

## FINANCIAL HIGHLIGHTS

Amounts : Million Baht

	Consolidated Financial Statements			Bank Only Financial Statements		
	December			December		
	31, 2003	31, 2002	31, 2001	31, 2003	31, 2002	31, 2001
<b>FINANCIAL STATEMENT INFORMATION</b>						
TOTAL ASSETS	<b>378,995</b>	391,265	366,670	<b>379,147</b>	391,296	369,062
TOTAL LIABILITIES	<b>351,519</b>	376,979	353,051	<b>351,671</b>	377,010	355,443
SHAREHOLDERS' EQUITY	<b>27,476</b>	14,286	13,619	<b>27,476</b>	14,286	13,619
INTEREST AND DIVIDEND INCOME	<b>15,681</b>	16,418	15,367	<b>14,754</b>	16,008	15,237
INTEREST EXPENSES	<b>8,263</b>	10,356	11,501	<b>8,263</b>	10,358	11,501
NET INTEREST AND DIVIDEND INCOME	<b>7,418</b>	6,062	3,866	<b>6,491</b>	5,650	3,736
NON-INTEREST INCOME	<b>3,946</b>	4,281	3,578	<b>3,403</b>	4,189	3,491
NON-INTEREST EXPENSES	<b>11,287</b>	7,540	6,557	<b>7,786</b>	7,348	6,509
TOTAL INCOME	<b>19,627</b>	20,699	18,945	<b>18,157</b>	20,197	18,728
NET PROFIT (LOSS)	<b>(14,054)</b>	(160)	655	<b>(14,054)</b>	(160)	655
<b>FINANCIAL RATIOS</b>						
NET PROFIT (LOSS) TO TOTAL						
INCOME RATIO (%)	<b>(71.61)</b>	(0.77)	3.46	<b>(77.40)</b>	(0.79)	3.50
RETURN ON EQUITY (%)	<b>(67.30)</b>	(1.15)	4.92	<b>(67.30)</b>	(1.15)	4.92
RETURN ON ASSETS (%)	<b>(3.65)</b>	(0.04)	0.19	<b>(3.65)</b>	(0.04)	0.19
BASIC EARNINGS (LOSS)						
PER SHARE (BAHT)	<b>(3.79)</b>	(0.08)	0.33	<b>(3.79)</b>	(0.08)	0.33
DILUTED EARNINGS (LOSS) PER SHARE (BAHT)	<b>(2.46)</b>	(0.04)	0.16	<b>(2.46)</b>	(0.04)	0.16
DIVIDEND PER SHARE (BAHT)	-	-	-	-	-	-
PAYOUT RATIO (%)	-	-	-	-	-	-
BOOK VALUE PER SHARE (BAHT)	<b>2.64</b>	3.57	3.40	<b>2.64</b>	3.57	3.40
CAPITAL ADEQUACY RATIO (%)	<b>10.63</b>	11.32	12.67	<b>10.59</b>	11.26	12.53

## MESSAGE FROM THE CHAIRMAN



In 2003, the government's effort to bring the country out of economic woes appeared to be a big success as all signs of recovery were clearly seen. The country's economic growth was an impressive 6.7 % annually. It seems a direct result of the rise in business sector's confidence in the economy and the strong growth in commercial bank credit, the highest in the past 5 years. Evidently, such a strong growth in bank credit can be contributed to intense competition among the local commercial banks.

Undoubtedly, Thai Military Bank has been benefiting from the good effects of the economic recovery, same with other banks. However, the Bank has been well aware of the negative impact coming from intense competition in the financial market. And it appeared that the Bank's financial position together with organizational and management structures was not ideal enough to launch any counter measure in such highly competitive market. Recognizing this fact, the Bank took a resolve to adopt a new vision and strategic direction. The aim is to make the Bank strong again in every manner. Here are what we have done or put into the process and the results achieved from our operations.

### 1. Recapitalization

The first important step taken was the restructuring of the Bank's capital base by increasing its registered share capital. This step was well received and supported by the shareholders, particularly the Ministry of Finance, the Bank's largest shareholder. As a result, the Bank's registered capital substantially increased by Bht 22,255 million in September 2003. The stronger capital structure helped push the Bank's capital to risk assets ratio to stand at 10.59 %, a position comparable to other leading banks. The Bank was also able to increase its loan loss reserve by Bht 16,764 million, making the total loan loss reserve to reach Bht 24,850 million or 83.3 % of its non-performing loans, a figure considered as adequate. Besides, the Bank had been able to redeem its subordinated debentures totaling Bht 13,280 million before due dates, the first bank to do so. This helped reducing the Bank's funding cost substantially.

### 2. Non-Performing Loan Workout

The second important strategic measure was the redressing of the Bank's NPL problem along with the new capital injection. The Bank, in 2003, stepped up its proactive NPL workout actions and succeeded in reducing the NPL outstanding by Bht 13,366 million. This brought down the ratio between NPLs and total loans to remain at an acceptable level of 9.90 %.

### 3. The Search for Strategic Partners

The third important strategic measure aimed to produce a quick result was the looking for strategic partners to help make the Bank fundamentally strong in every department. Finding strategic partners was a concept consented for quite some time by the Bank's Board of Directors. The key point is to find partners with expertise in full-scale commercial bank operations apart from the willingness to make investment in the Bank for the opportunity to share the country's banking prospects. As a matter of fact, the



stronger capital base the Bank gained in 2003 became an important factor in the searching process. This is because the would-be strategic partners can expect to see fair and even-hand strategic advantages coming from the partnership. The end-result of the search was the signing of agreement and official announcement on March 8, 2004 of the three-way integration involving the Thai Military Bank, DBS Thai Danu Bank and Industrial Finance Corporation of Thailand. I believe with confidence that the integration process when comes to its end, would move the Bank into an organizational development process that would lift it to a new height and become structurally strong in not so long a time. It is hoped that the Bank should be able to compete effectively with other leading commercial banks in the local financial market.

#### **4. Organizational and Management Restructuring**

The fourth most important strategic measure in the overall integration process, is to merge the organizations and management of the three would-be partners together to give birth to the new organizational framework and management setup, expectedly with built-in competitive edges. This measure is being done under the supervision of the Integration Steering Committee set up with the consents of the Bank's Board and the Boards of DBS Thai Danu and IFCT. The Integration Steering Committee consists of members coming from the Executive Boards and management teams of the three institutions involved. Additionally, leading consulting firms in different areas of expertise are engaged to advise the Integration Steering Committee and carry out various advisory tasks to make organizational restructuring and new management setup ready for the smooth and effective operations of the new organization from the Day One onward.

#### **5. Operating Results**

During 2003, apart from the strategic measures as said above, the Bank's operations turned into results, which can be summarized as follows.

##### **1) Lending**

As at the end of 2003, the Bank's total loans stood at Bht 301,184 million, dropping from the end of 2002 by 0.31 %. This was due mainly to the Bank's step up effort in working out the NPL problem as well as the selling and the transfer of NPLs to Phayathai Asset Management Co., Ltd.

##### **2) Earnings and Deposits**

In 2003, the Bank's net interest and dividend income amounted to Bht 6,491 million, increasing by Bht 841 million for 2003. Non-interest income amounted to Bht 3,403 million, down by Bht 786 million from 2002. However, the net profit before tax was only Bht 2,108 million but as the Bank needed to increase its doubtful debt reserve in accordance with the Bank of Thailand's requirement, the Bank's initial profit had turned into a book loss.

As at the end of 2003, the Bank's total deposits stood at Bht 322,239 million, increasing by 0.05 % from the end of 2002. The focus was on low-cost deposits, particularly the savings accounts.

##### **3) Total Assets**

As at the end of 2003, the Bank's total assets amounted to Bht 379,147 million, dropping by 3.10 % from 2002. This was the effect of cash receipt of Bht 10,077 million from Krung Thai Bank on redemption of NCD at maturity date.



#### 4) NPL

Non-performing loans as at the end of 2003 amounted to Bht 29,831 million, decreasing from 2002 by Bht 13,366 million or 30.94 % as an effect of the Bank's strong effort in NPL workout.

#### 5) Human Resources Development

During 2003, the Bank started to use for the first time a performance appraisal system known as KPI (Key Performance Indicators) for its annual assessment of human resources development. The KPI will be further developed to match the system used at other leading banks.

#### 6. Policy Framework for the Future Bank

It is expected that the Bank in its new status after the on-going integration is completed would start off well enough on a stronger capital base and new management team. The Bank must be ready to compete with other local banks and its operating results should match the expectation in every area and put it in a position to meet effectively any competitive challenge in all situations.

Being ready means the Bank needs to reform itself in many ways if a quick turnaround is to be made possible. Operating results must become thoroughly positive and sustainable on a long-term basis. In addition, all staff-members of the Bank after integration need to make their personal integration with new organizational culture. Out-of-date practices must be dropped to take the new and progressive ones instead.

It is viewed quite clearly that the Bank in its new status will operate in a category known as Universal Banking, a full-service bank, in another word. Looking into the existing line of businesses, the picture is clear in terms of service range. Adding a score of new banking services and financial products to the existing range of businesses are quite imperative. This is to make the future Bank truly competitive in the local banking scene.

Before closing, on behalf of the Bank's Board of Directors, I would like to express my gratefulness for the support and kind patronage given by all valued shareholders, customers, and business counterparts. I would like also to confirm that care and attention will be taken to protect your interests of all kinds in the Bank through transparency and good corporate governance practices. For members of the staff and management team, who have been very hard at work, diligently performing their duties with honesty, integrity and loyalty to the Bank after all these years, the Board would do every way possible to take care of your welfare and the benefits you rightfully deserve. I strongly hope that the joint effort by everyone mentioned here would continue unwavering to make the Bank efficient and strong enough to stay highly competitive in the banking business for a long time to come.

Sommai Phasee  
Chairman of the Board

## BOARD OF DIRECTORS



**1. Mr. Sommai Phasee** ■ Chairman of the Board of Directors ■ Chairman of the Board of Executive Directors

**Education** ■ BA (Economics), Thammasat University ■ MA (Economics), Thammasat University ■ MA (Planning and Development), Vanderbilt University, Tennessee, U.S.A.

**Experience** ■ 1998-Present -Deputy Permanent Secretary of Finance - Member of the Board of Directors of Andaman Beach Suite Co.,Ltd. -Chairman of the Board of Directors of Sai Nam Yen Co.,Ltd. ■ 1999-2000 Member of the Board of Directors of TISCO Financial Public Co.,Ltd. ■ 1999-2003 Member of the Board of Directors of Financial Institutions Development Fund ■ 2001-2002 Chairman of the Board of Directors of Bangchak Petroleum Public Co.,Ltd. ■ 2001-2003 Chairman of the Board of Directors of Electricity Generating Public Co.,Ltd. ■ 2002-Present Chairman of the Board of Directors of Thai Maritime Navigation Co.,Ltd. ■ 2003-Present Chairman of the Board of Directors of Industrial Finance Corporation of Thailand

**2. General Chaisit Shinawatra** ■ Vice Chairman of the Board of Directors ■ Executive Director

**Education** ■ Chulachomklao Royal Military Academy ■ Engineer Officer Advance Course, Fort Belvoir, Virginia, U.S.A. ■ Command and General Staff College ■ National Defense College

**Experience** ■ 2001 Deputy Commanding General, Armed Forces Development Command ■ 2002 -Special Advisor, Supreme Command Headquarters -Assistant Commander-in-Chief ■ 2003-Present Commander-in-Chief



**3. General Somdhat Attanand** ■ Director ■ Nomination and Remuneration Committee

**Education** ■ Bachelor of Science, Chulachomklao Royal Military Academy ■ Infantry Officer Basic Course, Infantry School, Infantry Center ■ Infantry Officer Advanced Course, U.S. Army Infantry School ■ Army Command and General Staff Course, Army Command and General Staff College ■ Royal Thai Armed Forces Staff Course, Royal Thai Armed Forces Staff College ■ Air War Course, Air War College ■ National Defense College

**Experience** ■ 1998-1999 Superintendent, Chulachomklao Royal Military Academy ■ 2000 - 1<sup>st</sup> Army Area Commander ■ 2001 Chief of Staff, Royal Thai Army ■ 2002-2003 Commander in Chief, Royal Thai Army ■ 2003-Present - Supreme Commander, Royal Thai Armed Forces - Chairman of the Board of Director Tor Tor Bor 5

**4. Admiral Chumpol Pachusanon** ■ Director

**Education** ■ Destroyer Department Head Course, U.S.A. ■ Naval Command and Staff College ■ Joint Staff College ■ Naval War College ■ National Defence College

**Experience** ■ 1999 - Comptroller ■ 2001 Deputy Chief of Staff, Royal Thai Navy ■ 2002 Chief of Staff, Royal Thai Navy ■ 2003 Commander-in-Chief, Royal Thai Navy



## EXECUTIVE OFFICERS

### EXECUTIVE VICE PRESIDENT

Vallapa Assakul  
Nuanual Swasdikula  
Wera Chantachaeng  
Charan Mongkolchan  
Surasak Kiattiyotsakun  
Anan Santichewasatian  
Pirasak Sikanwan

ACCOUNTING DEPARTMENT  
*SENIOR VICE PRESIDENT*  
**Supamas Woranantakul**

APPRAISAL DEPARTMENT  
*FIRST VICE PRESIDENT*  
**Somyos Limpanavetyanont**

BANKING SERVICE DEPARTMENT  
*FIRST VICE PRESIDENT*  
**Srida Sampanyooth**

BRANCH ADMINISTRATION DEPARTMENT  
*SENIOR VICE PRESIDENT*  
**Kitti Panmanee**

BUILDING DEPARTMENT  
*SENIOR VICE PRESIDENT*  
**Egsak Chungpanich**

COLLECTION & CREDIT RESTRUCTURING DEPARTMENT  
*FIRST VICE PRESIDENT*  
**Phnom Prasertat**

COMMERCIAL AND AGRO-INDUSTRIAL CREDIT DEPARTMENT  
*SENIOR VICE PRESIDENT*  
**Chamaree Ananatsiri**

COMPUTER DEPARTMENT  
*FIRST VICE PRESIDENT*  
**Veerapong Pourprasert**

Saipin Kittipornpimol  
**Ubolluck Luevoravinyu**

CONSTRUCTION AND REAL ESTATE CREDIT DEPARTMENT  
*FIRST VICE PRESIDENT*  
**Marasri Yensudjai**

CORPORATE CREDIT ANALYSIS DEPARTMENT  
*FIRST VICE PRESIDENT*  
**Chariwan Chatikavanij**

CORPORATE CREDIT DEPARTMENT  
*FIRST VICE PRESIDENT*  
**Thawatchai Techawatanawana**

CORPORATE PLANNING AND RESEARCH DEPARTMENT  
*FIRST VICE PRESIDENT*  
**Pong-in Chitayapantagul**

CREDIT ADMINISTRATION DEPARTMENT  
*FIRST VICE PRESIDENT*  
**Puangpet Orankitvanit**

CREDIT OPERATIONS DEPARTMENT  
*SENIOR VICE PRESIDENT*  
**Sujintana Subhadit**

CREDIT QUALITY DEVELOPMENT DEPARTMENT  
*FIRST VICE PRESIDENT*  
**Anchalee Sekanandana**

ELECTRONIC BANKING DEPARTMENT  
*FIRST VICE PRESIDENT*  
**Ubolluck Luevoravinyu (Acting)**

# A SUMMARY OF ECONOMIC CONDITIONS IN 2003 AND TRENDS IN 2004

## The World's Economy in 2003



The world achieved a credible economic growth rate of 3.2% in 2003, compared with 3.0% in 2002, despite the fact the world's economy was under pressure from political and social instability. In March, the US and coalition forces invaded Iraq on the pretext of War on Terror and later in the second quarter it was the outbreak of a deadly disease known as severe acute respiratory syndrome (Sars) spreading from southern China to 30 countries. The disease killed up to 800 people around the world.

There were a number of positive factors behind the world's good growth rate, particularly the easing of fiscal and monetary measures by governments of several countries. In the U.S., the world's largest economy, the easing of monetary regime had driven interest rates down to a record low in 40 years. The tax cut aimed to stimulate the economy by the US government had helped domestic demand to pick up steadily while corporate earnings improved remarkably during the year. Employment rate climbed up while Dow Jones Industrial Average and SP 500 indexes went up, reflecting investors' confidence in the firm footing of the US economy.

As a result, U.S. economy rebound with an annual growth rate of 2.6%. In the Euro Zone, major economies, like Germany, France and Italy, were able to move ahead though at a slim margin. The stability achieved, had put the euro in a stronger position against the U.S. dollar. In Japan, the situation started to turn around. The Japanese yen appreciated strongly against the U.S. dollar but it was not slowing down its overall export even though Japan's export to the U.S. scaled down to some extent. The strong economic upsurges in other parts of Asia helped keep Japan's export flows to markets in Asia intact while the surpluses in Japan's balance of trade and balance of payments continued to grow. Japan's private investment started to rebound in response to a strong demand for Japanese goods abroad. However, bad debts in the banking sector improved just a little. With the mixed rescue package including capital funding from the government emergency fund for troubled private and state enterprises, Japan's economy in 2003 sprung up from 0.2 % to 2% in growth.

The outbreak of Sars and the Iraq war sent a strong impact to the economies of many Asian countries during the first half of 2003. Businesses with a strong connection to tourism, particularly in countries endowed with popular holiday destinations were badly affected. It was the strong rescue measures taken by the governments in the region affected by the disease that helped keep a wide variety of service industries in tourism staying even keel and lure back international visitors in the second half of the year. Evidently, the countries hit by the Sars scare were able to effectively suppress the outbreak and gained back their economic strengths and investors' confidence to the point that IMF decided to readjust its growth projection for 2003 on the region from 6.3% to 7.2%.

## Thailand's Economy

During Q1/03, the economy continued to grow at a faster rate of 6.7%, comparing with 4.4% during Q1 2002. This was due to the growing domestic demand as private spending and investment rose sharply while export hugely contributed to the impressive growth. Fortunately, the impact of the war in Iraq was not severe as expected. The number of foreign tourists was slightly on the downside while export was not at all affected and oil price stayed at a level lower than expected.

The economy continued its growing trend in Q2/03 despite the SARS outbreak. The impact was on a narrow scale, only businesses connected with tourism went into the downside but not for long as the government did a good job in promoting Thailand as safe and secured place to come. The growth rate during Q2 dipped slightly to 5.8 %. The main contributing factors remained the same as private spending and investment continued to push ahead while export momentum carried on briskly. All this helped effectively counter the Sars impact on tourism. The overall picture for the H1 period, during which 6.2% growth was achieved, made Thailand one of the world's best economic performers.



In Q3, the economy jumped ahead at a faster rate compared with Q2/02 due to strong surges in domestic demand and private investment characterized by high industrial capacity utilization in response to rising demand in overseas and domestic markets. The private sector's investment, therefore, started to expand to meet the growing consumer spending. Private investment increased also in innovative businesses. The situation looked bright as strong earnings were expected from companies listed with the local stock market while interest rates remained low, boosting the confidence in the economy of the public in general and the investors.

In the last quarter of 2003, the Thai economy broke rank to achieve a phenomenal 7.8 % growth rate over the same period a year ago.. It was the highest since the financial crisis back in 1997. The main reasons behind such a strong growth were the fast rising domestic demand and the surge in private investment. Consumer spending rose strongly after a summarily slack in the Q3 while export of goods and services continued to expand unabated.

Thai economy throughout 2003 performed splendidly at an annual growth rate of 6.7 % compared with 5.4% in 2002. The factors behind such performance included :

First, income of the agricultural sector increased substantially, compared with the previous year, and well distributed among major segments of the sector, in which majority of the people in the rural areas work for their livelihood. The income boost in the rural areas was the basic factor in the investors' decisions to invest.

Second, the record low in interest rates served as a motivation factor as people in urban areas decided in favor of spending rather than savings. It put the property market on a growth pattern never seen since the start of the economic crisis back in 1997. The private spending rose significantly on durable goods, particularly, automobiles for which overall sales exceeded 500,000 units, an all-time record.

Third, the significant rise in private income and low interest rates strongly motivated the investors to invest more to meet demand both in the domestic and overseas markets.

Fourth, strong overseas demand for Thai goods resulted in an export expansion at a very high rate of nearly 20% annually.

Fifth, the government's policy to go ahead with its strong stimulus package with an aim to lift the grassroots economy as well as the building of confidence in the economic recovery among the local consumers and investors were the right antidotes for the economic woes. Such government's measures were the driving forces behind the momentum for growth of the Thai economy. The economy picked up strongly despite the negative impact of Iraq war and SARS outbreak. It can be said that the strong growth in the economy was due to the fact that the government was successful in its effort to contain the economic problems and came up with right solutions.

**Sector by sector economic summary is given as follows.**

#### **- Agricultural Sector**

An impressive annual growth of 6.8% was achieved as prices of main products rose by 16.5%, far better than 11.0 % made in 2002 as their combined production increased by 7.8%, a strong contrast to the stand-still production in 2002. Personal income in the agricultural sector increased by a staggering 25.6 % as the world prices of top earners like rice and rubber steadily climbed up. No doubt, the people in at the grassroots level had their good income for unprecedented spending.

#### **- Manufacturing Sector**

Average industrial output index for 2003 was 138.4, increasing by 12.3 % over 2002 in which the index was 123.2 with an increase of 8.5 %. The major contributors were the production of electronic parts and electrical appliances pushed ahead in response to cyclical upside trend while automobile production was on a rising wave as demand in domestic and overseas markets increased markedly. The overall industrial capacity utilization moved up to 66.3 % closer to full capacity that 59.3 % achieved in 2002. However, it was reported that a number of industries, including upstream petrochemical, metal, zinc, galvanized iron sheets, hot-rolled and cold-rolled steel strips and circuit board productions.

