written procedures; emphasizing the

importance of integrity and ethics when conducting business; and having appropriate organization structure.

**w Risk Assessment**

The company made an assessment of various risk factors, both externally and internally, and set up a Risk Management Committee and a Risk Management Unit to monitor a variety of risks for the company.

**w Control Activities**

The company has sufficient control activities, which includes clearly defined authorities and approval levels for transactions; measures to protect assets against fraud and recover lost items, such as the counting assets and separating work duties; and examines transactions to ensure that they comply with the laws and related regulations.

**w Information Technology and Communication Systems**

The company provides up-to-date information that is sufficient for decision-making, and is organized in an easy to understand format. All the internal communications are clearly written and dispersed in an effective manner.

**w Monitoring and Evaluation Systems**

The company established a monitoring and evaluation system to ensure that the company's internal control system is operating continuously, and receives appropriate as well as timely adjustments to changes in situation and to improve on any imperfection.

**7) Personnel Policy**

The company recognized the importance of human resource development to enhance the employee's competency and efficiency. The company has developed a policy, which requires that all of the company directors go through the Directors Certificate Program (DCP) from the Thai Institute of Directors Association (IOD). In addition, a great emphasis has been placed on increasing the skills of employees at all level that are in the company's core businesses through the development of a Training Road Map for each employee. The company conducts in-house training course as well as send employees to an off-site training course to help increase employee's knowledge, expertise, and awareness of the up-to-date news. Training effectiveness is regularly assessed through pre- and post-training surveys as well as through productivity improvement after the training. In addition, the company has the policy of rewarding employees according to their performance and market conditions through the use of the Balance Scorecard System.

## **5. Related Party Transactions**

(Details regarding related persons and businesses are described in Note # 32 in the Financial Statements)

## 6. Analysis of the Company's Financial Position and Operating Performance

### Operating Results

The company recorded a net profit of Baht 2,065 million in 2003. When compared to the 2002 figure of Baht 1,406 million, this represented an improvement of 47%. The overall performance was even more impressive, with an additional improvement of Baht 1,244 million contributed toward the shareholders equity. The unrealized gain/loss from revaluation of financial claims has improved by Baht 952 million. It has taken a turn from a loss of Baht 575 million as of 31 December, 2002 to a gain of Baht 377 million as of 31 December, in 2003. Unrealized gain on securities investment also contributes about Baht 292 million. In addition, the provisions of NPL and doubtful loans for 2003 increased by Baht 1,439 million over the previous year, partially due to the special addition of Baht 1,164 million for doubtful loans.

### Business Performance

The company continues to pursue its five core business products, which includes investment in financial claims, general loans, residential project loan, hire purchase loans and securities brokerage business.

#### 1) Investment in Financial Claims

(Unit: Baht Million)

Investment in Financial Claims	2003	2002	2001
	From FRA*, in funds	5,308	6,646
Investment in property funds	809	-	-
From FRA*, in Kiatnakin	1,840	5,146	6,912
From Loan Execution Department, in Kiatnakin	1,507	-	-
<b>Total</b>	<b>9,464</b>	<b>11,792</b>	<b>15,535</b>

We have continued to manage these assets down as plan. At the end of 2003 the fair value of the investment in financial claims was at Baht 9,464 million, which is a decrease from Baht 11,792 million in 2002. The outstanding amount comprises four mutual funds and a Baht 809 million investment in property funds related to residential projects. The remaining Baht 3,347 million was booked in the company, and consists of Baht 1,507 million, which was won from the Loan Execution Department's auction, and Baht 1,840 million, which was purchased from Financial Restructure Agency (FRA).

In 2003, the Financial Institutions Development Fund (FIDF) held an auction through the Loan Execution Department for the remaining financial claim loans from the 56 finance companies that were shut down in 1997. After the company was certain of all the legal process involved in taking possession of these assets, we started to participate in these auctions toward the end of 2003. As a result, we won a total amount Baht 5,540 million of original claims at a cost of Baht 1,369 million, and recorded the investment in financial claims in the company's book. Reportedly, there will be another Baht 75,000 million of original claims that will gradually be placed under auction during the course 2004. We will certainly be prepared to participate in the bidding process.