#### **- Private Spending**

Average consumption index in 2003 was 112.1, increasing by 5.1 % from 106.7 in 2002. Indicators of private consumption went up mostly, particularly power consumption, sales of motorcycles, value-added tax, and import of consumer goods. Behind the significant rise in private spending in





both non-durable and durable goods, in particular, automobiles, motorcycles and housing, were several factors. These factors included higher income in agricultural community, higher consumer confidence, better employment rate, low interest rates and high liquidity in money market as commercial bank competition in consumer credit notably stepped up. At the same time, SET index rose impressively as listed companies started to pay their dividends, resulting in an unusual high rate of return on stock investment.

#### - Private Investment

Average private investment index in 2003 stayed at 58.2 (1995 = 100), rising by 13.2 % from 51.4 in 2002. Investment indicators climbed up mostly, including sales of commercial vehicles, capital goods import, sales of construction material including cement, cement products and steel rods. Undoubtedly, private investment rose sharply, especially in machinery and construction while export was rising and property market recovered. At the same time, industrial utilization moved up and bank industrial credit expanded as interest rate hit its rock bottom.

#### - Inflation Rate

Inflation rate in 2003 increased by 1.8% from 2002, due largely to price rise in food & beverage category at 3.6 % while price rise in non-food items was only 0.7 %. Basic inflation rate (not including prices of fresh food and power) registered a slight upward change of 0.2 %. Inflationary pressure in 2003 was generally low despite the steady growing of the economy. This was due to 1) a downward trend in rent of residential units (a 24% weight in the basket of basic items in CPI); 2) price control of basic necessity items such as utilities, medical care, transport and communication services, and school tuition fees; 3) strong competition in the market leading to a price war as business operators busy trying to keep their market shares intact.

#### - Fiscal Position

In budgetary year 2003, the government's net revenue was Bht 960.6 billion, an increase of 13.6 % from 2002. Contributing to the increase were largely income tax and VAT, which grew up 19.1 % and 11.6 % respectively. It was due mostly to economic growth while tax administration improved.

The government's overall expenditure, at a total of Bht 938.8 billion, was 3.4 % down from 2002. Budget disbursement accounted for only 89.1 % of the target figure. This was the effect of administration reform in which civil service was restructured across the board as some ministries and departments were created or given new names and directions. Change was also introduced to the government funding for the Bank of Thailand.

Generally, public finance in 2003 resulted in cash surplus of Bht 34.3 billion in treasury account, consisting of Bht 21.8 billion surplus on budget items and Bht 12.5 billion on non-budget items.

#### - Tourism

The number of foreign tourists making Thailand their destination in 2003 dropped to 9.96 million, around 7.8 % from 2002. The income from tourism was at Bht 323.3 billion, dropping from Bht 339.7 billion in 2002. Annual average of hotel accommodation rate was 57.6 %, compared with 60.6 % in 2002. Behind the drop were two factors, the war in Iraq and the outbreak of SARS. Tourist arrivals dropped markedly from March through July, comparing with the same period a year earlier. As the SARS outbreak was brought under control, tourists began to arrive increasingly in August, mostly from countries in Asia, particularly, Malaysia, Japan, Hong Kong, South Korea and China. Probably, it was the effect of the government's campaign "Thailand Smiles Plus" that helped restore the confidence of foreign tourists in Thailand as a safe place to visit and enjoy their holidays. For tourists from other parts of world, like the U.S. and countries in Europe, arrivals began to rise again in August and continued all through the rest of the year. Perhaps the full effort of the government in hosting the APEC summit in Bangkok, which ended successfully and impressively, was the big reason behind the return of the tourists.

#### - Export

In 2003, export was worth US\$ 78.4 billion, increasing by 18.6 % from 2002. Chiefly, it was the return to stability of the world's economy that made the export to rise at this impressive rate. Agricultural products had been in a strong demand, which kept their prices at a high level throughout



the year while the government and the private sector jointly did a good job in promoting Thai goods in the world market. The government played a key role by dismantling or relaxing rules and requirements, which hampered the country's trade with the world. Export in value increased as Thailand's trading partners, particularly Japan and countries in the Asean bloc and Europe, found Thai products attractive. The U.S. market was an exception. The value of export to the U.S. dipped as the dollar stayed weak against the Thai Baht in 2003. Importers of Thai goods in the U.S. might find goods from elsewhere more attractive in terms of price.

#### - Import

Import in 2003 was worth US\$ 74.2 billion, growing by 17.1 %. The increase was in every category of goods, convincingly a sign of economic recovery. The increase in import value was directly due to the growing volume of goods as demand rose while values of certain import items became much dearer, particularly in durable goods, raw materials and intermediate goods.

#### - Balance of Trade and Current Account

Thailand recorded another year of large surplus in balance of trade in 2003 as export expansion outpaced import growth. The surplus was US\$ 4.2 billion, much larger than US\$ 2.7 billion surplus made in 2002. Taking the trade balance surplus together with US\$ 3.8 billion surplus in service income and unrequited transfers, the result was US\$ 8.0 billion in current account surplus despite a drop in earnings from tourism. The surplus was equivalent to 5.6 % of GDP.

#### - Capital Movements

Net deficit of US\$ 8.6 billion, more than double of the deficit of US\$ 4.2 billion in 2003, was recorded as a result of repayments on short-term foreign debts made by the private and public sectors. The Bank of Thailand also repaid the IMF loan ahead of schedule. Inflow movements of capital in foreign direct investment during 2003 totaled US\$ 1.1 billion, mostly from Japan and member countries of Asean for their investment projects in commerce and manufacturing.

#### -Balance of Payments

Even though current account at the end of 2003 resulted in a large surplus, balance of payments just barely in surplus position with only US\$ 0.1 billion, compared with US\$ 4.2 billion in 2002. This was because outflow of capital movements was exceptional large as the Bank of Thailand decided to pay off the IMF rescue package ahead of its due date while a large amount of short-term foreign debts was also paid off in advance by the private sector. But, however, the country's foreign reserve grew up to a solid US\$ 42.1 billion, equivalent to 3.7 times of total short-term foreign debts.

#### - Public Debts

At the end of fiscal year 2003, the government's public debts amounted to a total of Bht 2,918.1 billion or 49.4 % of GDP, better than 2002 fiscal year outstanding of Bht 2,934.9 billion or 55.1 % of GDP.

#### - Liquidity and Interest Rates

A high liquidity position in the financial market remained throughout 2003 as deposits in the commercial banking sector steadily grew up while lending by commercial banks continued to be on the conservative side. In mid 2003, Bank of Thailand, in its effort to facilitate higher rate of lending, reduced its 14-day bond repurchase rate from 1.75 % to 1.25 % p.a.

Short-term interest rates throughout 2003 moved on a narrow range at an unprecedented low level. The bond repurchase rate moved within a range of 0.90-1.75% p.a., averaging around 1.33 % p.a. while inter-bank rate moved between 1.03 and 1.75 % p.a., averaging around 1.31 %. The high liquidity level in the banking system had forced interest rates for deposits and loans to drop across the system further from 2002. The rates for savings deposits and 1-year fixed deposits of the five largest commercial banks in 2003 ranged from 0.75-1.50 % p.a. and from 1.00-2.00 % p.a. respectively. In comparison, the savings rates ranged from 1.50-1.75 % p.a. and the fixed deposits from 2.00-3.00 % p.a. during 2002. In loans, the MLR moved between 5.50 and 7.00 % p.a. and MOR between 5.75 and 7.50 % p.a. in 2003, compared with the ranges of 6.75-7.50 % p.a. in MLR and 7.00-8.00 % p.a. in MOR during 2002.



#### - Commercial Bank Deposits and Loans

**Commercial bank deposits** during the first 8 months of 2003 expanded slowly as interest rates dropped to a new low while more debt instruments were issued by a number of listed companies resulting in an outflow of deposits from commercial banks as yields from investments in debts instruments and government bonds were higher than return on deposits. In August, commercial bank deposits dropped significantly as deposits came in a year ago, when finance companies' CDs frozen for 5 years by the government became redeemable, were drawn out by depositors in favor of investment in the so-called National Salvation Bond and corporate debts securities. However, during the Q4 2003, deposits in the banking sector started to move up once again as interest rates remained unchanged. Flow of fund from an investment fund known as Vayupak Fund, set up by the Ministry of Finance and a special scheme of the government to pay retired government servants part of their pension fund, traditionally kept until their last day of life, also caused bank deposits to rise. At the end of 2003, deposits in commercial banks grew up by 4.4 % from 2002 to a total of Bht 5,358.1 billion.

**Commercial bank loans** in total (BIBF loans converted at average month-end exchange rate) was at Bht 4,954.3 billion by the end of 2003, increasing by 3.6 % from 2002. Loans given to private sector (holding of properties and added back bad debts recovered and NPLs transferred to their asset management subsidiaries included) but excluding funding given to their asset management subsidiaries stood at Bht 5,763.0 billion at the end of 2003, an increase of 4.8 % from 2002. This seemed to support the fact that economic recovery has been solid enough for private enterprises to invest more from their bank loans. Looking at commercial bank lending sector by sector, it is clearly seen that loans had been largely given to businesses in major sectors, particularly export-oriented industries, real estate development, commerce as well as housing and consumer loans.

#### - Monetary Base and Money Supply

Monetary base as at year-end 2003, stood at Bht 699.7 billion, expanded by 10.6 % from 2002 while M2A expanded by 5.1 %, a rate doubling the 2.5% rate of 2002 and M3 jumped up by 5.2 %, comparing well with 3.7% at the end of 2002. The expansion of money supply in both categories were consistent with the growths in deposits in banks and finance companies and private cash holding during the last four months of 2003.

#### - Exchange Rates

During 2003, the value of Baht fluctuated between Bht 39.57 and 43.15/USD, averaging around Bht 41.50/USD. The Baht was stronger by 3.6 % compared with the rate in 2002, which was average at 43.00/USD. The rate began to become harder against US dollar at the middle of 2003 and settled to the strongest rate of Bht 39.57/USD in December. It was most likely the effect of the dollar becoming weaker and weaker against other currencies in this part of the world, particularly the Japanese yen. The strong recovery of Thai economy also played a strong part in making the Baht stronger as foreign investors' holding of Baht accounts grew up and at the same time SET index rose significantly. Rating agencies also readjusted their sovereign and bank ratings for Thailand to reflect financial stability achieved by the government and banking sector. On September 11, 2003, the Bank of Thailand issued its first measure against illicit speculation and to keep the Baht's value stable at an appropriate level. The second measure was issued on October 14, 2003 to reinforce the first one.

#### - The Stock Market

During 2003, the composite index of the Stock Exchange of Thailand shot up in a sharp contrast with the past few years. It had beaten everyone's expectation to close strongly at 772.15 points on Dec. 31, 2003. It was a phenomenon compared with the closing of 356.48 points on the last trading day of 2002. The more than 100 percent upturn was the show of strong confidence the investors had in the economic condition during the year while listed companies reported good results of their operations from one quarter to another. In the first quarter, the stock market showed nothing to excite about as the investors were in a reluctant mood as the U.S. closed in on Iraq and prepared to launch its so-called War on Terror. The SET composite index moved upwards after the U.S. declared its victory over Iraq and told the world that its mission accomplished. The outbreak of Sars in the Far East during late April sent the shock waves to Southeast Asia and other regions. The SET index recoiled but not too strongly and bounced back after a few weeks of uncertain situation. As the Sars outbreak was fast brought under control and investors returned to their trading on a



positive note, the SET index began its string surge. Foreign investors played their hands heavily as their waves of buying in the second quarter reached the highest point at Bht 16,623 million. Trading continued its active pace throughout the third quarter, due mainly to the strong confidence of the local non-institutional investors in the stock market. The index remained at a high level as the year moved into its fourth quarter. Foreign institutional investors were not active as Bangkok prepared for the APEC summit, which ended successfully without any untoward incident. However, the authorities' concern about net settlement trading and its announcement of measures to curb the practice had a little dampening effect on the stock market during the weeks toward the end of the year.

## Economic Trends in 2004

### Trend of the World Economy

It is expected that the world economy in 2004 would continue to move ahead at a rate around 4.5 % annually, basing on positive outlook for growths in the U.S. and Japan in particular. Hope for return to good growth prospects is pinned on the Euro Zone economy. For most of Asian economies, the prospects look good despite the problem of coping with stronger trends in their exchange rates against the US dollar. The economy of East Asia as a whole is expected to grow up by 6.5 % against 5.9 % achieved in 2003. In SE Asia alone, overall growth of 5.1% is expected over 4.1% achieved in 2003.

#### **- The U.S. Economy**

It is expected that the U.S. economy in 2004 would expand up to 4.6 % due largely to weaker dollar, making American products to do well in other markets. It is hope that corporate spending would rise again, creating more jobs in the process. However, there is a growing concern on budget deficit as it is widely expected that the U.S. would face a budget deficit up to a record level of \$500 billion as a result of economic measures to counter the threats of recession. The possibility for the economy to get back on track again may rest on two obvious positive factors. One is a push in corporate spending, if large enough it would help cut the unemployment rate down to a decent level. The other is the presidential election in the coming November. It is hope that election campaigns would play a strong role in stirring up the economy to some extent.

#### **- Japan**

Japan's economy is expected to return to its growth pattern at around 2.2 %, better than an early forecast of 1.4 %. The growth is supported by the strong export, particularly, with China while overall corporate earnings have been in a better shape than in 2003. However, stronger yen against the US dollar might cause a slowdown in export, dashing the hope for economic buoyancy to materialize and making good corporate earnings somewhat uncertain. Besides, recurring of bad debts in the banking sector can be expected if prices of export products are less competitive in other markets.

Hope is pinned to Bank of Japan's continuity of monetary policy basing on quantitative easing to fight the tight money situation as long as inflation rate remain flat. In January 2004, the Bank of Japan increased the liquidity excess level, on which commercial banks have to maintain their cash reserve in their BOJ accounts, from 27-32 trillion to 30-35 trillion. This measure aimed to encourage more lending by commercial bank.

#### **- The EU**

The EU economy is expected to grow moderately and steadily at annual rate of 2.0 % in 2004. It is possible to do that because EU Central Bank seems committed to its low-interest policy as a means to push private investment and keep business enterprises on even keel in terms of corporate finance. Generally, the EU economic growth depends largely on the well being of the world's economy as the EU trade with other parts of the world is closely linked. However, the euro appreciated dearly against the US dollar, keeping the economy to grow modestly and inflation under control.

#### **- Asia**

Economies in Asia would continue to grow as expected in 2004 as private consumption, investment and export in most of the countries are on the upside. Cross-border trade among neighbors would continue to grow as certain countries have entered into bilateral free trade agreements. China



is expected to make 2004 another year of exceptional growth in its economic record. Tight money situation would ease up and make way for mild inflation to set in. However, China needs to take a cautious stance against the unstable US dollar and trade protection treatments adopted by the U.S., which is China's largest export market. For other Asian economies, it is clearly seen that weaker US dollar against other major currencies also made many currencies in Asia stronger, possibly affecting their exports. Trade within certain regions in Asia seems having a bright prospect due to their economic strengths. In several countries, including Taiwan, South Korea, Indonesia, the Philippines, India and Hong Kong, the year 2004 is their election year. Political campaigns in these countries would result in large spending by political parties, the governments and candidates. Growing private spending in these countries is unavoidable. All in all, Asia's economy would possibly grow up at an annual rate of 6.3 %.

Selected Economic Growth Rates

(In Percentage)

Country / Region	2003	2004*
The World	3.2	4.5
U.S.A	2.6	4.6
Euro Zone	0.5	2.0
Japan	2.0	2.2
South Korea	2.7	5.0
Taiwan	3.1	4.4
Hong Kong	2.7	4.8
Singapore	0.8	4.5
Malaysia	4.6	5.7
Indonesia	3.8	4.0
The Philippines	3.7	4.5
China	8.5	7.9

Note : \* denotes estimate

Sources : IMF, ADB and information offices of the countries concerned



### Thailand's Economic Trend

It seems Thailand's economic stability will continue its course in 2004 at a pace better than the past year. Annual growth rate is expected between 7.0 % and 8.0 % as domestic demand shows no sign to subside. Private spending and investment look set not just to stay on track but to expand at a faster rate. The political situation in general seems to be stable enough for the government to continue using fiscal and monetary measures to keep the economy going, particularly the policy to keep interest at a low level. With development projects in the public sector continuing as planned while facilitating budget disbursement remaining to keep its pace, there is no reason for consumers and investors to lose their confidence in the economy. Key factors in support of stronger rate of growth are the government plan to increase salaries of government officials across the board and the fact that prices of agricultural products would remain high during the year, materially boosting the people's income in the farming sector. With more money in the consumer pockets and demand for Thai goods in the world market remains at a high level, there is no doubt at all for the Thai economy to keep going at an active pace.

However, certain negative elements are to be taken into account as well. The Thai economy is still at risks in terms of weak position of the US dollar and threat from oil price rise due to OPEC's decision to reduce their crude oil production. The US economic scene is still not bright enough to promise strong recovery. The biggest concern in the U.S. is the possibility that record budget deficit is unavoidable. In the domestic scene, the biggest threat to the economy is the political instability and the flare up of violence caused by secessionists in the deep South. The bird flu outbreak is still a lingering problem in some parts of the country. Another negative factor is the dumping investigation by the U.S. trade authorities against shrimp export from Thailand. These negative factors are worth looking into but, it is hoped, seem to be of no effects strong enough to write off all the positive factors.

The up-trends in the Thai economy sector by sector can be summarized as follows.

#### - Private Spending

Private spending on consumer goods in 2004 is expected to expand by 6.0 % - 6.2 % annually, similar to the expansion achieved in 2003. The factors contributing to expansion in private consumption include the government's plan to raise salary levels of government officials, the rising number of companies with ability to pay dividends to shareholders and bonuses to their staffs. Besides, the continuity in government's effort to help private sector and the policy to keep interest rates at a low level would also help spurring up private consumption as in 2003.

#### - Private Investment

In 2004, private investment is expected to expand at a rate between 19.0 % and 20.0 %, slightly higher than the rate achieved in 2003. The prospects for investment are very bright because domestic demand for goods and services seems to be growing. Good investment climate naturally helps create confidence of the investors in the economy, particularly the promotional privileges given to foreign direct investment.

#### - Inflation Rate

It is expected that inflation rate in 2004 will be slightly higher than the rate at 1.8 % of 2003. The expected rate would come between 2.2 % and 2.5 % annually. However, consumer spending seems having no sign of let-up despite the tendency for the oil price to rise which will basically cause prices of goods and services to rise along. The fact is situation like this only leads to higher inflationary pressure. The price rise is most likely in the food and beverage category. Prices of items in the non-food categories will not rise significantly as housing rates and prices of furniture remain stagnant. Prices of imported goods have the tendency to drop as value of the Baht looks like to stay hard against the US dollar.

#### - Fiscal Condition

In budgetary year 2004, the government deficit budgeting called for a total expenditure of Bht 1,028.0 billion, increasing by 2.8 % from 2003 budgetary year. The target revenue was set at Bht 928.1 billion, higher than the previous year by 12.5 %. This would result in a deficit of Bht 99.0 billion or around 1.6 % of GDP. The components of expenditure budget are mainly for fixed expenses at 75.2 %



of the total budget. The rest is earmarked for investment at 21.5 % and debt repayment at 3.3 %. Budget disbursement is expected to run up to 92 % of the actual expenditure. Tax collection in 2004 is very likely to surpass the expenditure for the second year from 2003. This would allow the government to return to balance budgeting regime in budgetary year 2005.

As regards to budget disbursement by the government agencies and state enterprises, it was likely to increase by at least 4.0 %. This was due to the fact that the public sector's investment projects were moving exceptionally well. For the whole picture of public sector's investment, the expansion was expected at 8%.

#### - Export

Export from Thailand in 2004 looks set for a strong rate of growth further to 2003 despite the bad impact caused by the bird flu outbreak and the problem in the shrimp export to the U.S. and stronger Baht value. However, the export is expected to grow along with the up-trend in the world economy. The depleting inventories in countries being major buyers of Thai goods would help make export from Thailand to grow noticeably. Another major factor for strong growth in Thailand's export is the strong interest in some countries to establish bilateral free trade area (FTA) with Thailand. The government's effort to promote the OTOP (one tambon one product program) goods in the world market is also a factor. With such positive factors behind, the Thai export is believed to reach a growth rate between 15.0 % and 17.0 %.

#### - Import

Import will continue to rise in close relationship with the strong expansion expected from the vibrant economy in which private investment will increase to catch up with strong domestic demand for consumer goods as well as the demand in consumer and industrial goods from Thailand's traditional major trading partners. The growth in import of capital goods, raw materials, and consumer goods during 2004 is likely to hit between 18.0 % and 19.0% annually, higher than the rate achieved in 2003.

#### - Commercial Bank Deposits and Loans

**Deposits in commercial banks** in 2004 will continue to increase as the effect of economic vibrancy and the tendency that interest rates will remain at a low level while the general public will have no other way better than keeping their savings in commercial banks. It is the best choice comparing with other options. Still there is no sign of any alternative good enough to make liquidity in the banking system to subside significantly while it seems likely that the flow back of fund into commercial banks will be unavoidable if local and foreign investors become disenchanted with the stock market.

**Commercial Bank Loans** in 2004 is believed to expand at a better rate than in 2003, due mainly to the low rates of interest. Good result of commercial bank effort in general to cut down their NPL levels by every means available and the tendency that most commercial banks will continue to lend out in an active manner as done in 2003 are also the factors behind the loan growth. It is likely that the increase in bank loans will not be spectacular but mainly go to private enterprises, which recovered well from the effects of the economic crisis and have become profit-oriented again. A high level of competition among the commercial banks is possibly a major factor in loan growth while liquidity surplus may also play a strong role. However, the need to support the government's economic stimulus package may put the banks into a dilemma as banks still need to be considerably careful against credit risk and other risks involved as well.

#### - Liquidity and Interest Rates

It looks like the liquidity level in the commercial banks would stay at a high level throughout 2004. There is no sign of anything to attract strong outflow of liquidity. Interest rates would continue to remain low under the government's policy to keep the economy going at a sustainable rate. Inflation rate will rise but only slightly from the rate in 2003 despite the low interest rates. This may be due to the impact of the bird flu outbreak in January and the flare up of unrest in the deep South, which is being seriously dealt with by the government and so far looks heading for a long-term solution.

In general, interest rates will continue to stay low throughout 2004 and unlikely that commercial banks will opt for lower interest rates on deposits and loans. If the interest rates were to be under pressure to rise, it may possibly be just slightly and will not happen until late 2004 as credit expansion in commercial banks as a whole may grow substantially as a result of strong economic growth.



#### - Exchange Rate

Throughout 2004, the Thai Baht is expected to stay in a strong position in relation to other currencies in the region, particularly the Japanese yen. The average rate against the US dollar is expected at a range of Bht 37.00 to Bht 39.00, stronger than the average rate of Bht 41.50 in 2003. It is mainly due to the tendency for the US dollar to become weaker as a result of looming large deficits in both current account and balance of payments. Even though exchange rate is subject to volatility in the exchange market, movement of the Baht looks like to remain a strong pattern. This is because Thailand's monetary authorities would remain vigilant against the unhealthy fluctuation of the Baht value in the market while all signs point to considerable economic growth and strong inflow of foreign capital is expected as a result of combined effort by the private and public sectors. The inflow would come from a variety of ways including funding by foreign sources on state enterprises, direct foreign investment and equity participation in large local business organization and securities investment.

#### - The Stock Market

The general expectation is that the stock market would continue the pattern of movement from the end of 2003 on the basis that the country's economic condition as a whole is full of positive notes as privatization of state enterprises moved closer to reality. Market capitalization of the state enterprises after becoming listed companies has been expected to be high and the government is hoping to be relieved of funding guarantee responsibility it carries. In addition, the composite P/E ratio of the SET is still very low compared with other stock market in the region. As the economy is moving on an upward trend, listed companies are bound to report their good results, recovering fully from the long slump during the past few years. Some of them should return to the profit zone strongly. If there will be no serious threat to the confidence of investors, the stock market should possible retain its healthy condition for another year.

### Thailand's Major Economic Indicators

	2003	2004 (E)	
		Trend	Target
GDP (Current Year Price : Baht Mn.)	5,931.6	6,476.1	6,554.4
GDP Growth Rate (Constant Price : %)	6.7	7.0	8.0
Spending (Constant Price : %)			
Consumption	5.6	5.7	6.0
- Private Sector	6.3	6.0	6.2
- Public Sector	1.2	4.0	4.0
Investment	11.7	16.0	16.8
- Private Sector	17.9	19.0	20.0
- Public Sector	-2.3	8.0	8.0
Inflation Rate (%)	1.8	2.2	2.5
International Trade (US\$ Bn)			
Export	78.4	90.2	91.7
- Growth Rate (%)	18.6	15.0	17.0
Import	74.2	87.6	88.3
- Growth Rate (%)	17.1	18.0	19.0
Balance of Trade	4.2	2.6	3.4
Current Account	8.0	6.9	7.8
- Ratio to GDP (%)	5.6	4.1	4.6

Remarks : E = Estimates (Mar. 8, 2004)

Source : Office of the National Economic and Social Development Board



## AUDIT REPORT OF CERTIFIED PUBLIC ACCOUNTANT

### AUDIT REPORT OF CERTIFIED PUBLIC ACCOUNTANT

#### To the Shareholders of Thai Military Bank Public Company Limited

I have audited the accompanying consolidated balance sheets of Thai Military Bank Public Company Limited and its subsidiary as at December 31, 2003 and 2002 and the consolidated statements of income, changes in shareholders' equity and cash flows for each of the years then ended. I have also audited balance sheets of Thai Military Bank Public Company Limited as at December 31, 2003 and 2002 and the statements of income, changes in shareholders' equity and cash flows for each of the years then ended. The management of the Bank is responsible for the correctness and completeness of information presented in these financial statements. My responsibility is to express an opinion on these financial statements based on my audits.

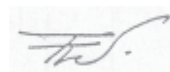
I conducted my audits in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

As discussed in Notes 4.4 and 4.7 to the financial statements, as at December 31, 2002 the Bank and a subsidiary have non-performing loans classified in accordance with the announcement of the Bank of Thailand's regulation, in the amount of Baht 68,194 million. The Bank and a subsidiary have provided an allowance for doubtful accounts (including the revaluation allowance for debt restructuring) in the amount of Baht 18,406 million, which represents 26.99 % of total non-performing loans in the consolidated financial statements, and in the Bank's management point of view such allowance is above the minimum amount required by the Bank of Thailand's regulation. However, according to the examination report from the Bank of Thailand and its letter dated December 26, 2002 and February 27, 2003, respectively, the Bank has to provide additional allowance for doubtful accounts, no later than the quarter ended September 30, 2003, to cover the additional loss in the amount not less than of Baht 10,940 million. For the year ended December 31, 2003, the Bank has provided provisions in the amount of Baht 17,461 million in the consolidated financial statements and in the amount of Baht 16,744 million in the Bank only financial statements respectively. However, in order to comply with generally accepted accounting principles, the Bank should have provided allowance for doubtful accounts and provision for other loss for the period ended December 31, 2002 in the amount of Baht 14,790 million in the consolidated and the Bank only financial statements. Consequently, the net loss for the year ended December 31, 2003 is over-stated by Baht 14,790 million in both the consolidated and the Bank only financial statements.

## AUDIT REPORT OF CERTIFIED PUBLIC ACCOUNTANT

In my opinion, except for the effects on the 2002 consolidated financial statements and the separate financial statements and except for the effects on the consolidated statements of income, changes in shareholders' equity and cash flows for the year ended December 31, 2003, and the Bank only statements of income, changes in shareholders' equity and cash flows for the year ended December 31, 2003, from not adjusting the allowance for doubtful accounts and provision for other losses in the consolidated and the Bank only financial statements for the year ended December 31, 2002 as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Thai Military Bank Public Company Limited and subsidiary as at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the years then ended, and the separate financial position and the results of its operations and its cash flows of Thai Military Bank Public Company Limited for the same period, in conformity with generally accepted accounting principles.

I draw attention to Note 3.3 to the financial statements. In 2003, the Subsidiary Company which is an asset management company changed its accounting policy in relation to the transfer of financial assets in accordance with the Bank of Thailand's notifications, dated November 21, 2003 and December 3, 2002 "Re: Accounting procedures regarding purchasing or taking of transfer of loan receivables and supervision guidelines", which is applicable to financial statements for accounting periods ended on or after December 31, 2003 onwards. Accordingly, the Bank has disclosed the effect to the financial statements in the note referred to above.



Thirdthong Thepmongkorn  
Certified Public Accountant  
Registration No. 3787

KPMG Phoomchai Audit Ltd.  
Bangkok  
February 16, 2004

## THAI MILITARY BANK PUBLIC COMPANY LIMITED AND SUBSIDIARY

### BALANCE SHEETS AS AT DECEMBER 31, 2003 AND 2002

	Notes	Baht			
		Consolidated		The Bank Only	
		2003	2002	2003	2002
<b>ASSETS</b>					
Cash		8,925,329,112	7,340,186,564	8,922,419,218	7,298,673,392
Interbank and money market items	4.1,4.5				
Domestic items - Interest bearing		546,665,522	11,154,881,815	546,665,522	11,154,881,815
- Non - interest bearing		3,405,595,186	5,345,440,021	3,406,155,186	5,345,440,021
Foreign items - Interest bearing		4,037,564,588	3,302,562,276	4,037,564,588	3,302,562,276
- Non - interest bearing		669,328,882	1,216,546,230	669,328,882	1,216,546,230
<b>Total Interbank and Money Market Items - net</b>		<b>8,659,154,178</b>	<b>21,019,430,342</b>	<b>8,659,714,178</b>	<b>21,019,430,342</b>
Securities purchased under resale agreements	4.2	6,200,000,000	3,000,000,000	6,200,000,000	3,000,000,000
Investments	3.6,4.3,4.5,4.19				
Current investments - net		3,415,013,353	1,118,399,339	2,458,364,756	670,523,241
Long-term investments - net		43,107,664,407	40,731,267,350	41,967,462,401	39,693,848,043
Investments in subsidiary and associated companies - net		458,309,026	529,518,089	3,126,716,725	3,454,361,313
<b>Total Investments - net</b>		<b>46,980,986,786</b>	<b>42,379,184,778</b>	<b>47,552,543,882</b>	<b>43,818,732,597</b>
Loans and accrued interest receivable	3.3,4,4,4,5				
Loans		299,748,095,286	297,756,647,285	301,184,140,745	302,110,625,281
Accrued interest receivable		3,449,095,332	4,423,927,592	3,446,761,186	4,434,372,803
<b>Total Loans and Accrued Interest Receivable</b>		<b>303,197,190,618</b>	<b>302,180,574,877</b>	<b>304,630,901,931</b>	<b>306,544,998,084</b>
<u>Less</u> Allowance for doubtful accounts	3.4,4.6	(25,343,345,171)	(15,671,142,096)	(24,850,183,569)	(15,335,150,571)
<u>Less</u> Revaluation allowance for debt restructuring	3.5,4.7	(1,975,458,533)	(2,735,098,511)	(1,975,458,533)	(2,735,098,511)
<b>Loans and Accrued Interest Receivable - net</b>		<b>275,878,386,914</b>	<b>283,774,334,270</b>	<b>277,805,259,829</b>	<b>288,474,749,002</b>
Properties foreclosed - net	3.10,4.5,4.8	18,533,609,885	22,286,346,463	16,324,912,862	16,278,804,741
Customers' liabilities under acceptances		571,319,970	450,280,216	571,319,970	450,280,216
Premises and equipment - net	3.8,4.5,4.9	9,503,395,521	7,855,833,618	9,495,363,214	7,847,698,480
Accrued interest receivable - net		759,678,406	753,443,490	733,894,452	738,970,429
Accounts receivable - net		869,081,833	211,850,250	771,114,175	183,876,566
Other assets - net	3.7,4.5,4.23	2,114,655,579	2,194,224,139	2,110,758,222	2,184,843,719
<b>TOTAL ASSETS</b>		<b>378,995,598,184</b>	<b>391,265,114,130</b>	<b>379,147,300,002</b>	<b>391,296,059,484</b>

The accompanying notes are an integral part of these financial statements

THAI MILITARY BANK PUBLIC COMPANY LIMITED AND SUBSIDIARY

BALANCE SHEETS

AS AT DECEMBER 31, 2003 AND 2002

	Notes	Baht			
		Consolidated		The Bank Only	
		2003	2002	2003	2002
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>Deposits</b>	<b>4.10</b>				
Deposits in Baht		321,007,794,869	321,246,592,816	321,189,566,352	321,295,239,614
Deposits in foreign currencies		1,049,893,938	774,310,760	1,049,893,938	774,310,759
<b>Total Deposits</b>		<b>322,057,688,807</b>	<b>322,020,903,576</b>	<b>322,239,460,290</b>	<b>322,069,550,373</b>
<b>Interbank and money market items</b>	<b>4.11</b>				
Domestic items - Interest bearing		7,570,375,958	12,016,868,265	7,570,375,958	12,016,868,265
- Non - interest bearing		1,892,316,906	593,033,180	1,892,316,906	593,033,180
Foreign items - Interest bearing		4,533,330,065	8,562,294,750	4,533,330,065	8,562,294,750
- Non - interest bearing		10,054,694	20,252,464	10,054,694	20,252,464
<b>Total Interbank and Money Market Items</b>		<b>14,006,077,623</b>	<b>21,192,448,659</b>	<b>14,006,077,623</b>	<b>21,192,448,659</b>
Liabilities payable on demand		2,400,618,994	868,825,531	2,400,618,994	868,825,531
<b>Borrowings</b>					
Long-term borrowings	<b>4.12</b>	7,287,000,000	16,607,000,000	7,287,000,000	16,607,000,000
<b>Total Borrowings</b>		<b>7,287,000,000</b>	<b>16,607,000,000</b>	<b>7,287,000,000</b>	<b>16,607,000,000</b>
Subordinated debentures cum preferred shares	<b>4.13</b>	-	9,957,783,900	-	9,957,783,900
Bank's liabilities under acceptances		571,319,970	450,280,216	571,319,970	450,280,216
Accrued interest payable		728,310,481	1,357,429,070	728,310,481	1,357,429,070
Other payables		2,018,899,572	3,651,094,230	2,011,411,951	3,640,079,458
Other liabilities	<b>3.7,3.9</b>	2,449,180,572	873,571,687	2,426,598,528	866,885,016
<b>Total Liabilities</b>		<b>351,519,096,019</b>	<b>376,979,336,869</b>	<b>351,670,797,837</b>	<b>377,010,282,223</b>

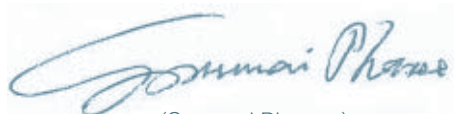
The accompanying notes are an integral part of these financial statements

# THAI MILITARY BANK PUBLIC COMPANY LIMITED AND SUBSIDIARY

## BALANCE SHEETS

AS AT DECEMBER 31, 2003 AND 2002

	Notes	Baht			
		Consolidated		The Bank Only	
		2003	2002	2003	2002
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (Continued)</b>					
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	4.14				
Authorized share capital, Baht 10 par value					
1,991,999,900 preferred shares in 2003					
3,000,099,600 preferred shares in 2002					
and 8,415,967,300 ordinary shares in 2003					
2,064,867,600 ordinary shares in 2002					
Issued and fully paid-up share capital					
1,991,999,900 preferred shares in 2003		19,919,999,000	-	19,919,999,000	-
1,992,099,600 preferred shares in 2002		-	19,920,996,000	-	19,920,996,000
and 8,415,967,300 ordinary shares in 2003		84,159,673,000	-	84,159,673,000	-
2,010,867,600 ordinary shares in 2002		-	20,108,676,000	-	20,108,676,000
Premium on preferred shares	4.14	-	1,220,100	-	1,220,100
Premium (Discount) on ordinary shares - net	4.14	(36,344,416,220)	5,449,488,818	(36,344,416,220)	5,449,488,818
Surplus on fixed assets revaluation	3.8,4.16	3,537,709,315	942,172,000	3,537,709,315	942,172,000
Unrealized gain (loss) on revaluation					
of investments - net	3.6,4.3	2,144,237,171	(141,729,914)	2,144,237,171	(141,729,914)
Foreign currency translation	3.7	(37,943,091)	(68,725,590)	(37,943,091)	(68,725,590)
Retained earnings (deficit)					
Legal reserve		2,100,000,000	2,100,000,000	2,100,000,000	2,100,000,000
Others		8,717,165,400	8,717,165,400	8,717,165,400	8,717,165,400
Unappropriated (deficit)		(56,719,922,410)	(42,743,485,553)	(56,719,922,410)	(42,743,485,553)
<b>Total Shareholders' Equity</b>		<b>27,476,502,165</b>	<b>14,285,777,261</b>	<b>27,476,502,165</b>	<b>14,285,777,261</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>378,995,598,184</b>	<b>391,265,114,130</b>	<b>379,147,300,002</b>	<b>391,296,059,484</b>
<b>OFF-BALANCE SHEET ITEMS - CONTINGENCIES</b>					
Aval to bills and guarantees of loans	4.18	4,702,382,216	5,418,722,593	4,702,382,216	5,418,722,593
Liabilities under unmatured import bills		690,936,284	865,389,022	690,936,284	865,389,022
Letters of credit		10,082,616,493	7,492,683,544	10,082,616,493	7,492,683,544
Other contingencies		84,808,669,535	76,196,211,942	84,808,669,535	76,196,211,942



(Sommai Phasee)

Chairman



(Subhak Siwaraksa)

President and Chief Executive Officer

The accompanying notes are an integral part of these financial statements

THAI MILITARY BANK PUBLIC COMPANY LIMITED AND SUBSIDIARY

STATEMENTS OF INCOME

FOR EACH OF THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Notes	Baht			
		Consolidated		The Bank Only	
		2003	2002	2003	2002
<b>Interest and dividend income</b>	<b>3.1</b>				
Loans		14,248,732,037	14,437,569,484	13,333,894,270	14,041,707,855
Interbank and money market items		166,444,101	319,720,415	166,444,101	319,720,415
Investments		1,266,186,803	1,660,272,077	1,254,132,488	1,646,482,301
<b>Total Interest and Dividend Income</b>		<b>15,681,362,941</b>	<b>16,417,561,976</b>	<b>14,754,470,859</b>	<b>16,007,910,571</b>
<b>Interest expense</b>	<b>3.2</b>				
Deposits		5,358,721,488	7,104,106,876	5,358,758,477	7,107,000,541
Interbank and money market items		338,296,262	474,224,110	338,296,262	474,224,110
Short-term borrowings		2,618,768	572,589	2,618,768	572,589
Long-term borrowings		2,563,930,350	2,776,470,825	2,563,891,912	2,776,442,172
<b>Total Interest Expense</b>		<b>8,263,566,868</b>	<b>10,355,374,400</b>	<b>8,263,565,419</b>	<b>10,358,239,412</b>
Net income from interest and dividend		7,417,796,073	6,062,187,576	6,490,905,440	5,649,671,159
Bad debts and doubtful accounts	3.4.4.6	14,666,844,378	1,408,189,369	16,759,081,570	1,099,855,005
Loss on debt restructuring (reversal)	3.5.4.7	(582,387,894)	1,508,661,164	(641,894,319)	1,504,662,488
Net income from interest after bad debts, doubtful accounts and loss on debt restructuring		(6,666,660,411)	3,145,337,043	(9,626,281,811)	3,045,153,666
<b>Non-interest income</b>					
Gain on investments		597,277,186	834,515,551	574,246,810	828,468,190
Share of profit (loss) on equity	3.6	397,229,558	199,807,920	(320,037,571)	160,571,281
Fees and service income					
Acceptances, aval and guarantees		522,180,712	561,729,471	522,180,712	561,729,471
Others		1,826,190,409	1,691,186,634	1,826,190,409	1,691,197,334
Gain on exchange	3.7	470,013,556	863,146,096	470,013,556	863,147,059
Gain on sale of assets		-	61,314,405	202,821,010	15,418,710
Other income		132,763,699	69,498,102	127,411,771	68,140,639
<b>Total Non-interest Income</b>		<b>3,945,655,120</b>	<b>4,281,198,179</b>	<b>3,402,826,697</b>	<b>4,188,672,684</b>

The accompanying notes are an integral part of these financial statements

THAI MILITARY BANK PUBLIC COMPANY LIMITED AND SUBSIDIARY

STATEMENTS OF INCOME (Continued)

FOR EACH OF THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Notes	Baht			
		Consolidated		The Bank Only	
		2003	2002	2003	2002
<b>Non-interest expenses</b>					
Personnel expenses		2,036,877,948	2,659,608,564	2,012,736,781	2,634,407,570
Premises and equipment expenses		1,500,744,810	1,379,441,282	1,530,372,988	1,392,560,121
Taxes and duties		587,535,764	640,553,532	580,969,365	629,727,608
Fees and service expenses		400,544,137	338,322,473	400,544,137	338,322,473
Directors' remuneration	4.22	31,577,500	29,980,000	28,137,500	27,505,000
Loss on impairment of properties foreclosed and other assets		956,092,884	305,095,493	924,680,372	188,790,222
Contributions to Financial Institutions Development Fund		1,352,328,680	1,308,335,966	1,352,328,680	1,308,335,966
Loss on sale of assets		3,377,034,312	-	-	-
Other expenses		1,044,657,919	878,551,993	955,810,178	828,146,599
<b>Total Non-interest Expenses</b>		<b>11,287,393,954</b>	<b>7,539,889,303</b>	<b>7,785,580,001</b>	<b>7,347,795,559</b>
<b>Net loss before income tax</b>		<b>(14,008,399,245)</b>	<b>(113,354,081)</b>	<b>(14,009,035,115)</b>	<b>(113,969,209)</b>
<b>Income tax</b>	3.11	<b>46,005,882</b>	<b>46,968,515</b>	<b>45,370,012</b>	<b>46,353,387</b>
<b>NET LOSS</b>		<b>(14,054,405,127)</b>	<b>(160,322,596)</b>	<b>(14,054,405,127)</b>	<b>(160,322,596)</b>
<b>Basic loss Per Share</b>	3.12,4.15	<b>(3.79)</b>	<b>(0.08)</b>	<b>(3.79)</b>	<b>(0.08)</b>
Number of weighted average ordinary shares (shares)		3,713,022,406	2,010,867,600	3,713,022,406	2,010,867,600
<b>Diluted loss Per Share</b>	3.12,4.15	<b>(2.46)</b>	<b>(0.04)</b>	<b>(2.46)</b>	<b>(0.04)</b>
Number of weighted average ordinary shares (including potential ordinary shares) (shares)		5,705,117,885	4,002,967,200	5,705,117,885	4,002,967,200