## **2) General Loans**

These loans were mostly existing commercial loans that were made prior to the crisis. Almost all of the NPLs are in this portfolio. There was a lot of progress made during the year in restructuring these loans. Some loans were paid down, while some were turned into normal loan. During 2002, a small amount of new loans were made to transportation related businesses, but most of the efforts were spent in bringing down the NPLs. This unit includes all commercial loans, excluding residential project loans and hire purchase loans.

## **3) Residential Project Loans**

Since the second quarter of 2001, the company have started to build up a loan portfolio consisted of refinanced loans from other financial institutions. These loans were generally for partially finished housing projects. Since most of these projects are expected to be completed in 2003, the revenue from the sales should significantly reduce the outstanding loan amount. Thus, we were able to finance several new residential projects. The responsible loan unit was given a mandate to build up a residential project finance portfolio that covers all the provinces countrywide. By the end of 2003, the company was able to secure a portfolio of about Baht 10,000 million, of which Baht 1,110 million were booked in two property funds.

## **4) Hire Purchase Loans**

With the on-going strategy of obtaining profitability instead of growing assets, our company continues to utilize our expertise in the used car market together with our long-term relationships with the dealers in growing the used car hire purchase (H/P) loans. The major focus was to create a network of fifteen branches and strategically locate them in various provinces all over the country. At the end of 2003, the total hire purchase loans amounted to Baht 7,904 million, which was a healthy increase of 65.4% from Baht 4,778 million obtained in 2002.

## **5) Securities Brokerage Service**

Our company continued to concentrate on retail customers through the twenty branches throughout the country. The increase in trading volume has increased our market share, and resulted in a profit of Baht 216 million before deducting bad debts and doubtful accounts. During 2003, we managed to charge off a total amount of Baht 60 million of bad debts made since 1993. Margin loans facilities have very much been discouraged since 1999; thus the risk exposure in this area was low.

The numbers of internet accounts have grown quite considerably from 518 accounts in 2002 to 2,324 accounts in 2003, while trading volume derived from internet accounts grew more than 100% over the same period. In the beginning of 2003, our company entered into a joint venture with Devonshire Capital in setting up a new company, which will concentrate in the investment banking business. While it still has not contributed meaningful revenue to the group yet, it has made some progress as a financial consultant for many companies

## **Financial Statement Analysis**

### **1) Income on Financial Statement**

In 2003, several reclassifications have been made to comply with the accounting standard announced by the Bank of Thailand. These changes and other one-time event created a considerable distortion to the statement of income in the following lines: net interest and dividend income, non-interest income, and other income. In order to be able to effectively compare income for 2003 with earlier years, efforts were taken to regroup past data as per the new standard. The major changes are described as followed:

- 1.1) In the Statement of Income for 2002 and 2003, the foreclosed assets related to financial claims were reclassified from 'Interest on investment in loans' to 'Other Income'.
- 1.2) All loans charged off since year-end 2000 due to insufficient collateral were restated with all appropriate loan loss provisions established. This resulted in a sudden increase in the loan loss provisions and the level of doubtful debts. Although, there is no effect on the overall net income figure, the provision for NPLs increased because the company kept the original reserve intact, even when certain loans were successfully restructured and qualified as normal loan.
- 1.3) All investment in financial claims that have already been restructured was reclassified to loans with the cash flow booked at a risk-adjusted discount rate (fair value) with all appropriate loan loss provisions established. This applied to investment in financial claims that are booked in the company only. With this change, all unrealized gains from all restructured loans booked in the equity were recorded in the unrealized gain in the Statement of Income. As a remedy, the company has realized some losses in the equity to offset the unrealized gain in the Statement of Income.