(Sommai Phasee)  
Chairman



(Subhak Siwaraksa)  
President and Chief Executive Officer

The accompanying notes are an integral part of these financial statements

THAI MILITARY BANK PUBLIC COMPANY LIMITED AND SUBSIDIARY

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR EACH OF THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Baht						
	CONSOLIDATED FINANCIAL STATEMENTS AND THE BANK ONLY FINANCIAL STATEMENTS						
	Issued and fully paid-up share capital	Premium (Discount) on share capital	Surplus on fixed assets revaluation	Unrealized gain (loss) on revaluation of investments	Foreign currency translation	Retained earnings (deficit)	Total
<b>BALANCE AS AT JANUARY 1, 2002</b>	40,029,672,000	5,450,708,918	965,467,000	(943,205,465)	(94,334,865)	(31,789,292,557)	13,619,015,031
Surplus on fixed assets revaluation	-	-	(23,295,000)	-	-	23,295,000	-
Unrealized gain (loss) on revaluation of investments	-	-	-	801,475,551	-	-	801,475,551
Foreign currency translation	-	-	-	-	25,609,275	-	25,609,275
Unrecognized transactions in the statements of income	-	-	(23,295,000)	801,475,551	25,609,275	23,295,000	827,084,826
Net loss	-	-	-	-	-	(160,322,596)	(160,322,596)
<b>BALANCE AS AT DECEMBER 31, 2002</b>	40,029,672,000	5,450,708,918	942,172,000	(141,729,914)	(68,725,590)	(31,926,320,153)	14,285,777,261
Surplus on fixed assets revaluation	-	-	2,730,666,230	-	-	77,968,270	2,808,634,500
Loss on fixed assets revaluation	-	-	(135,128,915)	-	-	-	(135,128,915)
Unrealized gain (loss) on revaluation of investments	-	-	-	2,285,967,085	-	-	2,285,967,085
Foreign currency translation	-	-	-	-	30,782,499	-	30,782,499
Unrecognized transactions in the statements of income	-	-	2,595,537,315	2,285,967,085	30,782,499	77,968,270	4,990,255,169
Net loss	-	-	-	-	-	(14,054,405,127)	(14,054,405,127)
Increase in issued and fully paid-up ordinary shares	64,050,000,000	-	-	-	-	-	64,050,000,000
Increase in discount on ordinary shares	-	(41,795,125,138)	-	-	-	-	(41,795,125,138)
<b>BALANCE AS AT DECEMBER 31, 2003</b>	104,079,672,000	(36,344,416,220)	3,537,709,315	2,144,237,171	(37,943,091)	(45,902,757,010)	27,476,502,165

The accompanying notes are an integral part of these financial statements



## THAI MILITARY BANK PUBLIC COMPANY LIMITED AND SUBSIDIARY

### STATEMENTS OF CASH FLOWS

FOR EACH OF THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Baht			
	Consolidated		The Bank Only	
	2003	2002	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net loss	(14,054,405,127)	(160,322,596)	(14,054,405,127)	(160,322,596)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	712,264,626	681,790,115	710,342,262	680,549,069
Loss on impairment of securities and other assets	988,620,684	158,543,146	957,335,522	42,237,875
Share of (profit) loss in subsidiary and associated companies	(397,229,558)	(199,807,920)	320,037,571	(160,571,281)
Bad debts, doubtful accounts and loss on debt restructuring	14,084,296,715	2,916,850,533	16,117,187,251	2,604,517,493
Loss on sale of premises and equipment	6,383,891	2,355,708	6,383,891	8,447,870
(Gain) on sale of investments	(629,804,985)	(687,963,203)	(606,901,960)	(681,915,843)
Amortization of premium (discount) on investments	21,390,053	123,753,836	21,390,053	123,753,836
(Gain) on translation of foreign currencies	-	(486,068,111)	-	(486,068,111)
Loss on redemption of debentures and subordinated debentures cum preferred shares	2,216,100	-	2,216,100	-
(Increase) decrease in interest and dividend receivable	1,036,683,425	(872,032,975)	1,060,773,676	(854,651,752)
Increase in non-interest receivable	(679,680,898)	(214,787,809)	(609,686,924)	(193,549,589)
Decrease in accrued interest expense	(629,118,589)	(80,958,375)	(629,118,589)	(80,990,463)
Increase in accrued non-interest expenses	58,556,169	17,350,655	54,355,394	15,871,637
Net income from operations before changes in operating assets and liabilities	520,172,506	1,198,703,004	3,349,909,120	857,308,145
(Increase) decrease in operating assets				
Interbank and money market items (assets)	12,187,694,794	(2,513,849,440)	12,187,134,794	(2,513,849,440)
Securities purchased under resale agreements	(3,200,000,000)	(3,000,000,000)	(3,200,000,000)	(3,000,000,000)
Investment in trading securities	(88,026,401)	32,118,502	(88,026,401)	32,118,502
Loans	(7,603,574,416)	(28,987,709,688)	(8,521,057,685)	(26,149,960,978)
Properties foreclosed	3,549,738,704	(1,423,905,717)	1,444,684,818	(1,184,918,842)
Other assets	783,914,812	63,373,951	780,546,376	48,804,637
Increase (decrease) in operating liabilities				
Deposits	36,785,231	21,245,750,715	169,909,917	21,140,121,340
Interbank and money market items (liabilities)	(7,186,371,036)	4,650,895,527	(7,186,371,036)	4,650,895,527
Liabilities payable on demand	1,531,793,463	31,579,528	1,531,793,463	31,579,528
Other liabilities	(357,534,325)	250,681,409	(365,692,638)	(2,002,774,231)
<b>Net cash provided by (used in) operating activities</b>	<b>174,593,332</b>	<b>(8,452,362,209)</b>	<b>102,830,728</b>	<b>(8,090,675,812)</b>

The accompanying notes are an integral part of these financial statements

THAI MILITARY BANK PUBLIC COMPANY LIMITED AND SUBSIDIARY

STATEMENTS OF CASH FLOWS (Continued)

FOR EACH OF THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Baht			
	Consolidated		The Bank Only	
	2003	2002	2003	2002
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases of available-for-sale investments	(25,748,889,827)	(10,499,985,870)	(22,061,889,827)	(8,347,735,792)
Proceeds from sales of available-for-sale investments	25,796,994,434	23,631,351,938	22,577,520,650	21,919,900,635
Purchases of held-to-maturity investments	(1,211,211,747)	(4,178,704,761)	(1,211,211,747)	(4,178,704,761)
Proceeds from sales of held-to-maturity investments	71,866,201	2,070,885,910	71,866,201	2,070,885,910
Purchases of general investments and investments in subsidiary company	(276,272,169)	(610,993,837)	(635,252,035)	(1,459,364,863)
Proceeds from sales of general investments	152,545,888	186,121,057	152,545,888	186,121,057
Purchases of premises and equipment	(431,592,709)	(393,834,921)	(429,773,177)	(389,432,238)
Proceeds from sales of premises and equipment	51,451,783	71,304,290	51,451,783	71,304,290
<b>Net cash provided by (used in) investing activities</b>	(1,595,108,146)	10,276,143,806	(1,484,742,264)	9,872,974,238
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Redemption of debentures and subordinated debentures cum preferred shares	(13,280,000,000)	-	(13,280,000,000)	-
Increase in issued and fully paid-up ordinary shares	64,050,000,000	-	64,050,000,000	-
Increase in discount on ordinary shares	(41,795,125,137)	-	(41,795,125,137)	-
Redemption of subordinated debentures	(6,000,000,000)	(1,000,000,000)	(6,000,000,000)	(1,000,000,000)
Foreign currency translation	30,782,499	25,609,275	30,782,499	25,609,275
<b>Net cash provided by (used in) financing activities</b>	3,005,657,362	(974,390,725)	3,005,657,362	(974,390,725)
Effect of exchange rate on cash and cash equivalents	-	245,002,687	-	245,002,687
<b>Increase in cash and cash equivalents</b>	1,585,142,548	1,094,393,559	1,623,745,826	1,052,910,388
<b>Cash and cash equivalents as at January 1,</b>	7,340,186,564	6,245,793,005	7,298,673,392	6,245,763,004
<b>Cash and cash equivalents as at December 31,</b>	8,925,329,112	7,340,186,564	8,922,419,218	7,298,673,392
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>				
Cash paid during the year for				
Interest expense	8,892,685,457	10,436,332,775	8,892,684,009	10,439,229,875
Income tax	42,136,112	46,968,516	41,500,242	46,353,388

The accompanying notes are an integral part of these financial statements

# THAI MILITARY BANK PUBLIC COMPANY LIMITED AND SUBSIDIARY

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

### 1. GENERAL INFORMATION

Thai Military Bank Public Company Limited "the Bank" is registered as a public limited company in Thailand and has been granted a license to conduct commercial banking business. Its Head Office is located at 3000 Pahol Yothin Road, Ladyao Subdistrict, Chatuchak District, Bangkok, Thailand. The Bank has branches throughout Thailand and certain overseas countries. At December 31, 2003 and 2002 the numbers of the Bank's staff were 5,922 and 6,072 respectively.

### 2. BASIS OF FINANCIAL STATEMENT PREPARATION AND PRINCIPLES OF CONSOLIDATION

The statutory financial statements are prepared in Thai Baht in the Thai language expressed in conformity with generally accepted accounting principles in Thailand and have been presented in accordance with the announcement of the Bank of Thailand dated May 10, 2001 prescribing the form of the balance sheet and profit and loss account of commercial banks.

Accordingly the accompanying financial statements are intended solely to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in Thailand.

Other than those specified in the notes to the financial statements, all other balances presented in these financial statements are prepared under the historical cost convention.

For the convenience of the readers, this English translation of financial statements has been prepared from the Thai language statutory financial statements which are issued for domestic financial reporting purpose.

The consolidated financial statements include the accounts of the Head Office, all domestic and overseas branches, the Bangkok International Banking Facilities business and the financial statements of a subsidiary, Phayathai Asset Management Company Limited, of which the Bank holds more than 50% of the issued capital and over which the Bank exercises control. Significant inter-company transactions and balances have been eliminated. The consolidated financial statements of 2003 exclude one subsidiary, being Designee for ETA Contract Limited. The consolidated financial statements of 2002 exclude two subsidiaries, being Designee for ETA Contract Limited and NSRF (Thailand) Limited, as the financial statements of these subsidiaries are deemed not have a material effect on the consolidated financial position and results of operations and cash flows.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Recognition of Interest Income

Interest and discount income on loans are generally recognized on an accrual basis. In accordance with the Bank of Thailand's regulation, interest in arrears for more than 3 months, regardless of whether the loans are covered by collateral, is not accrued but is instead recognized as income on a cash basis.

The Bank has reversed accrued interest income on loans, which has been recognized as income, for interest in arrears more than 3 months, in accordance with Bank of Thailand regulations.

#### 3.2 Recognition of Interest Expense

Interest expense on deposits, borrowings, and deferred discount or premium are recognized on an accrual basis. Premium expense on currency hedging contracts of borrowings are amortized using the straight-line method over the term of the contracts.

#### 3.3 Loans

Loans (except overdrafts) are shown exclusive of accrued interest receivable. Unearned discounts received in advance on loans are shown as deductions from loans.

Investments in receivables are investments in receivables of the subsidiary, Phayathai Asset Management Co., Ltd., which are shown at cost, net of allowances for impairment of investments in receivables and revaluation allowance for debt restructuring. For the year ended December 31, 2003, the subsidiary has applied a new accounting policy on to its financial assets to comply with the Bank of Thailand's notification on accounting procedures regarding purchasing or taking of transfer of loan and receivables, and supervision guidelines, issued on November 21, 2003 regarding understanding accounting procedures on purchasing or taking of transfer of loan and receivables, and supervision guidelines issued on December 3, 2002. The new accounting procedures were to be adopted in the financial statements for accounting periods ended on or after December 31, 2003. The new procedures require that investments in receivables, if they are restructured debts, (including the restructured debtors before 2003), must be recorded as loans and receivables at fair value as at the transfer date. The value shall not exceed the book value of the investments, based on the present value of the future collections according to the restructuring agreements and discounted by the discount rate with the result that the present value of the future collections is equal to the book value of the investments in receivables. Differences between the net book value and the fair value at the transfer date must be shown as a loss on debt restructuring from transferring financial assets in the statement of income for the year ended December 31, 2003.

The effects of the change in accounting policy on the consolidated financial statements of the Bank and a subsidiary company and the Bank only financial statements for the year ended December 31, 2003 was as follows

	Amounts : Million Baht
The effects at transferred date	
Decrease in investments in receivables	2,647
Decrease in allowance for impairment of investments in receivables	11
Increase in loans and receivables	2,598
Increase in allowance for doubtful accounts on loans and receivables	11
Increase in loss on transferred financial assets	49
Increase in net loss	49
Increase in basic loss per share (Baht per share)	0.0131
Increase in diluted loss per share (Baht per share)	0.0080

### 3.4 Allowance for Doubtful Accounts

The Bank provides an allowance for doubtful accounts by analysing individual accounts based on previous collection experience and in compliance with the Commercial Banking Act and the prescriptions of the Bank of Thailand.

The Bank of Thailand announced revised regulations regarding loan classification that require banks to categorize their loan portfolios into six categories and to set minimum reserves based on these categories. Those are 1%, 2%, 20%, 50% and 100% for Pass, Special Mention, Substandard, Doubtful and Doubtful of Loss, respectively and those classified as Loss which are required to be written off. The period that a loan is past due is the principal criteria utilized in classifying a loan. The maximum collateral value used in calculating the required allowance for doubtful accounts is based on the type of collateral and the date of the most recent valuation. However, the regulations regarding the minimum allowance for doubtful accounts are subject to change.

The Bank complied with the Bank of Thailand's announcement regarding "The Worthless or Non-recoverable Assets and Doubtful Assets Which may be Worthless or Non-recoverable of Commercial Banks." The additional criteria were as follows:

1. Classification is on an account-by-account basis
2. Revoking of classification in respect of:
  - Debtors with weak ability to pay who are financially unstable and have low ability to earn income;
  - Business enterprises with successive losses over 3 years;
  - Business enterprises with deficit, resulting in the total carrying value of assets being less than the total liabilities.
3. Certain criteria for deduction of collateral value from book value of loans before calculating loan loss provision were redefined to include standby letters of credit and letters of guarantee issued by domestic or foreign banks.
4. Collateral reappraisal or revaluation is required within 36 months instead of within 12 months as before. A loan can be considered secured up to 90% of its collateral value as appraised or revaluated. This regulation applies for the following loans:
  - 4.1 Any retail debtor with outstanding balance below Baht 5 million.
  - 4.2 Loans in the Special Mention or Normal classifications.

Additional allowances for doubtful accounts are charged to expense of the period.

Before 2002, Doubtful of Loss classification were written off from the allowance for doubtful accounts according to Bank of Thailand regulation dated September 21, 1999 relating to instructions for commercial banks to write off debts from the accounts.

In the first quarter of 2002, The Bank of Thailand, in its announcement dated February 18, 2002, regarding "Worthless or Non-recoverable Assets and Doubtful Assets Which may be Worthless or Non-recoverable of Commercial Banks" has revoked its regulation that required

commercial banks to write-off their Doubtful of Loss debts fully covered by loan loss provisions. This announcement has been in effect from the first half of 2002.

Bad debts recovered are credited to the allowance for doubtful accounts.

### 3.5 Troubled Debt Restructuring

Foreclosed assets transferred from troubled debt restructuring are recorded at the lower of the fair value of the assets or total amount of debt. Where restructuring a loan involves modification of its terms, the present value of the future cash flows expected to be received from those customers is calculated by using discount rates equivalent to the market rates received from those customers and the outstanding balances of investment in loans is recorded as an allowance for revaluation on debt restructuring in the balance sheet. This allowance for revaluation is amortized to the statement of income according to the amounts received over the remaining period of the debt restructuring contract.

### 3.6 Investments

The Bank classified debt instruments and marketable equity securities as trading securities, available-for-sale securities or held-to-maturity debt instruments, and classified non-marketable equity securities as general investments or investments in subsidiary / associated companies.

Trading securities are classified as current investments and are stated at fair value. Unrealized gains or losses arising from their revaluation are presented in the statement of income.

Available-for-sale securities are classified as current or long-term investments and are stated at fair value. Unrealized gains or losses arising from their revaluation are presented as a separate component of shareholders' equity. Loss on impairment of securities is presented in the statement of income.

Held-to-maturity debt instruments are classified as current or long-term investments (including the right to non-negotiable promissory notes availed by FIDF received on the transfer of impaired assets to the Thai Asset Management Corporation) and are stated at amortized cost. The amortization of the difference between historical cost and face value is recognized by the effective interest method. Loss on impairment of debt instruments is included in the statement of income.

General investments are classified as current or long-term investments and are stated at cost. Loss on impairment of investments is included in the statement of income.

Investments in subsidiary and associated companies are recorded using the equity method. This does not include investments in related companies in which the Bank owns over 20% of the paid up capital, which the Bank intends to hold on a temporary basis, as these companies are in liquidation and the Bank has recorded these investments at cost, net of allowance for impairment.

The recording of investments in subsidiary and associated companies using the equity method is based either on financial information from financial statements audited or reviewed by the auditors, or based on unaudited management information.

Gains or losses on sales of securities are recognized when the securities are disposed of. The cost of securities sold is calculated using the weighted average method.

Interest income on investments is recognized on an accrual basis and dividend income is recognized when declared.

The market values of debt instruments in government securities are computed using the Bank of Thailand's yield curve, adjusted by an appropriate risk factor.

The market values of debt instruments in the domestic market (other than listed bonds) are based on the market values appraised by reliable institutions, by using yields of those debt instruments, or by computations based on the Bank of Thailand's yield curve, adjusted by an appropriate risk factor. The institutions performing appraisals have to provide written documentation of the basis of their appraisal.

In the case of marketable securities, the market values of investments represent the latest bidding price at the end of the period.

### 3.7 Foreign Currency Transactions

Assets and liabilities in foreign currencies are recorded at the buying and selling rates specified by the Bank when the transactions occur.

On the balance sheet date, these amounts are translated at the reference rates announced by the Bank of Thailand at the period end and gain or loss on translation is recognized in that period.

Prior to May 1, 2003, forward exchange contracts were recorded at the rates of exchange agreed upon. At the balance sheet date, these amounts are translated at the reference rates announced by the Bank of Thailand at period end and the gain or loss on translation is recognized in that period. For forward exchange contracts, the difference between the forward rate agreed upon and the spot rate at the date of the forward exchange contract is amortized to the statement of income over the period of the contract.

As from May 1, 2003 onwards, the Bank changed its accounting policy to record forward exchange bought contracts and sold on the fair value basis, which resulted in an additional loss of Baht 4 million on that date.

Financial derivatives: As from May 1, 2003, the Bank changed its accounting policy for financial derivatives.

Financial derivatives in the term of forward exchange contracts are recognized on the market value basis by using the market price as at the balance sheet date for the period in which the contracts of the same term and due date were in effect. The difference on the market value fluctuation is recognized as income or expenses in the statement of income.

The financial statements of overseas branches and the Bangkok International Banking Facilities business are translated at the reference rates announced by the Bank of Thailand at the period end, and gain or loss on translation is presented in shareholders' equity.

The Bank manages exchange rate exposure by buying or selling forward contracts and by managing the net position in foreign currencies in compliance with the Bank's policies and prescriptions of the Bank of Thailand.

### 3.8 Depreciation and Amortization

In 2003, the land and building were reappraised by independent appraisal companies, in compliance with the Bank of Thailand's notification. The surplus on the fixed asset revaluation is presented in shareholders' equity. In case of revaluation decrease, the decline in value is deducted from such surplus on fixed asset revaluation to the extent that the new value is above original cost and recognized in the statement of income to the extent that the new value is below original cost.

For the recognition of the 2003 surplus on fixed asset revaluation to be Tier 2 capital, the Bank has submitted a letter to the Bank of Thailand seeking for their approval. At present, the Bank has not yet received the response letter from the Bank of Thailand. As at December 31, 2003, the increase in surplus on fixed asset revaluation for 2003 is not included in Tier 2 capital.

The land and building revaluation had been formerly assessed in 1992 and was approved by the Bank of Thailand in 1993.

Land is stated at revalued cost. Buildings are stated at revalued cost less accumulated depreciation. Surplus on fixed asset revaluation is presented in shareholders' equity.

Equipment is stated at cost less accumulated depreciation.

Depreciation of buildings and equipment is computed using the straight-line method at rates approximating the useful lives of assets as follows:

As from November 1, 2003, depreciation of buildings is computed using the straight-line method over their remaining useful lives, (total useful lives is not over than 50 years), which have been assessed by independent appraisal companies. Depreciation is included in premises and equipment expenses.

Prior to November 1, 2003, depreciation of buildings was computed at a rate of 5% on cost, and was presented in premises and equipment expenses.

As from November 1, 2003, depreciation on the revalued incremental cost of buildings in 2003 has been computed using the straight-line method over their remaining useful lives, (total useful lives is not over than 50 years), which have been assessed by independent appraisal companies. Depreciation on the revalued incremental cost of buildings is presented in premises and equipment expenses.

Prior to November 1, 2003, depreciation on the revalued incremental cost of buildings in 1992 was computed using the straight-line method over their remaining useful lives, (total useful lives is not over than 20 years), and is presented in premises and equipment expenses.

Depreciation of equipment is computed at a rate of 20% on cost.

Leasehold improvements are amortized over the lease terms or within 10 years if there is no lease term.

Depreciation of installation work is computed when it to be in used.

Depreciation of fixed assets of overseas branches is computed at rates specified by the laws applicable in each locality at 20-25% cost.

Loss on impairment of assets is included in the statement of income.

### Change in Accounting Estimate

Beginning from November 1, 2003, the Bank has changed the estimated useful lives of buildings for computation of their depreciation expense from 20 years to not over 50 years. This is consistent with the useful lives of those buildings as assessed by the independent appraisers. The change took effect as from November 1, 2003 and resulted in a decreased building depreciation expense and increased net profit in the same amount of Baht 18 million. Basic loss per share was reduced by Baht 0.005 per share and diluted loss per share was reduced by Baht 0.003 for the year ended December 31, 2003.

### 3.9 Provident Fund and Retirement Fund

The Bank and its permanent employees jointly established a provident fund as approved by the Ministry of Finance in accordance with the Provident Fund Act B.E. 2530. The employees and the Bank contribute to the fund. The fund is managed by Thai Life Insurance Company Limited, with returns and rights of employees as prescribed by the regulations on Provident Fund and it is therefore not presented in the balance sheets.

The Bank has a retirement fund payable to employees at the time of termination of services with the Bank. According to the Bank's regulations, only the Bank (not the employees) is required to contribute to the fund, which is credited to individual employee accounts. The amounts contributed to the fund are recognized as expenses in that period.

Provident funds of certain overseas branches have been established for local employees and are managed by financial institutions.

### 3.10 Properties Foreclosed

Immovable properties foreclosed acquired from debt settlement before 2002 were stated at lower of appraised value or book value of the related debts, and immovable properties foreclosed acquired from debt settlement as from 2002 recognized at the net fair value, not exceeding the investment in loans and unearned interest to which the Bank is legally entitled.

Loss on impairment is charged to the statement of income. Gains or losses on the sales of properties foreclosed are recognized in the statement of income upon disposal.

### 3.11 Income Tax

Income tax is computed on taxable income specified in the Revenue Code and recognized as an expense in the period on an accrual basis.

### 3.12 Loss per Share

Basic loss per share is computed by dividing the net loss for ordinary shares for the year by the number of ordinary shares outstanding and called up at the end of year.

Diluted loss per share is computed by dividing net loss for the year adjusted by the dividend of the convertible preferred shares and interest expense of the convertible subordinated debentures (if any), by the aggregate weighted average number of ordinary shares, on the assumption that conversion of all ordinary share equivalents has been made at the beginning of year. Ordinary share equivalents consist of convertible preferred shares.

### 3.13 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and cash in the process of collection.

### 3.14 Estimation

Preparation of financial statements in conformity with generally accepted accounting principles in Thailand requires management to

make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

#### 4. SUPPLEMENTARY INFORMATION

##### 4.1 Interbank and Money Market Items

Interbank and money market items at December 31, 2003 consisted of :

		Amounts : Million Baht		
		Consolidated		
		December 31, 2003		
		<u>At Call</u>	<u>Term</u>	<u>Total</u>
<b>1. Domestic</b>				
The Bank of Thailand and Financial Institutions Development Fund		3,368	-	3,368
Commercial banks		35	-	35
Other banks		2	-	2
Other financial institutions		99	450	549
Total		3,504	450	3,954
<u>Add</u> Accrued interest receivable		-	3	3
<u>(Less)</u> Allowance for doubtful accounts		(1)	(4)	(5)
Total Domestic		3,503	449	3,952
<b>2. Foreign</b>				
		<u>At Call</u>	<u>Term</u>	<u>Total</u>
US Dollar		260	3,999	4,259
Japanese Yen		157	-	157
Other currencies		253	36	289
Total		670	4,035	4,705
<u>Add</u> Accrued interest receivable		-	2	2
Total Foreign		670	4,037	4,707
<b>Total Domestic and Foreign</b>		4,173	4,486	8,659

Interbank and money market items at December 31, 2003 consisted of :

		Amounts : Million Baht		
		The Bank Only		
		December 31, 2003		
		<u>At Call</u>	<u>Term</u>	<u>Total</u>
<b>1. Domestic</b>				
The Bank of Thailand and Financial Institutions Development Fund		3,369	-	3,369
Commercial banks		35	-	35
Other banks		2	-	2
Other financial institutions		99	450	549
Total		3,505	450	3,955
<u>Add</u> Accrued interest receivable		-	3	3
<u>(Less)</u> Allowance for doubtful accounts		(1)	(4)	(5)
Total Domestic		3,504	449	3,953
<b>2. Foreign</b>				
		<u>At Call</u>	<u>Term</u>	<u>Total</u>
US Dollar		260	3,999	4,259
Japanese Yen		157	-	157
Other currencies		253	36	289
Total		670	4,035	4,705
<u>Add</u> Accrued interest receivable		-	2	2
Total Foreign		670	4,037	4,707
<b>Total Domestic and Foreign</b>		4,174	4,486	8,660



Interbank and money market items at December 31, 2002 consisted of :

	Amounts : Million Baht		
	Consolidated Financial Statements and Bank Only Financial Statements		
	December 31, 2002		
<b>1. Domestic</b>			
	<u>At Call</u>	<u>Term</u>	<u>Total</u>
The Bank of Thailand and Financial Institutions Development Fund	5,291	-	5,291
Commercial banks	303	10,065	10,368
Other financial institutions	116	557	673
Total	5,710	10,622	16,332
<u>Add</u> Accrued interest receivable	1	174	175
<u>(Less)</u> Allowance for doubtful accounts	(4)	(3)	(7)
Total Domestic	<u>5,707</u>	<u>10,793</u>	<u>16,500</u>
<b>2. Foreign</b>			
	<u>At Call</u>	<u>Term</u>	<u>Total</u>
US Dollar	946	3,235	4,181
Japanese Yen	50	-	50
Other currencies	257	29	286
Total	1,253	3,264	4,517
<u>Add</u> Accrued interest receivable	1	1	2
Total Foreign	<u>1,254</u>	<u>3,265</u>	<u>4,519</u>
<b>Total Domestic and Foreign</b>	<u>6,961</u>	<u>14,058</u>	<u>21,019</u>

The Bank had loans to and accrued interest receivable from closed financial institutions whose rehabilitation plans were not approved by the Financial Sector Restructuring Authority on December 8, 1997. In 1999, the Bank received 3-5 year negotiable certificates of deposit issued by Krung Thai Bank Public Company Limited on behalf of the Financial Institutions Development Fund of Baht 10,077 million due in 2001 to 2003. Interest is payable annually at a rate of 2% per annum.

At December 31, 2002 the Bank recorded the negotiable certificates of deposit of Baht 10,065 million at face value. In accordance with the Bank's investing policy and the current market condition, management believed that the Bank's reinvestment rate was approximately 2% per annum. As such, the calculated fair value of these negotiable certificates of deposit were not significantly different from the face value. In 2003 the Bank redeemed the remaining outstanding of negotiable certificates of deposits.

#### 4.2 Securities Purchased under Resale Agreements

Securities purchased under resale agreements at December 31, 2003 and 2002 consisted of :

	Amounts : Million Baht	
	Consolidated Financial Statements and Bank Only Financial Statements	
	<u>December 31, 2003</u>	<u>December 31, 2002</u>
The bonds of Financial Institutions Development Fund	6,200	3,000
<b>Total</b>	<u>6,200</u>	<u>3,000</u>

### 4.3 Investments

Investments at December 31, 2003 and 2002 consisted of :

	Consolidated		Amounts : Million Baht The Bank Only	
	December 31, 2003		December 31, 2003	
	Cost Value/ Book Value	Market Value	Cost Value/ Book Value	Market Value
<b>Current investment</b>				
<b>Trading investments</b>				
Marketable equity securities	119	130	119	130
<u>Add</u> Allowance for revaluation	<u>11</u>	<u>-</u>	<u>11</u>	<u>-</u>
Total	<u>130</u>	<u>130</u>	<u>130</u>	<u>130</u>
<b>Available-for-sale securities</b>				
Government and state enterprise securities	537	544	537	544
Private debt instruments	765	729	765	729
Marketable equity securities	1,973	2,012	1,018	1,055
Total	3,275	3,285	2,320	2,328
<u>Add</u> Allowance for revaluation	<u>60</u>	<u>-</u>	<u>58</u>	<u>-</u>
<u>(Less)</u> Allowance for impairment	<u>(50)</u>	<u>-</u>	<u>(50)</u>	<u>-</u>
Total	<u>3,285</u>	<u>3,285</u>	<u>2,328</u>	<u>2,328</u>
<b>Total Current Investments - net</b>	<b><u>3,415</u></b>	<b><u>3,415</u></b>	<b><u>2,458</u></b>	<b><u>2,458</u></b>

	Consolidated		Amounts : Million Baht The Bank Only	
	December 31, 2003		December 31, 2003	
	Cost Value/ Book Value	Market Value	Cost Value/ Book Value	Market Value
<b>Long-term investments</b>				
<b>Available-for-sale securities</b>				
Government and state enterprise securities	3,613	3,688	3,613	3,688
Private debt instruments	982	964	982	964
Marketable equity securities	1,918	3,937	1,888	3,814
Total	6,513	8,589	6,483	8,466
<u>Add</u> Allowance for revaluation	<u>2,077</u>	<u>-</u>	<u>1,983</u>	<u>-</u>
Total	<u>8,590</u>	<u>8,589</u>	<u>8,466</u>	<u>8,466</u>
<b>Held-to-maturity debt instruments</b>				
Government and state enterprise securities	31,224	30,466	30,217	29,459
Private debt instruments	1,510	1,890	1,510	1,890
Total	32,734	32,356	31,727	31,349
<u>Add</u> Allowance for revaluation	<u>8</u>	<u>-</u>	<u>8</u>	<u>-</u>
Total	<u>32,742</u>	<u>32,356</u>	<u>31,735</u>	<u>31,349</u>
<b>General investments</b>				
Domestic non-marketable equity securities	2,218	2,596	2,208	2,586
Foreign non-marketable equity securities	69	11	69	11
Total	2,287	2,607	2,277	2,597
<u>(Less)</u> Allowance for impairment	<u>(511)</u>	<u>-</u>	<u>(511)</u>	<u>-</u>
Total	<u>1,776</u>	<u>2,607</u>	<u>1,766</u>	<u>2,597</u>
<b>Total Long-term Investments-net</b>	<b><u>43,108</u></b>	<b><u>43,552</u></b>	<b><u>41,967</u></b>	<b><u>42,412</u></b>

	Consolidated		Amounts : Million Baht The Bank Only	
	December 31, 2002		December 31, 2002	
	Cost Value/ Book Value	Market Value	Cost Value/ Book Value	Market Value
<b>Current investments</b>				
<b>Trading investments</b>				
Marketable equity securities	18	16	18	16
(Less) Allowance for revaluation	(2)	-	(2)	-
Total	16	16	16	16
<b>Available for-sale securities</b>				
Government and state enterprise securities	48	49	48	49
Private debt instruments	262	221	262	221
Marketable equity securities	761	761	315	314
Total	1,071	1,031	625	584
Add Allowance for revaluation	10	-	9	-
(Less) Allowance for impairment	(50)	-	(50)	-
Total	1,031	1,031	584	584
<b>Held-to-maturity debt instruments</b>				
Government and state enterprise securities	51	52	51	52
Private debt instruments	20	20	20	20
Total	71	72	71	72
<b>Total Current Investments - net</b>	<b>1,118</b>	<b>1,119</b>	<b>671</b>	<b>672</b>

	Consolidated		Amounts : Million Baht The Bank Only	
	December 31, 2002		December 31, 2002	
	Cost Value/ Book Value	Market Value	Cost Value/ Book Value	Market Value
<b>Long-term investments</b>				
<b>Available-for-sale securities</b>				
Government and state enterprise securities	5,280	6,166	5,280	6,166
Private debt instruments	840	884	840	884
Marketable equity securities	1,918	827	1,871	788
Total	8,038	7,877	7,991	7,838
(Less) Allowance for revaluation	(161)	-	(153)	-
Total	7,877	7,877	7,838	7,838
<b>Held-to-maturity debt instruments</b>				
Government and state enterprise securities	31,289	31,311	30,301	30,323
Private debt instruments	298	580	298	580
Total	31,587	31,891	30,599	30,903
Add Allowance for revaluation	9	-	9	-
Total	31,596	31,891	30,608	30,903
<b>General investments</b>				
Domestic non-marketable equity securities	1,903	1,275	1,893	1,265
Foreign non-marketable equity securities	70	9	70	9
Total	1,973	1,284	1,963	1,274
(Less) Allowance for impairment	(715)	-	(715)	-
Total	1,258	1,284	1,248	1,274
<b>Total Long-term Investments-net</b>	<b>40,731</b>	<b>41,052</b>	<b>39,694</b>	<b>40,015</b>

At December 31, 2003 available-for-sale and held-to-maturity debt instruments classified by the remaining maturity were as follows :  
Amounts : Million Baht

	Consolidated December 31, 2003				Total
	Maturity				
	Within 1 year	Over 1-5 years	Over 5-10 years	Over 10 years	
<b>Available-for-sale securities</b>					
Government and state enterprise securities	537	929	-	2,684	4,150
Private debt instruments	765	802	180	-	1,747
Total	1,302	1,731	180	2,684	5,897
Add (Less) Allowance for revaluation	22	(5)	(4)	66	79
(Less) Allowance for impairment	(50)	-	-	-	(50)
Total	1,274	1,726	176	2,750	5,926
<b>Held-to-maturity debt instruments</b>					
Government and state enterprise securities	-	-	27,900	3,324	31,224
Private debt instruments	-	1,212	-	298	1,510
Total	-	1,212	27,900	3,622	32,734
Add Allowance for revaluation	-	-	-	8	8
Total	-	1,212	27,900	3,630	32,742
<b>Total Debt Instruments</b>	<b>1,274</b>	<b>2,938</b>	<b>28,076</b>	<b>6,380</b>	<b>38,668</b>

Amounts : Million Baht

	The Bank Only December 31, 2003				Total
	Maturity				
	Within 1 year	Over 1-5 years	Over 5-10 years	Over 10 years	
<b>Available-for-sale securities</b>					
Government and state enterprise securities	537	929	-	2,684	4,150
Private debt instruments	765	802	180	-	1,747
Total	1,302	1,731	180	2,684	5,897
Add (Less) Allowance for revaluation	22	(5)	(4)	66	79
(Less) Allowance for impairment	(50)	-	-	-	(50)
Total	1,274	1,726	176	2,750	5,926
<b>Held-to-maturity debt instruments</b>					
Government and state enterprise securities	-	-	26,893	3,324	30,217
Private debt instruments	-	1,212	-	298	1,510
Total	-	1,212	26,893	3,622	31,727
Add Allowance for revaluation	-	-	-	8	8
Total	-	1,212	26,893	3,630	31,735
<b>Total Debt Instruments</b>	<b>1,274</b>	<b>2,938</b>	<b>27,069</b>	<b>6,380</b>	<b>37,661</b>

At December 31, 2002 available-for-sale and held-to-maturity debt instruments classified by the remaining maturity were as follows :

Amounts : Million Baht

	Consolidated				Total
	December 31, 2002				
	Maturity				
Within 1 year	Over 1-5 years	Over 5-10 years	Over 10 years		
<b>Available-for-sale securities</b>					
Government and state enterprise securities	-	355	47	4,926	5,328
Private debt instruments	262	810	30	-	1,102
Total	262	1,165	77	4,926	6,430
Add Allowance for revaluation	9	74	3	853	939
(Less) Allowance for impairment	(50)	-	-	-	(50)
Total	221	1,239	80	5,779	7,319
<b>Held-to-maturity debt instruments</b>					
Government and state enterprise securities	51	-	27,935	3,354	31,340
Private debt instruments	20	-	-	298	318
Total	71	-	27,935	3,652	31,658
Add Allowance for revaluation	-	-	-	9	9
Total	71	-	27,935	3,661	31,667
<b>Total Debt Instruments</b>	<b>292</b>	<b>1,239</b>	<b>28,015</b>	<b>9,440</b>	<b>38,986</b>

Amounts : Million Baht

	The Bank Only				Total
	December 31, 2002				
	Maturity				
Within 1 year	Over 1-5 years	Over 5-10 years	Over 10 years		
<b>Available-for-sale securities</b>					
Government and state enterprise securities	-	355	47	4,926	5,328
Private debt instruments	262	810	30	-	1,102
Total	262	1,165	77	4,926	6,430
Add Allowance for revaluation	9	74	3	853	939
(Less) Allowance for impairment	(50)	-	-	-	(50)
Total	221	1,239	80	5,779	7,319
<b>Held-to-maturity debt instruments</b>					
Government and state enterprise securities	51	-	26,947	3,354	30,352
Private debt instruments	20	-	-	298	318
Total	71	-	26,947	3,652	30,670
Add Allowance for revaluation	-	-	-	9	9
Total	71	-	26,947	3,661	30,679
<b>Total Debt Instruments</b>	<b>292</b>	<b>1,239</b>	<b>27,027</b>	<b>9,440</b>	<b>37,998</b>

Unrealized gain (loss) on revaluation of investments as of December 31, 2003 and 2002 are as follows.

	Amounts : Million Baht	
	Consolidated Financial Statements And Bank Only Financial Statements	
	December 31, 2003	December 31, 2002
Unrealized gain on revaluation of investments		
Debt instruments	119	949
Equity securities	2,071	59
Total	2,190	1,008
Unrealized loss on revaluation of investments		
Debt instruments	(32)	-
Equity securities	(14)	(1,150)
Total	(46)	(1,150)
Unrealized gain (loss) on revaluation of investments-net		
Debt instruments	87	949
Equity securities	2,057	(1,091)
Total	2,144	(142)

For each of the years ended December 31, 2003 and 2002 the Bank and Subsidiary companies had gains on sales of securities of Baht 630 million and Baht 688 million, respectively; losses on impairment of investments of Baht 63 million for 2003 and Baht 15 million for 2002, and reversal of allowance for impairment of securities of Baht 14 million for 2003 and Baht 69 million for 2002, all of which were included in the statements of income.

Investments with over 10 % shareholding of the paid-up share capital (excluding investments in subsidiaries and associates) are summarized as follows :

	Amounts : Million Baht	
	Consolidated Financial Statements And Bank Only Financial Statements	
	December 31, 2003	December 31, 2002
Manufacturing and commerce	5	3
Property development and construction	1,247	1,287
Infrastructure and service	95	96
Other	689	300
Total	2,036	1,686
<u>Add (Less) Allowance for revaluation</u>	1,511	(1,071)
<u>Allowance for impairment</u>	(111)	(160)
Net	3,436	455

At December 31, 2003 and 2002 the Bank had investments in securities in other distressed companies under rehabilitation plan, which are investments in ordinary shares (general investments) and were shown at book value (net of allowance for decline in value of securities) of Baht 134 million and Baht 182 million, respectively

#### Investments in Subsidiary and Associated Companies

Investments in subsidiary and associated companies at December 31, 2003 and 2002 were as follows :

	Amounts : Million Baht			
	Consolidated			
	December 31, 2003		December 31, 2002	
	Cost Method	Equity Method	Cost Method	Equity Method
<u>Investments</u>				
Subsidiary Companies	-	-	-	-
Associated Companies	409	458	477	530
Total	409	458	477	530

The Bank Only

	December 31, 2003		December 31, 2002	
	Cost Method	Equity Method	Cost Method	Equity Method
<b>Investments</b>				
Subsidiary Companies	3,500	2,668	3,500	2,925
Associated Companies	<u>409</u>	<u>458</u>	<u>477</u>	<u>530</u>
<b>Total</b>	<u>3,909</u>	<u>3,126</u>	<u>3,977</u>	<u>3,455</u>

The following are the financial statements of subsidiary company in which the Bank owns more than 50% of the paid-up share capital:

Phayathai Asset Management Company Limited  
Condensed Balance Sheets  
As at December 31, 2003 and 2002

	2003	2002
	Baht	Baht
<b>Assets</b>		
Cash and deposits at financial institutions	184,121,378	90,159,970
Investments in securities - net	2,096,850,603	1,485,295,405
Investments in receivables - net	2,719,657,461	24,874,082,291
Total Investments - net	4,816,508,064	26,359,377,696
Loans and receivables and accrued interest receivable - net	1,768,786,726	96,043,068
Properties foreclosed - net	2,208,697,023	6,011,830,409
Equipment - net	3,711,518	4,187,290
Other receivables	92,942,185	31,501,304
Other assets	<u>39,031,922</u>	<u>30,788,947</u>
<b>Total Assets</b>	<u>9,113,798,816</u>	<u>32,623,888,684</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Borrowings from financial institutions	6,407,362,870	29,586,090,241
Accrued interest payable	2,208,708	10,458,752
Other liabilities	<u>30,074,015</u>	<u>24,216,682</u>
<b>Total Liabilities</b>	6,439,645,593	29,620,765,675
<b>Shareholders' Equity</b>	<u>2,674,153,223</u>	<u>3,003,123,009</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u>9,113,798,816</u>	<u>32,623,888,684</u>

Phayathai Asset Management Company Limited  
 Condensed Statements of Income  
 For each of the years Ended December 31, 2003 and 2002

	2003 Baht	2002 Baht
<b>Interest income</b>		
Loans and deposits	239,914,064	8,095,775
Investments in receivables	995,280,585	1,035,111,187
Investments in securities	<u>12,054,315</u>	<u>13,789,776</u>
Total interest income	1,247,248,964	1,056,996,738
<b>Interest expense</b>		
Interest expense	<u>320,358,331</u>	<u>644,480,321</u>
<b>Net interest income</b>	926,890,633	412,516,417
Bad debts and doubtful accounts	56,389,423	684,650
Loss on impairment of investments in receivables	566,064,304	377,304,526
Loss on debt restructuring of investments in receivables	<u>59,506,425</u>	<u>3,998,676</u>
Net income from interest after bad debts, doubtful accounts, Loss on impairment of investments in receivables and loss on debt restructuring	244,930,481	30,528,565
Non - interest income	(1,828,272,655)	78,177,191
Non - interest expenses	<u>1,846,843,481</u>	<u>214,029,794</u>
<b>Net loss before income tax</b>	(3,430,185,655)	(105,324,038)
Income tax	<u>635,870</u>	<u>615,128</u>
<b>Net loss before extraordinary item</b>	(3,430,821,525)	(105,939,166)
Extraordinary item - Gain on debt restructuring of borrowings from financial institutions	<u>3,000,000,000</u>	<u>-</u>
<b>Net loss after extraordinary item</b>	<u>(430,821,525)</u>	<u>(105,939,166)</u>

Phayathai Asset Management Company Limited  
 Condensed Statements of Cash Flows  
 For each of the Years Ended December 31, 2003 and 2002