## 2) Interest and Dividend Income

(Unit: Baht Million)

Interest and Dividend Income	2003	2002	2001
Loans and Deposits	1,895	701	294
Hire Purchase	856	669	522
Securities	139	151	205
Investment in Financial Claims	1,283	2,203	2,232
<b>Total</b>	<b>4,173</b>	<b>3,724</b>	<b>3,253</b>

The growth in both hire purchase and residential project loans, enabled the interest and dividend income to increase to Baht 4,173 million as of 31 December 2003. This is an improvement of Baht 449 million, or 12%, from the same period in 2002 of Baht 3,724 million. Interest revenues on hire purchase loans also grew from Baht 669 million last year to Baht 856 million in 2003, an increase of 28%.

Interest income of residential projects and other general loans grew considerably in the past year, even after adjusting out the one time interest recognition in the third quarter of Baht 450 million. Part of the interest income from loans and placements also include revenue from loans that were reclassified from investment in financial claims that have already been restructured.

Interest revenue on investment in financial claims might seem to decline, but overall earning increased when added to the unrealized gain/loss in the non-interest earning section and the improvement of the unrealized gain/loss in the equity section.

(Unit: Baht Million)

Summary of Earnings on Investment in Financial Claims	2003	2002	2001
Realized gain on Financial Claims (Funds)	1,268	1,478	1,666
Realized gain on Financial Claims (KK)	15	725	566
<b>Total Realized Gain</b>	<b>1,283</b>	<b>2,203</b>	<b>2,232</b>
Unrealized gain/loss on Financial Claims (Funds)	(324)	(600)	1,042
Unrealized gain/loss on Financial Claims (KK)	1307	257	642
<b>Total Unrealized Gain</b>	<b>983</b>	<b>(343)</b>	<b>1,684</b>
<b>Total Gain</b>	<b>2,266</b>	<b>1,860</b>	<b>3,916</b>

### 3) Interest Expense

Interest expense continued to decrease in conjunction with the downtrend in interest rate. During the past year, a series of debenture issued by the company with a call-option were called. Debenture carrying a term of 5 years has been issue at a very attractive interest rate. On the deposits side, matured deposits with higher interest rate were replaced with new deposits at a lower interest rate. As a result the overall interest expense decreased from Baht 1,264 million in 2002 to Baht 955 million in 2003, despite having similar level of total borrowing during both years.

### 4) Loan Recoveries/Loan Loss Provision

(Unit: Baht Million)

Provisions for Doubtful Accounts	2003	2002	2001
Total Allowance, 1 January	459	212	204
Recoveries	109	287	302
Provisions for bad debt and doubtful accounts	2,557	(34)	226
Charged off	(13)	(6)	(520)
<b>Total Allowance, 31 December</b>	<b>3,112</b>	<b>459</b>	<b>212</b>

In the first quarter of 2003, all loans charged off since year-end 2000 due to insufficient collateral were restated with all appropriate loan loss provisions established as per the announcement by the Bank of Thailand. Although, there is no effect on the overall net income figure, the provision for NPLs increased because the company kept the original reserve intact, even when certain loans were successfully restructured and qualified as normal loan.

### 5) Non-Interest Income

Total non-interest income increased to Baht 2,167 million from Baht 674 million of the same period last year. Brokerage fees improved considerably during the year from Baht 247 million to Baht 518 million, thanks to the increase in overall volume traded. Progress made during the year in restructuring of investment claims has resulted in an improvement of revaluation gain in investment in financial claims of Baht 636 million. Other income were mostly from sales of foreclosed assets, which accounted for Bahy 465 million.

### 6) Operating Expense

Overall operating expense increased by Baht 202 million over the period, or 12%, was mainly due to an increase in personnel expenses directly related to the increase brokerage commissions. Other expenses have decreased due mainly to the decrease in legal expenditure.

### 7) Net income

In 2003, the company recorded a net profit of Baht 2,065 million, an increase of Baht 659 million, or 47%, from 2002 figure of Baht 1,406 million. This was after taking a special provision for doubtful loans of Baht 1,164 million during the year. In addition, the remarkable improvement has also been noted in the unrealized gain/loss line in the equity in that the unrealized gain/loss from revaluation of the investment of financial claims has taken a turn from a loss of Baht 575 million in 2002 to a gain of Baht 377 million in 2003, a net improvement of Baht 952 million. Unrealized gain on investment in securities also contributes about Baht 292 million to the total equity.