	2003 Baht	2002 Baht
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	(430,821,525)	(105,939,166)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities :		
Depreciation and amortization	1,961,766	1,241,046
Bad debts and doubtful accounts	56,389,423	684,650
Loss on impairment of investments in receivables	566,064,304	377,304,526
Loss on debt restructuring of investments in receivables	59,506,425	3,998,676
(Gain) loss on sale of investments in receivables	1,896,068,186	(6,092,162)
Gain on sale of investments	(23,030,375)	(6,047,361)
Gain on collections	(141,643,714)	(323,025,619)
Loss on impairment of properties foreclosed	31,412,512	116,305,271
Extraordinary item - Gain on debt restructuring of borrowings from financial institutions	(3,000,000,000)	-
Increase in accrued interest receivable	(15,840,207)	(13,722,803)
Decrease in accrued interest payable	(8,250,043)	(3,626,331)
Increase in accrued non-interest expenses	<u>3,661,279</u>	<u>293,198</u>
Gain (loss) from operations before changes in operating assets and liabilities	(1,004,521,969)	41,373,925
(Increase) decrease in operating assets		
Investments in receivables	21,389,857,369	1,834,919,211
Loans and receivables	(1,735,159,609)	(27,249,181)
Properties foreclosed	5,149,949,680	84,038,745
Other assets	(60,289,943)	2,228,447,414
Increase (decrease) in operating liabilities		
Other liabilities	<u>2,026,544</u>	<u>18,772,860</u>
<b>Net cash provided by operating activities</b>	<u>23,741,862,072</u>	<u>4,180,302,974</u>



Phayathai Asset Management Company Limited  
 Condensed Statements of Cash Flows (Continued)  
 For each of the Years Ended December 31, 2003 and 2002

	2003 Baht	2002 Baht
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of available-for-sale investments	(3,687,000,000)	(2,152,250,078)
Proceeds from sales of available-for-sale investments	3,219,473,785	1,711,451,303
Purchases of equipment	(639,442)	(391,742)
Purchases of intangible assets	<u>(1,017,210)</u>	<u>(3,600,700)</u>
<b>Net cash used in investing activities</b>	<u>(469,182,867)</u>	<u>(444,791,217)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in issued and fully paid - up ordinary shares	-	140,000,000
Increase in premium on ordinary shares	-	560,000,000
Payments of loans from financial institutions	(23,178,727,372)	(4,500,000,000)
Liabilities under finance lease agreements	211,921	451,000
Payments of finance lease agreements	<u>(202,346)</u>	<u>(108,960)</u>
<b>Net cash used in financing activities</b>	<u>(23,178,717,797)</u>	<u>(3,799,657,960)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	93,961,408	(64,146,203)
<b>Cash and cash equivalents as at beginning of year</b>	<u>90,159,970</u>	<u>154,306,173</u>
<b>Cash and cash equivalents as at end of year</b>	<u>184,121,378</u>	<u>90,159,970</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for		
Interest expenses	328,608,375	648,106,651
Income tax	635,870	615,128

Designee for ETA Contract Limited  
 Condensed Balance Sheets  
 As at December 31, 2003 and 2002

	"Unaudited" 2003 Baht	"Audited" 2002 Baht
<b>Assets</b>		
Current assets	23,700	23,700
<b>Total Assets</b>	<u>23,700</u>	<u>23,700</u>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities	10,000	10,000
Shareholders' equity	13,700	13,700
<b>Total Liabilities and Shareholders' Equity</b>	<u>23,700</u>	<u>23,700</u>

Designee for ETA Contract Limited  
 Condensed Statements of Income  
 For each of the Years Ended December 31, 2003 and 2002

	"Unaudited" 2003 Baht	"Audited" 2002 Baht
Income	10,000	10,000
Expenses	<u>10,000</u>	<u>10,000</u>
<b>Net income</b>	<u>-</u>	<u>-</u>

NSRF (Thailand) Limited  
Condensed Balance Sheets  
As at December 1, 2003 and December 31, 2002

	"Audited" December 1, 2003 Baht	"Audited" December 31, 2002 Baht
<b>Assets</b>		
Current assets	50,350	38,350
<b>Total Assets</b>	<u>50,350</u>	<u>38,350</u>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities	25,350	13,350
Shareholders' equity	25,000	25,000
<b>Total Liabilities and Shareholders' Equity</b>	<u>50,350</u>	<u>38,350</u>

NSRF (Thailand) Limited  
Condensed Statements of Income  
For the Period From January 1, 2003 Through December 1, 2003 and  
For the Year Ended December 31, 2002

	"Audited" December 1, 2003 Baht	"Audited" December 31, 2002 Baht
Income	22,000	13,350
Expenses	<u>22,000</u>	<u>13,350</u>
<b>Net income</b>	<u>-</u>	<u>-</u>

The Extraordinary General Meetings of Shareholders of NSRF (Thailand) Limited held on November 14, 2003 and December 1, 2003 passed a special resolution to dissolve the Company. This dissolution was registered with the Ministry of Commerce on December 1, 2003 and the company has since then been in liquidation.

#### 4.4 Loans and Accrued Interest Receivable

Loans at December 31, 2003 and 2002 are classified as follows:

##### Classified by Types of Loan

	Consolidated		Amounts : Million Baht The Bank Only	
	December 31, 2003	December 31, 2002	December 31, 2003	December 31, 2002
Overdrafts	33,727	38,831	33,383	34,236
Loans	200,727	219,790	202,771	231,106
Bills	62,409	35,227	62,220	34,482
Others	<u>2,885</u>	<u>3,908</u>	<u>2,810</u>	<u>2,287</u>
Total	299,748	297,756	301,184	302,111
<u>Add</u> Accrued interest receivable	3,449	4,424	3,447	4,434
<u>(Less)</u> Allowance for doubtful accounts	(25,343)	(15,671)	(24,850)	(15,335)
Revaluation allowance for debt restructuring	<u>(1,976)</u>	<u>(2,735)</u>	<u>(1,976)</u>	<u>(2,735)</u>
<b>Total</b>	<u>275,878</u>	<u>283,774</u>	<u>277,805</u>	<u>288,475</u>

Classified by the Maturity of Contracts

	Consolidated		The Bank Only	
	December 31, 2003	December 31, 2002	December 31, 2003	December 31, 2002
	Amounts : Million Baht			
Within 1 year	94,801	110,509	90,982	86,495
Over 1 year	204,947	187,247	210,202	215,616
<b>Total</b>	<b>299,748</b>	<b>297,756</b>	<b>301,184</b>	<b>302,111</b>

Classified by Currencies and Residency of Debtors

	Consolidated					
	December 31, 2003			December 31, 2002		
	Domestic	Overseas	Total	Domestic	Overseas	Total
Baht	293,014	62	293,076	289,794	55	289,849
US Dollar	5,980	177	6,157	6,966	234	7,200
Other currencies	315	200	515	461	246	707
<b>Total</b>	<b>299,309</b>	<b>439</b>	<b>299,748</b>	<b>297,221</b>	<b>535</b>	<b>297,756</b>

	The Bank Only					
	December 31, 2003			December 31, 2002		
	Domestic	Overseas	Total	Domestic	Overseas	Total
Baht	294,450	62	294,512	294,149	55	294,204
US Dollar	5,980	177	6,157	6,966	234	7,200
Other currencies	315	200	515	461	246	707
<b>Total</b>	<b>300,745</b>	<b>439</b>	<b>301,184</b>	<b>301,576</b>	<b>535</b>	<b>302,111</b>

Classified by Type of Business and by Loan Classification

	Consolidated					
	December 31, 2003					
	Pass	Special mention	Substandard	Doubtful	Doubtful of loss	Total
Agriculture and mining	7,064	578	126	134	1,273	9,175
Manufacturing and commerce	111,070	4,817	1,392	2,237	11,196	130,712
Property development and construction	21,101	762	392	780	4,564	27,599
Infrastructure and services	47,792	552	427	183	2,489	51,443
Housing loans	29,272	862	399	560	5,795	36,888
Others	41,802	472	177	181	1,299	43,931
<b>Total</b>	<b>258,101</b>	<b>8,043</b>	<b>2,913</b>	<b>4,075</b>	<b>26,616</b>	<b>299,748</b>

	Consolidated					
	December 31, 2002					
	Pass	Special mention	Substandard	Doubtful	Doubtful of loss	Total
Agriculture and mining	8,013	495	266	136	2,153	11,063
Manufacturing and commerce	110,660	4,416	4,015	4,630	25,478	149,199
Property development and construction	18,048	1,559	847	1,193	10,352	31,999
Infrastructure and services	43,935	1,368	543	433	5,599	51,878
Housing loans	23,727	1,973	911	689	7,179	34,479
Others	14,562	806	259	171	3,340	19,138
<b>Total</b>	<b>218,945</b>	<b>10,617</b>	<b>6,841</b>	<b>7,252</b>	<b>54,101</b>	<b>297,756</b>

Amounts : Million Baht

The Bank Only						
December 31, 2003						
	Pass	Special mention	Substandard	Doubtful	Doubtful of loss	Total
Agriculture and mining	7,001	578	54	134	1,186	8,953
Manufacturing and commerce	110,666	4,779	1,291	2,237	9,503	128,476
Property development and construction	20,619	720	199	780	3,663	25,981
Infrastructure and services	47,711	552	337	183	2,123	50,906
Housing loans	29,272	862	399	560	5,795	36,888
Others	<u>48,162</u>	<u>431</u>	<u>155</u>	<u>181</u>	<u>1,051</u>	<u>49,980</u>
<b>Total</b>	<u>263,431</u>	<u>7,922</u>	<u>2,435</u>	<u>4,075</u>	<u>23,321</u>	<u>301,184</u>

Amounts : Million Baht

The Bank Only						
December 31, 2002						
	Pass	Special mention	Substandard	Doubtful	Doubtful of loss	Total
Agriculture and mining	8,009	495	261	136	1,318	10,219
Manufacturing and commerce	110,591	4,416	3,398	4,539	12,672	135,616
Property development and construction	17,993	1,487	687	1,114	4,684	25,965
Infrastructure and services	43,932	1,368	396	425	3,069	49,190
Housing loans	23,727	1,973	911	689	7,179	34,479
Others	<u>44,133</u>	<u>791</u>	<u>249</u>	<u>154</u>	<u>1,315</u>	<u>46,642</u>
<b>Total</b>	<u>248,385</u>	<u>10,530</u>	<u>5,902</u>	<u>7,057</u>	<u>30,237</u>	<u>302,111</u>

#### Classification of Loans and Accrued Interest Receivable

The Bank and the subsidiary have classified loans, accrued interest receivable and allowance for doubtful accounts in accordance with the announcement of the Bank of Thailand, regarding loan loss classification.

At December 31, 2003, the Bank and the subsidiary have classified loans and accrued interest receivable (excluding loans to banks and money market items) in accordance with the announcement as follows:

Amounts : Million Baht

Consolidated				
December 31, 2003				
	Loans and Accrued Interest Receivables	Total Debt Net of Collateral	% Provision	Provision Amounts
Pass	258,101	109,191	1	1,092
Special mention	8,043	1,921	2	38
Substandard	3,107	1,136	20	227
Doubtful	4,182	789	50	1,514*
Doubtful of loss	<u>27,699</u>	<u>8,118</u>	100	<u>17,153*</u>
<b>Total</b>	<u>301,132</u>	<u>121,155</u>		<u>20,024</u>
Excess over Bank of Thailand minimum requirement				<u>5,319</u>
<b>Total</b>				<u>25,343</u>

\* An allowance for doubtful accounts (after being written off) required by the Bank of Thailand's letter dated February 27, 2003 was included in the categories of Doubtful and Doubtful of Loss and amounted to Baht 1,119 million and Baht 9,035 million, respectively.

At December 31, 2003, Phayathai Asset Management Company Limited (subsidiary) has classified investments in receivables and loans in accordance with the announcement as follows:

Amounts : Million Baht

	December 31, 2003			
	Investments in Receivables and Loans	Total Debt Net of Collateral	% Provision	Provision Amounts
	Pass	1,083	84	1
Special mention	121	6	2	-
Substandard	478	33	20	6
Doubtful of loss	<u>3,302</u>	<u>149</u>	100	<u>149</u>
Total	<u>4,984</u>	<u>272</u>		156
Excess over Bank of Thailand minimum requirement				<u>344</u>
<b>Total</b>				<u>500</u>

At December 31, 2002, the Bank and the subsidiary have classified loans and accrued interest receivable (excluding loans to banks and money market items) in accordance with the announcement as follows:

Amounts : Million Baht

	Consolidated December 31, 2002			
	Loans and Accrued Interest Receivables	Total Debt Net of Collateral	% Provision	Provision Amounts
	Pass	208,396	105,982	1
Special mention	10,601	1,149	2	23
Substandard	7,011	1,761	20	352
Doubtful	7,436	2,915	50	1,457
Doubtful of loss	<u>55,574</u>	<u>9,582</u>	100	<u>9,582</u>
Total	<u>289,018</u>	<u>121,389</u>		12,474
Excess over Bank of Thailand minimum requirement				<u>3,197</u>
<b>Total</b>				<u>15,671</u>

At December 31, 2002, Phayathai Asset Management Company Limited (subsidiary) has classified investments in receivables and loans in accordance with the announcement as follows:

Amounts : Million Baht

	December 31, 2002			
	Investments in Receivables and Loans	Total Debt Net of Collateral	% Provision	Provision Amounts
	Pass	152	66	1
Special mention	94	-	2	-
Substandard	941	74	20	15
Doubtful	233	38	50	19
Doubtful of loss	<u>24,178</u>	<u>530</u>	100	<u>530</u>
Total	<u>25,598</u>	<u>708</u>		565
Excess over Bank of Thailand minimum requirement				<u>63</u>
<b>Total</b>				<u>628</u>

As at December 31, 2003 and 2002 non-performing loans (excluding inter-bank and money market items) of the Bank and its subsidiary represent loans which are classified as substandard, doubtful, and doubtful of loss, in accordance with the rules on classification in the Notification of the Bank of Thailand Re: Worthless and irrecoverable assets and doubtful assets which may be worthless or irrecoverable of commercial banks, including those debtors classified as doubtful of loss for which the commercial bank has already set aside full allowance of 100 percent and has written off but not yet recorded in the accounts. Non-performing loans of the Bank and its subsidiary as defined by this announcement amounted to Baht 33,604 million which represents 11.21 % of total loans (excluding inter-bank and money market items) for 2003 and Baht 68,194 million which represents 22.90 % for 2002.

As at December 31, 2003 and 2002 investment in non-performing loans of Phayathai Asset Management Company Limited included investment in receivables and loans and receivables which are classified as substandard, doubtful and doubtful of loss. The Company's investments in such receivables and loans and receivables amounted to Baht 3,780 million for 2003 and Baht 25,352 million for 2002.

At December 31, 2003 and 2002 the Bank and the subsidiary have provided an allowance for doubtful accounts of Baht 25,343 million and Baht 15,671 million, respectively, which is above the minimum allowance for doubtful accounts required to be provided by the Bank of Thailand. The Bank and subsidiary's loans are still in the process of being collected, restructured and renegotiated, and the Bank is in the process of improving credit management and risk management and performing a qualitative review, which may affect the classification of loans and accrued interest receivable and the resulting estimate of allowance for doubtful accounts.

At December 31, 2003 and 2002 the Bank has classified loans and accrued interest receivable (excluding loans to banks and money market items) in accordance with the announcement as follows:

Amounts : Million Baht

	The Bank Only			
	December 31, 2003			
	Loans and Accrued Interest <u>Receivable</u>	Total Debt Net of <u>Collateral</u>	% Provision	Provision Amounts
Pass	263,431	109,162	1	1,092
Special mention	7,922	1,915	2	38
Substandard	2,629	1,103	20	221
Doubtful	4,182	789	50	1,514*
Doubtful of loss	<u>24,404</u>	<u>7,975</u>	100	<u>17,010*</u>
Total	<u>302,568</u>	<u>120,944</u>		19,875
Excess over Bank of Thailand minimum requirement				<u>4,975</u>
<b>Total</b>				<u>24,850</u>

\* An allowance for doubtful accounts (after being written off) required by the Bank of Thailand's letter dated February 27, 2003 was included in the categories of Doubtful and Doubtful of Loss and amounted to Baht 1,119 million and Baht 9,035 million, respectively.

Amounts : Million Baht

	The Bank Only			
	December 31, 2002			
	Loans and Accrued Interest <u>Receivables</u>	Total Debt Net of <u>Collateral</u>	% Provision	Provision Amounts
Pass	237,835	105,972	1	1,060
Special mention	10,514	1,149	2	23
Substandard	6,072	1,698	20	340
Doubtful	7,241	2,914	50	1,457
Doubtful of loss	<u>31,710</u>	<u>9,322</u>	100	<u>9,322</u>
Total	<u>293,372</u>	<u>121,055</u>		12,202
Excess over Bank of Thailand minimum requirement				<u>3,133</u>
<b>Total</b>				<u>15,335</u>

At December 31, 2003 and 2002 the Bank had loans and accrued interest receivable with listed companies under rehabilitation plans of Baht 2,256 million and Baht 2,267 million, respectively, in respect of which provisions were provided of Baht 153 million and Baht 65 million, respectively.

As at December 31, 2003 and 2002 non-performing loans (excluding inter-bank and money market items) of the Bank represents loans which are classified as substandard, doubtful, and doubtful of loss, in accordance with the rules on classification in the Notification of the Bank of Thailand Re: Worthless and irrecoverable assets and doubtful assets which may be worthless or irrecoverable of commercial banks, including those debtors classified as doubtful of loss for which the commercial bank has already set aside full allowance of 100 percent and has written off but not yet recorded in the accounts. Non-performing loans of the Bank as defined by this announcement amounted to Baht 29,831 million which represents 9.90% of total loans (excluding inter-bank and money market items) for 2003 and Baht 43,197 million, which represents 14.30 % for 2002.

At December 31, 2003 and 2002 the Bank has provided an allowance for doubtful accounts of Baht 24,850 million and Baht 15,335 million, respectively, which is above the minimum allowance for doubtful accounts required to be provided by the Bank of Thailand. The Bank's loans are still in the process of being collected, restructured and renegotiated, and the Bank is in the process of improving credit management and risk management and performing a qualitative review, which may affect the classification of loans and accrued interest receivable and the resulting estimate of allowance for doubtful accounts.

#### Troubled Debt Restructuring

For the year ended December 31, 2003 the Bank and subsidiary have entered into contracts for troubled debt restructuring as follows:  
Amounts : Million Baht

Type of Restructuring	Consolidated						
	For the Year Ended December 31, 2003						
	Recorded Amounts of Debt				Assets Acquired		Loss on Debt Restructuring
Numbers of Receivables	Before Restructuring	Numbers of Receivables	After Restructuring	Type	Fair Value		
Transfer of assets	9	106	-	-	Cash	95	11
Modification of terms	22	4,854	15	4,409	-	-	1,560
					Land And Building And Shares		
Various restructuring	<u>16</u>	<u>2,769</u>	<u>11</u>	<u>742</u>	And Cash	<u>672</u>	<u>1,237</u>
<b>Total</b>	<u>47</u>	<u>7,729</u>	<u>26</u>	<u>5,151</u>		<u>767</u>	<u>2,808</u>

Term of debt <u>Restructuring agreements</u>	Consolidated	
	For the Year Ended December 31, 2003	
	Number of Receivables	Amount of Debt After Restructuring
Not over 5 years	31	2,005
Over 5 years to 10 years	9	2,172
Over 10 years	<u>7</u>	<u>743</u>
<b>Total</b>	<u>47</u>	<u>4,920</u>

For the year ended December 31, 2003, the Bank and the subsidiary have received interest income recognized on restructured loans was Baht 111 million; principal and interest of Baht 1,195 million was collected.

As at December 31, 2003, the Bank and the subsidiary have 45 troubled debt restructuring receivables with a total carrying amount of Baht 7,231 million.

Type of Restructuring	The Bank Only						
	For the Year Ended December 31, 2003						
	Recorded Amounts of Debt				Assets Acquired		Loss on Debt Restructuring
Numbers of Receivables	Before Restructuring	Numbers of Receivables	After Restructuring	Type	Fair Value		
Modification of terms	22	4,854	15	4,409	-	-	1,560
					Land And Building And Shares		
Various restructuring	<u>12</u>	<u>2,535</u>	<u>8</u>	<u>598</u>		<u>602</u>	<u>1,217</u>
<b>Total</b>	<u>34</u>	<u>7,389</u>	<u>23</u>	<u>5,007</u>		<u>602</u>	<u>2,777</u>

Amounts : Million Baht

Term of debt Restructuring agreements	The Bank Only For the Year Ended December 31, 2003	
	Number of Receivables	Amount of Debt After Restructuring
Not over 5 years	18	1,697
Over 5 years to 10 years	9	2,172
Over 10 years	<u>7</u>	<u>743</u>
<b>Total</b>	<b><u>34</u></b>	<b><u>4,612</u></b>

For the year ended December 31, 2003, the Bank has received interest income recognized on restructured loans was Baht 93 million; principal and interest of Baht 995 million was collected.

As at December 31, 2003, the Bank has 36 troubled debt restructuring receivables with a total carrying amount of Baht 6,861 million. During the year ended December 31, 2002 the Bank and subsidiary entered into contracts for troubled debt restructuring as follows:

Amounts : Million Baht

Type of Restructuring	Consolidated For the Year Ended December 31, 2002						
	Recorded Amounts of Debt				Assets Acquired		Loss on Debt Restructuring
	Numbers of Receivables	Before Restructuring	Numbers of Receivables	After Restructuring	Type	Fair Value	
Transfer of assets	5	1,758	2	124	Land Building And Cash	1,664	92
Modification of terms	21	7,147	17	6,473	-	-	933
Various restructuring	<u>4</u>	<u>649</u>	<u>4</u>	<u>242</u>	-	-	<u>81</u>
<b>Total</b>	<b><u>30</u></b>	<b><u>9,554</u></b>	<b><u>23</u></b>	<b><u>6,839</u></b>		<b><u>1,664</u></b>	<b><u>1,106</u></b>

Amounts : Million Baht

Term of debt Restructuring agreements	Consolidated For the Year Ended December 31, 2002	
	Number of Receivables	Amount of Debt After Restructuring
Not over 5 years	11	2,107
Over 5 years to 10 years	12	2,974
Over 10 years	<u>7</u>	<u>3,367</u>
<b>Total</b>	<b><u>30</u></b>	<b><u>8,448</u></b>

Amounts : Million Baht

Type of Restructuring	The Bank Only For the Year Ended December 31, 2002						
	Recorded Amounts of Debt				Assets Acquired		Loss on Debt Restructuring
	Numbers of Receivables	Before Restructuring	Numbers of Receivables	After Restructuring	Type	Fair Value	
Transfer of assets	2	1,709	2	124	Land And Building	1,619	88
Modification of terms	21	7,147	17	6,473	-	-	933
Various restructuring	<u>4</u>	<u>649</u>	<u>4</u>	<u>242</u>	-	-	<u>81</u>
<b>Total</b>	<b><u>27</u></b>	<b><u>9,505</u></b>	<b><u>23</u></b>	<b><u>6,839</u></b>		<b><u>1,619</u></b>	<b><u>1,102</u></b>

Amounts : Million Baht

Term of debt Restructuring agreements	The Bank Only For the Year Ended December 31, 2002	
	Number of Receivables	Amount of Debt After Restructuring
Not over 5 years	8	2,062
Over 5 years to 10 years	12	2,974
Over 10 years	<u>7</u>	<u>3,367</u>
<b>Total</b>	<b><u>27</u></b>	<b><u>8,403</u></b>



For the year ended December 31, 2002, the Bank has received interest income recognized on restructured loans was Baht 311 million; principal and interest of Baht 932 million was collected.