## Financial Position

### Assets

(Unit: Baht Million)

<b>Assets</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Net Investment in Securities	3,570	2,809	4,663
Investment in Financial Claims	9,464	11,792	15,535
Investment in Property Funds	301	1,526	821
Finance Business Loans and Receivables	22,926	13,957	9,682
Securities Business Receivables	1,378	128	378
Allowance for Doubtful Accounts	(3,112)	(459)	(212)
Properties Foreclosed	4,273	4,805	4,734
Premises and Equipments	236	185	185
Other assets	3,635	3,108	1,703
<b>Total Assets</b>	<b>42,671</b>	<b>37,851</b>	<b>37,489</b>

On a consolidated basis, total assets stood at Baht 42,671 at year-end 2003, an increase of Baht 4,820 million or about 13% from Baht 37,851 last year. Core assets, however, did not grow as much. Core assets included: Investment in Financial Claims, Investment in property Funds, Loans to Finance Business and Property Foreclosed. More details of each major type of assets are discussed as followed.

(Unit: Baht Million)

<b>Core Business</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Investment in Financial Claims	9,464	11,792	15,535
Investment in Property Funds	301	1,526	821
Loans to Finance Business	22,926	13,957	9,682
Allowance for Doubtful Accounts	(3,112)	(459)	(212)
Properties Foreclosed	4,273	4,805	4,734
<b>Total Core Assets</b>	<b>33,852</b>	<b>31,621</b>	<b>30,560</b>

### 1) Net investment in Securities

Investment in securities increased to Baht 3,570 million from Baht 2,809 million in 2002. We normally invest in government bonds as part of our cash reserve requirement. Up to 4.5% of the 6% can be maintained in government bonds or debt securities issued by various states enterprises. In 2003, we have started to have a meaningful portfolio of proprietary investment of Baht 805 million compared to last year of Baht 10 million.



## 2) Investment in Financial Claims

(Unit: Baht Million)

Investment in Financial Claims	2003	2002	2001
<b>From FRA, set up in funds</b>	<b>6,117</b>	<b>6,646</b>	<b>8,623</b>
Investment in Property Funds	809		
Restructured	1,359	2,068	2,501
Non-Restructured	3,949	4,578	6,122
<b>From FRA, set up in KK</b>	<b>1,840</b>	<b>5,146</b>	<b>6,912</b>
Restructured	-	2,175	3,142
Non-Restructured	1,840	2,971	3,770
<b>From Loan Execution Dept. set up in KK</b>	<b>1,507</b>	-	-
Restructured	-	-	-
Non-Restructured	1,507	-	-
<b>Total</b>	<b>9,464</b>	<b>11,792</b>	<b>15,535</b>

In 2003, the external auditor has decided to reclassify some of the investment in the property funds totaling Baht 809 million as part of the investment in financial claims. During last year, we were able to manage the total investment claims down to Baht 3,137 million from a total of Baht 11,792 million last year. Baht 5,308 Baht of investment claims acquired from FRA were still being booked in four separate funds. For the total outstanding investment in financial claims, which is carried in the mutual funds, Baht 1,359 million have already been restructured with repayment schedule spanned over the next three years.

In the first quarter of 2003, the revised guideline prescribed by the Bank of Thailand required that all investment in financial claims (applied to those recorded in the company only) that had already been successfully restructured were reclassified to the general loans. They are to be tracked and maintained as other restructured loans. All non-restructured cases are in the litigation process whereby collaterals will be foreclosed through the legal process over the next two years. Negotiating, however, are still carried out since we are taking the litigation step as part of collection process. In a normal commercial transaction, a restructured plan is usually agreed upon prior to the legal foreclosure of collaterals.

Toward the end of 2003, we have participated in an auction arranged by FIDF through the Loan Execution Department and won a total amount Baht 5,540 million of original claim at a cost of Baht 1,275 million, and the amount was also booked as part of the investment in financial claims in the company.

## 3) Investment in Property Funds

These funds were set up to acquired some of the projects sourced through the residential project financing. These funds will take possession of the property with option to sell back to the counter party when all obligations have been fulfilled. During the year, there were some reclassification made and an amount of Baht 809 million was transferred to Investment in Financial Claims.



#### 4) Loans to Finance Business

(Unit: Baht Million)

Finance Business Loans	2003	2002	2001
General Loans	6,878	4,360	4,937
Normal Loans	2,347	3,120	3,302
Problem Loans	888	1,240	1,635
Restated Loans	1,159	-	-
Reclassified from Restructured Inv. Claims	2,484	-	-
Residential Project Loans	8,144	4,819	1,199
Hire Purchase Loans	7,904	4,778	3,546
<b>Total</b>	<b>22,926</b>	<b>13,957</b>	<b>9,682</b>

Finance business loans might seem to grow quite impressively from the same period last year. Actually, the only growth has been in the residential project and the hire purchase loans with the total amount of Baht 6,509 million. Other general loans have not really grown at all, the growth shown were due to the reclassification required by the Bank of Thailand.

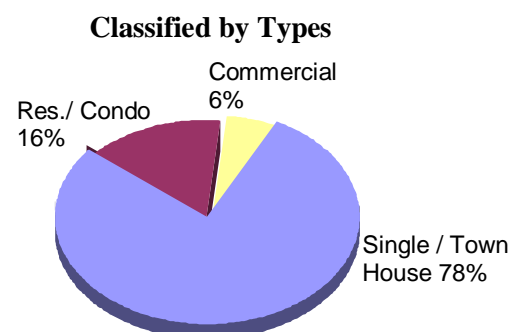
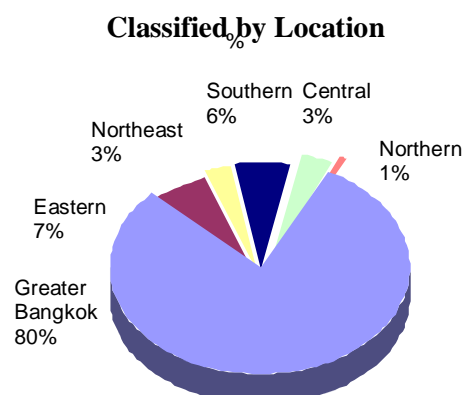
We have chosen to group the Total Finance Business Loans into three categories: general loans, residential project loans and hire purchase loans.

##### General Loans

General loans are the loan portfolio created prior to the crisis. The company has been managing these loans by either improving the quality through restructuring process and maintaining them as normal loans or liquidating them through a settlement process. Some progress has been made in restructuring problem loans during the year, and a small amount of new loans have also been booked. The Restated Loan and the Reclassified Loans from Investment Claims were just loans reclassified as required by the Bank of Thailand in the first quarter of 2003.

##### Residential Project Loans

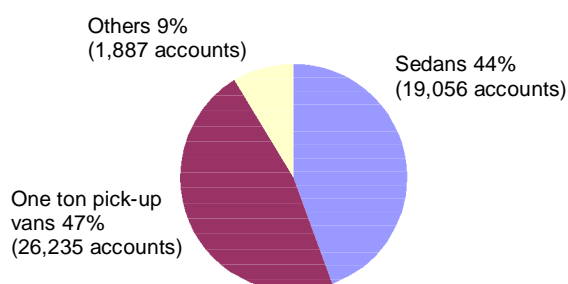
We have started to culminate residential project loans since 2001 by refinancing unfinished project from other bidders who won the bid from the FRA. By the end 2003, over forty projects have been finished, with all loans settled. We continue to finance the new projects, frequently to the same operator. At the end of 2003 we were able to support more than 200 projects and record a total amount of Baht 8,144 million for this type of loans plus another Baht 1,110 million booked in two property funds. These projects are all over the country but mostly in the greater Bangkok and mostly are residential project. Following are two charts illustrating the demographic in term of location and type of projects.