As at December 31, 2002, the Bank has 33 troubled debt restructuring receivables with a total carrying amount of Baht 9,137 million.

#### 4.5 Classified Assets

Classified assets, which consist of investment in securities, loans and accrued interest receivable (including loans to banks and money market items), properties foreclosed, premises and equipment and other assets, at December 31, 2003 and 2002, were classified as follows:

Amounts : Million Baht

	Consolidated December 31, 2003					Total
	Type of Assets					
	Investments in Securities	Loans and Accrued Interest Receivables	Properties Foreclosed	Premises and Equipment	Other Assets	
Pass	-	258,650	-	-	-	258,650
Special mention	-	8,043	-	-	-	8,043
Substandard	-	3,107	-	-	-	3,107
Doubtful	-	4,182	-	-	-	4,182
Doubtful of loss	<u>609</u>	<u>27,699</u>	<u>592</u>	<u>759</u>	<u>433</u>	<u>30,092</u>
<b>Total</b>	<u>609</u>	<u>301,681</u>	<u>592</u>	<u>759</u>	<u>433</u>	<u>304,074</u>

At December 31, 2003, Phayathai Asset Management Company Limited has classified assets as follows:

Amounts : Million Baht

	December 31, 2003			Total
	Type of Assets			
	Investments in Receivables	Loans	Properties Foreclosed	
Pass	-	1,083	-	1,083
Special mention	-	121	-	121
Substandard	-	478	-	478
Doubtful of loss	<u>3,152</u>	<u>150</u>	<u>24</u>	<u>3,326</u>
<b>Total</b>	<u>3,152</u>	<u>1,832</u>	<u>24</u>	<u>5,008</u>

Amounts : Million Baht

	Consolidated December 31, 2002					Total
	Type of Assets					
	Investments in Securities	Loans and Accrued Interest Receivables	Properties Foreclosed	Premises and Equipment	Other Assets	
Pass	-	219,899	-	-	-	219,899
Special mention	-	10,617	-	-	-	10,617
Substandard	-	7,134	-	-	-	7,134
Doubtful	-	7,436	-	-	-	7,436
Doubtful of loss	<u>1,917</u>	<u>55,575</u>	<u>475</u>	<u>22</u>	<u>401</u>	<u>58,390</u>
<b>Total</b>	<u>1,917</u>	<u>300,661</u>	<u>475</u>	<u>22</u>	<u>401</u>	<u>303,476</u>

At December 31, 2002, Phayathai Asset Management Company Limited has classified assets as follows:

Amounts : Million Baht

	December 31, 2002				Total
	Type of Assets				
	Investments in Securities	Investments in Receivables	Loans	Properties Foreclosed	
Pass	-	124	28	-	152
Special mention	-	94	-	-	94
Substandard	-	872	69	-	941
Doubtful	-	233	-	-	233
Doubtful of loss	<u>8</u>	<u>24,178</u>	<u>-</u>	<u>4</u>	<u>24,190</u>
<b>Total</b>	<u>8</u>	<u>25,501</u>	<u>97</u>	<u>4</u>	<u>25,610</u>

Amounts : Million Baht

The Bank Only December 31, 2003						
Type of Assets						
	Investments in Securities	Loans and Accrued Interest Receivables	Properties Foreclosed	Premises and Equipment	Other Assets	Total
Pass	-	263,979	-	-	-	263,979
Special mention	-	7,922	-	-	-	7,922
Substandard	-	2,629	-	-	-	2,629
Doubtful	-	4,182	-	-	-	4,182
Doubtful of loss	<u>609</u>	<u>24,404</u>	<u>568</u>	<u>759</u>	<u>433</u>	<u>26,773</u>
<b>Total</b>	<u>609</u>	<u>303,116</u>	<u>568</u>	<u>759</u>	<u>433</u>	<u>305,485</u>

Amounts : Million Baht

The Bank Only December 31, 2002						
Type of Assets						
	Investments in Securities	Loans and Accrued Interest Receivables	Properties Foreclosed	Premises and Equipment	Other Assets	Total
Pass	-	249,339	-	-	-	249,339
Special mention	-	10,530	-	-	-	10,530
Substandard	-	6,195	-	-	-	6,195
Doubtful	-	7,241	-	-	-	7,241
Doubtful of loss	<u>1,909</u>	<u>31,710</u>	<u>471</u>	<u>22</u>	<u>401</u>	<u>34,513</u>
<b>Total</b>	<u>1,909</u>	<u>305,015</u>	<u>471</u>	<u>22</u>	<u>401</u>	<u>307,818</u>

#### 4.6 Allowance for Doubtful Accounts

Movements in the allowance for doubtful accounts for the years ended December 31, 2003 and 2002 are as follows:

Amounts : Million Baht

Consolidated December 31, 2003							
	Pass	Special Mention	Substandard	Doubtful	Doubtful of Loss	Allowance for Doubtful Accounts in excess of the BOT Minimum Requirement	Total
Balance at beginning of the year	1,060	23	352	1,457	9,582	3,197	15,671
Provision during the year **	34	15	(125)	57	14,818	2,122	16,921
Bad debts recovered	-	-	-	-	122	-	122
Bad debts written off	-	-	-	-	(7,347)	-	(7,347)
Others	<u>(2)</u>	-	-	-	<u>(22)</u>	-	<u>(24)</u>
Balance at end of the year	<u>1,092</u>	<u>38</u>	<u>227</u>	<u>1,514*</u>	<u>17,153*</u>	<u>5,319</u>	<u>25,343</u>

\*Including an allowance for doubtful accounts (after written off) of Baht 10,154 million, set up in 2003, in accordance with the Bank of Thailand's letter dated February 27, 2003.

\*\* Included an allowance for doubtful accounts for loans and debtors of a subsidiary which occurred from transferred financial assets amounted to Baht 11 million.

Amounts : Million Baht

	The Bank Only						Total
	Pass	Special Mention	Substandard	Doubtful	Doubtful of Loss	Allowance for Doubtful Accounts in excess of the BOT Minimum Requirement	
Balance at beginning of the year	1,060	23	340	1,457	9,322	3,133	15,335
Provision during the year	34	15	(119)	57	14,935	1,842	16,764
Bad debts recovered	-	-	-	-	122	-	122
Bad debts written off	-	-	-	-	(7,347)	-	(7,347)
Others	(2)	-	-	-	(22)	-	(24)
Balance at end of the year	<u>1,092</u>	<u>38</u>	<u>221</u>	<u>1,514*</u>	<u>17,010*</u>	<u>4,975</u>	<u>24,850</u>

\*Including an allowance for doubtful accounts (after written off) of Baht 10,154 million, set up in 2003, in accordance with the Bank of Thailand's letter dated February 27, 2003.

During 2003, the Bank received a cash settlement from Financial Institutions Asset Management Corporation of Baht 3 million. The Bank has increased the allowance for doubtful accounts by Baht 3 million.

Amounts : Million Baht

	Consolidated						Total
	Pass	Special Mention	Substandard	Doubtful	Doubtful of Loss	Allowance for Doubtful Accounts in excess of the BOT Minimum Requirement	
Balance at beginning of the year	1,057	50	320	2,134	51	1,308	4,920
Provision during the year	3	(27)	33	(672)	250	1,889	1,476
Reversed due to debt Restructuring	-	-	-	-	55	-	55
Reversal for the write off of doubtful of loss account	-	-	-	-	9,939	-	9,939
Bad debts recovered	-	-	-	-	115	-	115
Bad debts written off	-	-	-	-	(840)	-	(840)
Others	-	-	(1)	(5)	12	-	6
Balance at end of the year	<u>1,060</u>	<u>23</u>	<u>352</u>	<u>1,457</u>	<u>9,582</u>	<u>3,197</u>	<u>15,671</u>

Amounts : Million Baht

	The Bank Only						Total
	Pass	Special Mention	Substandard	Doubtful	Doubtful of Loss	Allowance for Doubtful Accounts in excess of the BOT Minimum Requirement	
Balance at beginning of the year	1,056	50	306	2,122	51	1,307	4,892
Provision during the year	4	(27)	35	(660)	(10)	1,826	1,168
Reversed due to debt Restructuring	-	-	-	-	55	-	55
Reversal for the write off of doubtful of loss account	-	-	-	-	9,939	-	9,939
Bad debts recovered	-	-	-	-	115	-	115
Bad debts written off	-	-	-	-	(840)	-	(840)
Others	-	-	(1)	(5)	12	-	6
Balance at end of the year	<u>1,060</u>	<u>23</u>	<u>340</u>	<u>1,457</u>	<u>9,322</u>	<u>3,133</u>	<u>15,335</u>

During 2002, the Bank received a cash settlement from Financial Institutions Asset Management Corporation of Baht 70 million. The Bank has increased the allowance for doubtful accounts by Baht 70 million.

#### 4.7 Revaluation Allowance for Debt Restructuring

Changes in the revaluation allowance for debt restructuring for the year ended December 31, 2003 and 2002 are as follows:

	Amounts : Million Baht	
	Consolidated Financial Statements and Bank Only Financial Statements	
	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Balance at beginning of the year	2,735	1,487
Increase (decrease) during the year	<u>(759)</u>	<u>1,248</u>
Balance at end of the year	<u>1,976</u>	<u>2,735</u>

#### 4.8 Properties Foreclosed

Changes in properties foreclosed for the year ended December 31, 2003 and 2002 are as follows :

	Amounts : Million Baht			
	Consolidated			
	December 31, 2003			
Type of Properties Foreclosed	<u>Beginning Balance</u>	Increase	Disposal	<u>Ending Balance</u>
Assets from settlement				
Immovable assets	23,025	2,419	(6,827)	18,617
Unutilized assets				
Immovable assets	540	(1)	(30)	509
<u>Less</u> Allowance for impairment	<u>1,279</u>	<u>(640)</u>	<u>(47)</u>	<u>592</u>
Properties Foreclosed - net	<u>22,286</u>	<u>3,058</u>	<u>(6,810)</u>	<u>18,534</u>

	Amounts : Million Baht			
	Consolidated			
	December 31, 2002			
Type of Properties Foreclosed	<u>Beginning Balance</u>	Increase	Disposal	<u>Ending Balance</u>
	(Restated)			
Assets from settlement				
Immovable assets	14,544	8,992	(511)	23,025
Unutilized assets				
Immovable assets	54	488	(2)	540
<u>Less</u> Allowance for impairment	<u>1,126</u>	<u>160</u>	<u>(7)</u>	<u>1,279</u>
Properties Foreclosed - net	<u>13,472</u>	<u>9,320</u>	<u>(506)</u>	<u>22,286</u>

	Amounts : Million Baht			
	The Bank Only			
	December 31, 2003			
Type of Properties Foreclosed	<u>Beginning Balance</u>	Increase	Disposal	<u>Ending Balance</u>
Assets from settlement				
Immovable assets	16,210	1,831	(1,657)	16,384
Unutilized assets				
Immovable assets	540	(1)	(30)	509
<u>Less</u> Allowance for impairment	<u>471</u>	<u>140</u>	<u>(43)</u>	<u>568</u>
Properties Foreclosed - net	<u>16,279</u>	<u>1,690</u>	<u>(1,644)</u>	<u>16,325</u>

	Amounts : Million Baht			
	The Bank Only			
	December 31, 2002			
Type of Properties Foreclosed	<u>Beginning Balance</u>	Increase	Disposal	<u>Ending Balance</u>
	(Restated)			
Assets from settlement				
Immovable assets	10,324	6,224	(338)	16,210
Unutilized assets				
Immovable assets	54	488	(2)	540
<u>Less</u> Allowance for impairment	<u>318</u>	<u>160</u>	<u>(7)</u>	<u>471</u>
Properties Foreclosed - net	<u>10,060</u>	<u>6,552</u>	<u>(333)</u>	<u>16,279</u>

#### 4.9 Premises and Equipment

Changes in premises and equipment (including revalued incremental cost) for the year ended December 31, 2003 are summarized as follows:

Amounts : Million Baht

	Consolidated December 31, 2003													
	Book Value At Beginning of Year	Changes in Cost during the Year					Changes in Accumulated Depreciation during the Year					Allowance for Impairment	Book Value at End of Year	
		At Beginning of Year	Diff in Exchange Rate	Purchased	Transfer from Other Assets	Disposal / Transfer	At End of Year	At Beginning of Year	Diff in Exchange Rate	Depreciation	Disposal/ Transfer			At End of Year
Land														
Cost	3,148	3,164	-	-	46	(50)	3,160	-	-	-	-	-	669	2,491
Revalued Incremental cost (Year 1993)	881	881	-	-	-	(190)	691	-	-	-	-	-	-	691
Revalued Incremental cost (Year 2003)	-	-	-	1,182	-	-	1,182	-	-	-	-	-	-	1,182
Buildings														
Cost	2,098	3,975	-	32	18	(24)	4,001	1,871	-	176	(9)	2,038	90	1,873
Revalued Incremental cost (Year 1993)	62	304	-	-	-	(2)	302	242	-	15	(1)	256	-	46
Revalued Incremental cost (Year 2003)	-	-	-	1,627	-	-	1,627	-	-	8	-	8	-	1,619
Equipment	1,615	5,642	(1)	379	-	(88)	5,932	4,027	(1)	469	(83)	4,412	-	1,520
Installation work	52	52	-	32	-	(3)	81	-	-	-	-	-	-	81
Total	<u>7,856</u>	<u>14,018</u>	<u>(1)</u>	<u>3,252</u>	<u>64</u>	<u>(357)</u>	<u>16,976</u>	<u>6,140</u>	<u>(1)</u>	<u>668</u>	<u>(93)</u>	<u>6,714</u>	<u>759</u>	<u>9,503</u>

1. Depreciation for the year ended December 31, 2003 in the amount of Baht 668 million is included in premises and equipment expenses.
2. At December 31, 2003, premises and equipment with a cost of Baht 3,596 million were fully depreciated, but still in use.

Changes in premises and equipment (including revalued incremental cost) for the year ended December 31, 2002 are summarized as follows:

Amounts : Million Baht

	Consolidated December 31, 2002													
	Book Value At Beginning of Year	Changes in Cost during the Year						Changes in Accumulated Depreciation during the Year					Allowance for Impairment	Book Value at End of Year
		At Beginning of Year	Diff in Exchange Rate	Purchased	Transfer from Other Assets	Disposal / Transfer	At End of Year	At Beginning of Year	Diff in Exchange Rate	Depreciation	Disposal/ Transfer	At End of Year		
Land														
Cost	3,658	3,723	-	-	1	(560)	3,164	-	-	-	-	-	16	3,148
Revalued Incremental cost (Year 1993)	882	882	-	-	-	(1)	881	-	-	-	-	-	-	881
Buildings														
Cost	2,442	4,310	-	47	41	(423)	3,975	1,856	-	194	(179)	1,871	6	2,098
Revalued Incremental cost (Year 1993)	84	308	-	-	-	(4)	304	224	-	21	(3)	242	-	62
Equipment	918	4,708	-	1,056	-	(122)	5,642	3,790	-	353	(116)	4,027	-	1,615
Installation work	<u>240</u>	<u>240</u>	<u>-</u>	<u>197</u>	<u>-</u>	<u>(385)</u>	<u>52</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52</u>
Total	<u>8,224</u>	<u>14,171</u>	<u>-</u>	<u>1,300</u>	<u>42</u>	<u>(1,495)</u>	<u>14,018</u>	<u>5,870</u>	<u>-</u>	<u>568</u>	<u>(298)</u>	<u>6,140</u>	<u>22</u>	<u>7,856</u>

1. Depreciation for the year ended December 31, 2002 in the amount of Baht 568 million is included in premises and equipment expenses.
2. At December 31, 2002, premises and equipment with a cost of Baht 3,530 million were fully depreciated, but still in use.

Changes in premises and equipment (including revalued incremental cost) for the year ended December 31, 2003 are summarized as follows:

Amounts : Million Baht

	The Bank Only December 31, 2003													
	Book Value At Beginning of Year	Changes in Cost during the Year						Changes in Accumulated Depreciation during the Year					Allowance for Impairment	Book Value at End of Year
		At Beginning of Year	Diff in Exchange Rate	Purchased	Transfer from Other Assets	Disposal / Transfer	At End of Year	At Beginning of Year	Diff in Exchange Rate	Depreciation	Disposal/ Transfer	At End of Year		
Land														
Cost	3,148	3,164	-	-	46	(50)	3,160	-	-	-	-	-	669	2,491
Revalued Incremental cost (Year 1993)	881	881	-	-	-	(190)	691	-	-	-	-	-	-	691
Revalued Incremental cost (Year 2003)	-	-	-	1,182	-	-	1,182	-	-	-	-	-	-	1,182
Buildings														
Cost	2,098	3,975	-	32	18	(24)	4,001	1,871	-	176	(9)	2,038	90	1,873
Revalued Incremental cost (Year 1993)	62	304	-	-	-	(2)	302	242	-	15	(1)	256	-	46
Revalued Incremental cost (Year 2003)	-	-	-	1,627	-	-	1,627	-	-	8	-	8	-	1,619
Equipment	1,609	5,634	(1)	375	-	(88)	5,920	4,025	(1)	467	(83)	4,408	-	1,512
Installation work	50	50	-	31	-	-	81	-	-	-	-	-	-	81
Total	<u>7,848</u>	<u>14,008</u>	<u>(1)</u>	<u>3,247</u>	<u>64</u>	<u>(354)</u>	<u>16,964</u>	<u>6,138</u>	<u>(1)</u>	<u>666</u>	<u>(93)</u>	<u>6,710</u>	<u>759</u>	<u>9,495</u>

1. Depreciation for the year ended December 31, 2003 in the amount of Baht 666 million is included in premises and equipment expenses.
2. At December 31, 2003, premises and equipment with a cost of Baht 3,596 million were fully depreciated, but still in use.

Changes in premises and equipment (including revalued incremental cost) for the year ended December 31, 2002 are summarized as follows:

Amounts : Million Baht

	The Bank Only December 31, 2002													
	Book Value At Beginning of Year	Changes in Cost during the Year						Changes in Accumulated Depreciation during the Year					Allowance for Impairment	Book Value at End of Year
	At Beginning of Year	Diff in Exchange Rate	Purchased	Transfer from Other Assets	Disposal / Transfer	At End of Year	At Beginning of Year	Diff in Exchange Rate	Depreciation	Disposal/ Transfer	At End of Year			
Land														
Cost	3,658	3,723	-	-	1	(560)	3,164	-	-	-	-	-	16	3,148
Revalued Incremental cost (Year 1993)	882	882	-	-	-	(1)	881	-	-	-	-	-	-	881
Buildings														
Cost	2,442	4,310	-	47	41	(423)	3,975	1,856	-	194	(179)	1,871	6	2,098
Revalued Incremental cost (Year 1993)	84	308	-	-	-	(4)	304	224	-	21	(3)	242	-	62
Equipment	914	4,703	-	1,053	-	(122)	5,634	3,789	-	352	(116)	4,025	-	1,609
Installation work	240	240	-	194	-	(384)	50	-	-	-	-	-	-	50
Total	<u>8,220</u>	<u>14,166</u>	<u>-</u>	<u>1,294</u>	<u>42</u>	<u>(1,494)</u>	<u>14,008</u>	<u>5,869</u>	<u>-</u>	<u>567</u>	<u>(298)</u>	<u>6,138</u>	<u>22</u>	<u>7,848</u>

1. Depreciation for the year ended December 31, 2002 in the amount of Baht 567 million is included in premises and equipment expenses.
2. At December 31, 2002, premises and equipment with a cost of Baht 3,530 million were fully depreciated, but still in use.