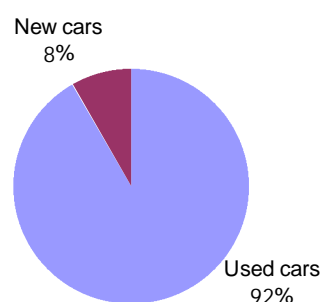
### Hire Purchase Loans

Hire purchase loans have also achieved a rather impressive growth rate. The company was able to record an outstanding loan of Baht 7,904million at year-end 2003, an increase of Baht 3,126 million from Baht 4,778 million in 2002, which is equivalent to a growth of over 65%. Since we were still concentrating on profit generation rather than assets growth, a large percentage of our hire purchase loans were still in the used car business. Following are two charts illustrating the demographic in term of vehicle type and new/used status.

**Classified by type**



**Classified by new/used cars**



### Loans to Securities Business

As per the company's policy of limiting the margin loans facility, most of the outstanding amount in this accounting line was from the daily trade pending three days settlement.

#### **5) Non-Performing Loans (NPL)**

(Unit: Baht Million)

<b>Non Performing Loans</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
General Loans	1,085	1,239	1,627
Restated Loans	985	-	-
Reclassified from Restructured Inv. Claims	431	-	-
Residential Project Loans	338	195	-
Hire Purchase Loans	243	162	100
Loans to Securities Business	33	40	50
<b>Total</b>	<b>3,115</b>	<b>1,633</b>	<b>1,777</b>

Concerted effort was still being spent to bring down the NPL. There is some success in managing down the old NPL of about Baht 154 million. However, as a result of the reclassifications made as per the Bank of Thailand's requirement in the first quarter of 2003, and new NPL from the growth in both residential project loan and hire purchase loans, absolute NPL have increased over the period by Baht 1,482 million.

## 6) Allowance for Possible Loan Losses

(Unit: Baht Million)

<b>Allowance for Doubtful Accounts</b>	<b>2,003</b>	<b>2,002</b>	<b>2,001</b>
General Loans	645	182	100
Restated Loans	1,151	-	-
Reclassified from Restructured Inv. Claims	420	-	-
Residential Project Loans	656	114	-
Hire Purchase Loans	201	125	63
Loans to Securities Business	39	38	-
<b>Total</b>	<b>3,112</b>	<b>459</b>	<b>163</b>

### **There are three major factors to consider with respect to the increase in allowance for doubtful accounts during the year.**

First factor - Under the guideline prescribed by the bank of Thailand, all loans charged off since year-end 2000 due to insufficient collateral were restated with all appropriate loan loss provisions established. As a result, a total amount Baht 1,151 million has been restated together with the loan loss provision.

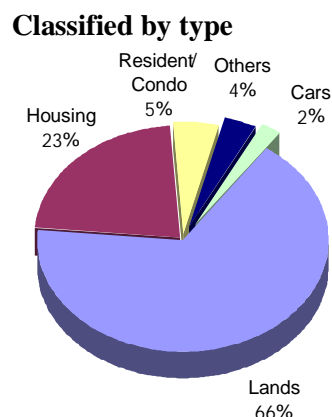
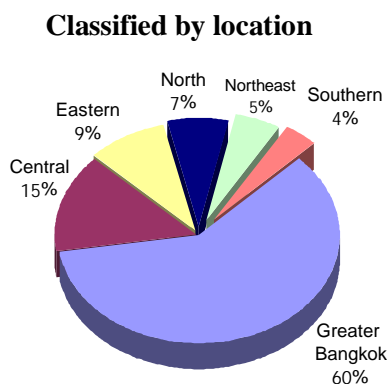
Second factor – Under another guideline prescribed by the Bank of Thailand, all investment in financial claims that have already been restructured were reclassified to loans and were monitored and maintained as a normal loans until they were paid off. This applied to investment in financial claims that are booked in the company only. With this change, an amount of Baht 420 million of loan provision has been set up during the accounting period.

Third factor - Starting on the third quarter of 2002, an internal policy has been made that we will set up a special provision of 5% of the total outstanding of residential project loan by setting aside a minimum amount of Baht 50 million each quarter until the full 5% is achieved. Due to the strong income stream during 2003, the full 5% reserve has been established in the third quarter. In addition, the management has decided to treat the revenue of this product on a cash basis, as a result, the total amount of accrued interest has also been set up as part of the general provision.

In summary, the present loan portfolio to finance business required a provision for possible loan loss of Baht 1,848 million as of December 31, 2003. We have set up a reserve in an amount of Baht 3,112 million, in which Baht 1,264 million was set aside as a special reserve.

## 7) Property Foreclosed

We have made a good progress in 2003, and sold a total amount of Baht 2,819 million at a very attractive price. The total outstanding property foreclosed was Baht 4,273 million at year end 2003, which is a decreased by Baht 532 million from the 2002 total of Baht 4,805 million. This means a total amount of Baht 2,287 million of assets have been acquired either by litigation process or by the process of negotiation for a settlement in lieu of cash. The majority of these assets are land and residential house in the greater Bangkok area. The followings charts shows the breakdown by location and type.



## Liabilities and Shareholders' Equity

(Unit: Baht Million)

Liabilities and Shareholders' Equity	2,003	2,002	2,001
Deposits	19,748	20,952	22,702
Debentures	6,435	5,807	3,995
<b>Total Borrowings and Deposits</b>	<b>26,183</b>	<b>26,759</b>	<b>26,697</b>
Capital	5,924	5,598	5,019
Retain Earnings	6,166	4,804	4,004
Unrealized Gain/(Loss) on Invest in Fin. Claims	377	(575)	(832)
Unrealized Gain/(Loss) on Invest in Securities	368	76	79
<b>Total Shareholders' equity</b>	<b>12,835</b>	<b>9,903</b>	<b>8,270</b>

Total borrowing of Baht 26,183 million in 2003 compared to Baht 26,759 million in 2002 might not show a significant change, but the equity of Baht 9,903 million, which was 26 % of the total liabilities in 2002 has increased to 30% in 2003 at Baht 12,835 million, signifying a considerable growth in shareholders' equity for the period.

### 1) Deposits and Borrowing

It is still our strategy to expand our deposit base as well as to decrease the concentration of the deposit amount. The total deposits at year end decreased by Baht 1,204 million, or 6%, from Baht 20,952 million in 2002 to Baht 19,748 million in 2003. During the year, a series of debenture amounted to Baht 1,000 million issued with a call-option were called. Another issue of debenture amounted to Baht 3,000 million carrying a term of 5 years has been issued at a very attractive rate. This is to manage the gap between our assets and liabilities as well as to lock us against any unexpected fluctuation of upward interest rate. At the end of 2003, almost 60% of total funding carried a maturity profile of over 12 months.

## 1.1) Shareholders' Equity

(Unit: Baht Million)

Equity	2003	2002	2001
Beginning of the year	9,903	8,270	6,764
Dividends payment	(703)	(606)	(453)
Conversion of warrants	326	579	7
Net profit	2,065	1,406	1,389
Improvement/(Deterioration) of unrealized Profit/(loss) in investment in financial claims	952	257	642
Improvement/(Deterioration) of unrealized Profit/(loss) in investment in securities	292	(3)	(79)
<b>Ending of the year</b>	<b>12,835</b>	<b>9,903</b>	<b>8,270</b>

The shareholders' equity at the end of 2003 was Baht 12,835 million, an increased by Baht 1,633 million, or about 20%, from Baht 9,903 million in 2002. This was mainly due to three reasons: 1) warrants conversions during the year 2) net profit generated for the year and some pay out of dividend during the year 3) improvement in revaluation of investment in financial claims as well as an improvement in unrealized gain of investment in securities. At year-end 2002, our BIS ratio stood at 32.1%.

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Fax. 0 5622 0977  
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- 12. Udorn Thani Office**  
119/7-8 Moo 14, Soi Ban Jan Kao, Mark-  
kang District, Mueng,  
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(will be launched for operations in 2004)
- 13. Chiengrai Office**  
56/5-6 Moo 13, Paholyothin Road,  
Robving District,  
Chiengrai 57000  
(will be launched for operations in 2004)
- 14. Nakornsrihammarat Office**  
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(will be launched for operations in 2004)
- 15. Phuket Office**  
(will be launched for operations in 2004)

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