#### 4.10 Deposits

Deposits at December 31, 2003 and 2002 are classified as follows:

Classified by Type of Deposits	Consolidated		The Bank Only	
	December 31, 2003	December 31, 2002	December 31, 2003	December 31, 2002
	Amounts : Million Baht			
Current	10,226	7,625	10,235	7,628
Savings	123,219	98,246	123,391	98,292
Term				
- Within 6 months	98,254	109,922	98,254	109,922
- 6 months not over 1 year	4,615	16	4,615	16
- Over 1 year	83,219	101,704	83,219	101,704
Certificates of deposit	<u>2,525</u>	<u>4,508</u>	<u>2,525</u>	<u>4,508</u>
<b>Total</b>	<b><u>322,058</u></b>	<b><u>322,021</u></b>	<b><u>322,239</u></b>	<b><u>322,070</u></b>
<b>Classified by Maturity of Contracts</b>				
Within 1 year	317,014	264,025	317,195	264,074
Over 1 year	<u>5,044</u>	<u>57,996</u>	<u>5,044</u>	<u>57,996</u>
<b>Total</b>	<b><u>322,058</u></b>	<b><u>322,021</u></b>	<b><u>322,239</u></b>	<b><u>322,070</u></b>

Classified by Currencies and Residency of Depositors

	Consolidated					
	December 31, 2003			December 31, 2002		
	Domestic	Overseas	Total	Domestic	Overseas	Total
Baht	320,864	144	321,008	320,642	604	321,246
US Dollar	157	194	351	308	211	519
Other currencies	<u>681</u>	<u>18</u>	<u>699</u>	<u>207</u>	<u>49</u>	<u>256</u>
<b>Total</b>	<b><u>321,702</u></b>	<b><u>356</u></b>	<b><u>322,058</u></b>	<b><u>321,157</u></b>	<b><u>864</u></b>	<b><u>322,021</u></b>

	The Bank Only					
	December 31, 2003			December 31, 2002		
	Domestic	Overseas	Total	Domestic	Overseas	Total
Baht	321,045	144	321,189	320,691	604	321,295
US Dollar	157	194	351	308	211	519
Other currencies	<u>681</u>	<u>18</u>	<u>699</u>	<u>207</u>	<u>49</u>	<u>256</u>
<b>Total</b>	<b><u>321,883</u></b>	<b><u>356</u></b>	<b><u>322,239</u></b>	<b><u>321,206</u></b>	<b><u>864</u></b>	<b><u>322,070</u></b>

#### 4.11 Interbank and Money Market Items

Interbank and money market items at December 31, 2003 consisted of:

1. Domestic	Consolidated Financial Statements and The Bank Only Financial Statements December 31, 2003		
	At Call	Term	Total
	Amounts : Million Baht		
The Bank of Thailand and Financial Institutions			
Development Fund	-	2,274	2,274
Commercial banks	1,746	-	1,746
Other banks	76	192	268
Finance, securities and credit foncier companies	10	-	10
Other financial institutions	<u>1,900</u>	<u>3,265</u>	<u>5,165</u>
<b>Total Domestic</b>	<b><u>3,732</u></b>	<b><u>5,731</u></b>	<b><u>9,463</u></b>

Amounts : Million Baht  
Consolidated Financial Statements  
and The Bank Only Financial Statements  
December 31, 2003

2. Foreign

	<u>At Call</u>	<u>Term</u>	<u>Total</u>
US Dollar	146	3,962	4,108
Other currencies	<u>386</u>	<u>49</u>	<u>435</u>
Total Foreign	<u>532</u>	<u>4,011</u>	<u>4,543</u>
<b>Total Domestic and Foreign</b>	<u>4,264</u>	<u>9,742</u>	<u>14,006</u>

Interbank and money market items at December 31, 2002 consisted of:

Amounts : Million Baht  
Consolidated Financial Statements  
and The Bank Only Financial Statements  
December 31, 2002

1. Domestic

	<u>At Call</u>	<u>Term</u>	<u>Total</u>
The Bank of Thailand and Financial Institutions			
Development Fund	3	1,246	1,249
Commercial banks	76	-	76
Other banks	79	174	253
Finance, securities and credit foncier companies	106	134	240
Other financial institutions	<u>2,460</u>	<u>8,332</u>	<u>10,792</u>
Total Domestic	<u>2,724</u>	<u>9,886</u>	<u>12,610</u>

2. Foreign

	<u>At Call</u>	<u>Term</u>	<u>Total</u>
US Dollar	296	8,043	8,339
Other currencies	<u>123</u>	<u>120</u>	<u>243</u>
Total Foreign	<u>419</u>	<u>8,163</u>	<u>8,582</u>
<b>Total Domestic and Foreign</b>	<u>3,143</u>	<u>18,049</u>	<u>21,192</u>

4.12 Borrowings

Borrowings at December 31, 2003 and 2002 classified by type of instruments and source of funds were as follows:

Amounts : Million Baht  
Consolidated Financial Statements  
and The Bank Only Financial Statements

	December 31, 2003			December 31, 2002		
	<u>Domestic</u>	<u>Overseas</u>	<u>Total</u>	<u>Domestic</u>	<u>Overseas</u>	<u>Total</u>
Subordinated debentures	7,287	-	7,287	13,287	-	13,287
Debentures	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,320</u>	<u>-</u>	<u>3,320</u>
<b>Total</b>	<u>7,287</u>	<u>-</u>	<u>7,287</u>	<u>16,607</u>	<u>-</u>	<u>16,607</u>

Subordinated debentures and debentures December 31, 2003 and 2002 consisted of:

Amounts : Million Baht  
Consolidated Financial Statements  
and The Bank Only Financial Statements  
December 31, 2003      December 31, 2002

<u>Currency</u>	<u>Type</u>	<u>Maturity Year</u>		
Baht	Subordinated debentures	2005	-	6,000
Baht	Subordinated debentures	2007	6,000	6,000
Baht	Subordinated debentures	2009	742	742
Baht	Subordinated debentures	2010	545	545
Baht	Debentures	2006	<u>-</u>	<u>3,320</u>
<b>Total</b>			<u>7,287</u>	<u>16,607</u>

Long-term Borrowings - Domestic

On November 17, 1998, the Bank issued subordinated debentures of Baht 6,000 million due on November 17, 2005, with a call option at the end of the fifth year. Interest is payable quarterly in February, May, August and November at the higher of the floating rate equal to the maximum fixed deposit rate of the Bank plus 4.0% per annum or 12.5% per annum. On November 17, 2003, the Bank exercised a call option to redeem all these debentures.

On September 20, 1999, the Bank issued 10-year subordinated debentures of Baht 742 million, with an interest rate of 5% per annum, payable annually.

On November 17, 2000, the Bank issued subordinated debentures of Baht 6,000 million due on November 17, 2007, with a call option at the end of the fifth year. Interest is payable quarterly in February, May, August and November at the higher of the floating rate equal to maximum fixed deposit rate of the Bank plus 3.0% per annum or 7.5% per annum.

On December 28, 2000, the Bank issued 10-year subordinated debentures of Baht 545 million, with interest rate of 3.5% per annum, payable annually.

#### 4.13. The Issuance of Preferred Shares cum Subordinated Debentures No.5 and the Issuance of 6/1<sup>st</sup> to 6/29<sup>th</sup> Debentures.

On June 7, 1999, the Bank issued 99,600 Class A Preferred Shares ("Preferred Shares") with a par value of Baht 10 and with a liquidation preference upon liquidation. On the same day, the Bank issued 99,600 Thai Military Bank PLC Subordinated Debentures No.5 due upon liquidation ("Subordinated Debentures No.5") with an offer price of Baht 100,000 each. These securities were offered to the Mutual Fund for Preferred Shares-Subordinated Debentures of Thai Military Bank PLC ("Mutual Fund"). On the same day, the Bank also entered into The Master Investment in Securities Agreement ("Master Agreement") with the Mutual Fund in order to specify various terms and conditions on these two inter-related securities. In this regard, the Bank received funds from the issue of these securities totaling Baht 9,960 million. The Mutual Fund sold the unit trusts and received funds from the institutional investors according to the announcement of the Securities and Exchange Commission.

The preferred shares are noncumulative. In the event that the Bank declares a dividend to the holders of the ordinary shares in any accounting year, the Bank shall declare dividends to the holders of the Preferred Shares in that accounting year, at the following rate per Preferred Shares per year:

1. If the Bank has paid interest on the Subordinated Debentures No. 5 in full on each due date as specified in the terms and conditions of the Subordinated Debentures No. 5, or if the Subordinated Debentures No. 5 are redeemed, the dividend shall be at the rate of Baht 1; or
2. If the Bank has not paid interest on the Subordinated Debentures No. 5 in full on each due date as specified in the terms and conditions of the Subordinated Debentures No. 5, the dividend shall be at a rate equal to the amount of the annual interest on the Subordinated Debentures No. 5 as specified in the Prospectus, less the interest paid on the Subordinated Debentures No. 5 in such accounting year. In the event the Bank does not pay a dividend to the ordinary shareholders and consequently is not required to pay a dividend to the holders of the Preferred Shares in such accounting year, the Bank, at its sole discretion, may pay all or some of the dividends to the holders of the Preferred Shares, if there is sufficient profit.

The Liquidation Preference shall be reduced to the par value of the Preferred Shares in the following events:

1. If the Subordinated Debentures No. 5 are redeemed; or
2. If, upon the liquidation of the Bank for whatsoever reason, the holders of the Subordinated Debentures No. 5 have applied for repayment or have received repayment under the Subordinated Debentures No. 5, whether or not they have been repaid in full.

Upon the redemption of the Subordinated Debentures No.5, the liquidation Preference shall be reduced to par value at Baht 10 each and the Preferred Shares may be converted into ordinary shares of the Bank at a ratio of one Preferred Share per one ordinary share. The Master Agreement specifies that the Fund shall convert such Preferred Shares when requested by the Bank.

The Subordinated Debentures No.5 will be due upon liquidation. However, the Bank may redeem the Subordinated Debentures prior to their due date under the following conditions :

1. The redemption is made on the date of the fifth anniversary from the issuing date of the Subordinated Debentures No.5; or
2. If the Bank can demonstrate that the interest on the Subordinated Debentures No. 5 can or will no longer be deducted as the Bank's expenses for tax purposes; or
3. If the Bank is informed by the Bank of Thailand that the entire amount of the Preferred Shares and the Subordinated Debentures No. 5 can or will no longer be counted as the Tier 1 capital fund to risk asset ratio rate of the Bank; or
4. If the Bank can raise capital in an equal or greater amount than the Subordinated Debentures No.5 or the Bank has Tier 1 capital funds in excess of the minimum ratio stipulated by the Bank of Thailand after the redemption of the Subordinated Debentures No. 5.

All of the above cases require prior approval from the Bank of Thailand. In addition, the redemption price of the Subordinated Debentures No. 5 per unit will be reduced proportionately with the declining rate of the Tier 1 capital to risk asset ratio. The interest rate on the Subordinated Debentures is 15% per annum payable every six months on the last business day in April and October of each year, provided that the interest will be paid only when the Bank is required to make dividend payments on the Preferred Shares. The Bank shall

have the right to pay all or part of the interest if the Bank has an option to pay the dividend on the Preferred Shares. The interest unpaid in any year shall not be cumulative for payment in the following year. The Master Agreement has specified that prior to the redemption of the Subordinated Debentures No. 5, the transfer of Preferred Shares to any person may be made only if the Fund transfers the Preferred Shares simultaneously with the Subordinated Debentures No. 5 to the same transferee and such transferee agrees in writing to be bound according to the terms and conditions of the Master Agreement in all respects. The Bank and the Mutual Fund have agreed that whenever the Subordinated Debentures No.5 are redeemed the liquidation preference upon the dissolution and liquidation of the Preferred Shares shall be reduced to par value. The Master Agreement has also specified that the Fund, as the holders of the Preferred Shares, agrees and accepts that the redemption payment made by the Bank under the Subordinated Debentures No. 5 to the Fund hereof shall be deemed as the complete payment made to the Fund as the holders of the Preferred Shares, under the Bank's Articles of Association.

Also on June 7, 1999, the Bank issued the 6/1<sup>st</sup> to 6/29<sup>th</sup> Debentures of Thai Military Bank PLC, with a final redemption in 2006, in the amount of 13,824,480 units, with a par value of Baht 1,000 per unit, totaling Baht 13,824.48 million. The Bank offered the 6/1<sup>st</sup> to 6/29<sup>th</sup> Debentures at a discount from par value and received total proceeds of Baht 3,320 million. Debentures 6/1<sup>st</sup> through 6/28<sup>th</sup> will mature in successive three month intervals from June 1999, each having a par value of Baht 375.16 million and bearing no interest. Debenture 6/29<sup>th</sup> will be redeemed in June 2006 (together with Debentures 6/28<sup>th</sup>), at a par value of Baht 3,320 million and bear no interest. The Bank may redeem all outstanding Debentures on the fifth anniversary date, as from the issuing date, or on each redemption date of 6/1<sup>st</sup> to 6/29<sup>th</sup>, in whole only, at their accreted value on the redemption date, by advising the debenture holders at least 30 days but not over 60 days prior to the redemption date.

Since the Bank will apply for the Tier 1 capital support scheme in accordance with the Notification of Ministry of Finance by issuing class B preferred shares for sale to the Ministry of Finance and/or the joint investors, the class B preferred shares will have the rights and status as specified in the mentioned notification of the Ministry of Finance.

On October 11, 1999, as a result, the Bank and the Mutual Fund agreed to amend the Master Agreement dated June 7, 1999, as follows:

1. In the event of operating losses arising existing before the Ministry of Finance injects the funds to increase the capital and it is necessary to reduce the capital whether at one time or several times, the Mutual Fund agreed to allow the Bank to reduce the capital and to give up any right to protest or object to the capital reduction of the ordinary shares and to allow the reduction in the redemption price and the release of debts to be paid under the Subordinated Debentures No.5; also to allow the release of debts to be paid to the Mutual Fund as the holder of the Preferred Shares as specified in the amended agreement. However, the amount should not exceed the deficit as at the date of the capital injection by the Ministry of Finance together with the losses which may arise later from the assets existing prior to the capital injection of the Ministry of Finance.
2. In the event of capital reduction due to operating losses arising existing after the capital injection of the Ministry of Finance, the Mutual Fund agrees to allow the Bank to reduce the capital and to give up any right to protest or object the capital reduction on the part of the Preferred Shares according to the proportions of the holdings of ordinary shares, Preferred Shares and class B preferred shares.
3. The Mutual Fund agrees that if a deficit still remains after the reduction of ordinary shares, the Mutual Fund will allow the reduction of the redemption price per unit of Subordinated Debentures No.5 from the face value to be equal to the face value per unit of the Subordinated Debentures No.5 less the amount of the average remaining deficit. The Mutual Fund agrees to release the Bank's debts in the amount equal to the average remaining deficit subtracted from the face value of the Subordinated Debentures No.5.
4. In the event that remaining redemption price per unit is equal to Baht zero, the Mutual Fund agrees to release the debts that the Bank is responsible to pay to the Mutual Fund in an amount per share equal to Baht one hundred thousand less the par value of the Preferred Shares. The Mutual Fund agrees that the Subordinated Debentures No.5 be redeemable immediately. The redemption price will be Baht zero and the Mutual Fund agrees to convert the Preferred Shares to ordinary shares immediately. This agreement constitutes the application for the such conversion to the Bank. If it is necessary to reduce the capital on the part of ordinary shares converted from Preferred Shares because a deficit still remains, the Mutual Fund agrees to allow the Bank to reduce the capital on the part of the afore mentioned ordinary shares.
5. In the event that there is redemption of the Subordinated Debentures No.5 and the redemption price per unit is over Baht zero, the Mutual Fund agrees to release the debts which the Bank is responsible to pay to the Mutual Fund according to the Bank's Articles of Association in the amount of one Preferred Share equals to Baht one hundred thousand, less the par value of the Preferred Share less the remaining redemption price per unit.
6. In the event that the redemption price of the Subordinated Debentures No.5 has reduced according to the above specified conditions and there is later an increase in the proportion of the Tier 1 capital against the risk assets (which is shown in the latest percentage) the redemption price shall not increase in line with the increase in the proportion of the Tier 1 capital against the risk assets.

7. After the capital reduction and the reduction of the redemption price of the Subordinated Debentures No.5 according to specified conditions and procedures, if there is later another capital reduction due to the operating losses arising from the assets which existed prior to the capital injection by the Ministry of Finance, the same methods, conditions and procedures already specified will be applied.

8. In the event of the Bank's liquidation, the Preferred Shares will be at the level as the class B preferred shares and other classes of preferred shares (if any) and have the preferential right over the ordinary shares in receiving the capital redemption portion in the debt repayments.

The Bank presented the above mentioned financial instruments in the financial statements as preferred shares of approximately Baht 1 million and premium on preferred shares of Baht 1.22 million in shareholders' equity, subordinated debentures cum preferred shares of Baht 9,957.78 million in liabilities, and debentures of Baht 3,320 million in borrowings, which complied with the Accounting Standard Committee's Interpretation No. 3 "Hybrid Financial Instruments issued by Financial Institutions" of The Institute of Certified Accountants and Auditors of Thailand. However, the above mentioned subordinated debentures cum preferred shares are still treated as Tier 1 capital totaling Baht 9,959.60 million according to Bank of Thailand's letter ref. No. B.O.T. For. 2414/2542 dated July 7, 1999.

For each of the years ended December 31, 2003 and 2002, the Bank recognized interest expense from debentures of Baht 1,400 million and Baht 1,501 million, respectively.

On December 8, 2003, the Bank exercised its call option on Debenture issues No. 6/19<sup>th</sup> to 6/29<sup>th</sup> and Subordinated Debenture cum Preferred Shares issue No. 5 on a total amount of Baht 13,280 million. The Bank also converted 99,600 Class A preferred shares into 99,600 ordinary shares at a par value of Baht 10 each. The premium over the said preferred shares at Baht 1.22 million was transferred into premium on ordinary shares in the same amount. This result was loss from the redemption of debts of Baht 2.22 million.

#### 4.14 Share Capital

As at December 31, 2002 the Bank has authorized share capital of 2,064,867,600 ordinary shares of Baht 10 par value, and 3,000,099,600 preferred shares of Baht 10 par value, totalling authorized share capital of Baht 50,650 million, and issued fully paid-up share capital of 2,010,867,600 ordinary shares of Baht 10 par value, and 1,992,099,600 preferred shares of Baht 10 par value, totalling paid-up share capital of Baht 40,030 million.

The 2003 Annual General Meeting of Shareholders held on April 29, 2003, passed the following resolutions:

1. To decrease the authorized share capital from Baht 50,650 million to Baht 40,030 million by canceling the unissued 54 million ordinary shares, and 1,008 million class B preferred shares, of Baht 10 par value.
2. To increase the authorized share capital from Baht 40,030 million to Baht 100,030 million by issuing 6,000 million ordinary shares, of Baht 10 par value.
3. To allocate newly issued ordinary shares as follows:
  - 3.1 To allocate 2,000 million new ordinary shares of Baht 10 par value to the existing shareholders.
  - 3.2 To allocate 4,000 million new ordinary shares of Baht 10 par value to investors in and/or outside the country to subscribe and/or institutional investors according to the related announcements of the Securities and Exchange Commission.

In offering of the ordinary shares above, the Board of Directors, or the Board of Executive Directors, or Chairman of the Board, or the President, or any other person assigned by the Board of Directors or the Board of Executive Directors shall have the authority as follows:

- (a) To offer for subscription partially or wholly in consideration of the economic condition, market situation and the needs of the Bank.
- (b) To fix or make alteration to offering details and conditions such as the number of shares to be offered, offering price, duration of offering, offering method and other information relating to such offering as well as the possibility of allowing the existing shareholders to make subscription beyond their rights and other changes as regards to offering of the ordinary shares.

On May 9, 2003 the Bank registered the decrease in share capital and on May 13, 2003, the Bank registered the new authorized share capital of Baht 100,030 million with the Ministry of Commerce.

The Extraordinary General Meeting of Shareholders No.1/2003 held on August 28, 2003, passed the following resolution :

1. To decrease the authorized share capital from Baht 100,030 million to Baht 40,030 million by canceling the unissued 6,000 million ordinary shares, of Baht 10 par value.
2. To increase the authorized share capital from Baht 40,030 million to Baht 104,080 million by issuing 6,405 million ordinary shares, of Baht 10 par value.

3. To allocate newly issued ordinary shares as follows:

- 3.1 To allocate 6,405 million new ordinary shares of Baht 10 par value to the existing shareholders at a ratio of 5 existing shares for 8 new shares at the offering price of Baht 3.50 each. In case there are fractions of shares remaining from the calculation according to the shareholder's right of subscription of ordinary shares, they shall be disregarded. The existing shareholders are allowed to subscribe for ordinary shares in excess of their entitlement.
- 3.2 If there are ordinary shares, to investor in and/or outside the country to subscribe and/or institutional investors according to the related announcements of the Securities and Exchange Commission.

In the offering of the ordinary shares, the Shareholders' Meeting entrusted the Board of Directors, the Executive Board of Directors, the Chairman, the President or any person entrusted by such person or Board, to have the following authority:

- (a) To offer the ordinary shares, in whole or in part, and may offer in whole for one time or from time to time by taking into consideration economic conditions, market situations and Bank's needs.
- (b) To fix and/or change details and conditions of the share offer such as number of shares to be offered, offering price, offering period, offering method and other information relating to the offering of such new ordinary shares.

On September 15, 2003, the Bank registered the decrease in share capital to Baht 40,030 million from Baht 100,030 million with the Ministry of Commerce, and on September 17, 2003, the Bank registered the new authorized share capital of Baht 104,080 million, increasing from of Baht 40,030 million.

In September 2003, a holder of class B preferred shares had requested to exercise the right to convert 100 shares of the holding into ordinary shares. The right was exercised on September 20, 2003, and resulted in increasing the Bank's paid-up share capital of Baht 40,030 million, consisting of 2,010,867,700 ordinary shares at a par value of Baht 10 each share and 1,992,099,500 preferred shares at a par value of Baht 10 each share.

On September 26, 2003, the Bank registered its fully paid-up share capital of Baht 104,080 million, consisting of 8,415,867,700 ordinary shares of Baht 10 par value and 1,992,099,500 preferred shares of Baht 10 par value.

All expenses involving the issuing of new share capital such as underwriting fees, publishing of prospectus, financial adviser fees, legal consulting fees and other items have been taken to increase the discount on ordinary shares. This incurred the discount on new ordinary shares by Baht 163 million.

On December 17, 2003, the Bank registered its fully paid-up share capital of Baht 104,080 million, consisting of 8,415,967,300 ordinary shares of Baht 10 par value and 1,991,999,900 preferred shares of Baht 10 par value.

The structure of shareholders at December 31, 2003 and 2002 is summarized as follow:

#### Classified by Type of Persons

	Percentage	
	Consolidated Financial Statements and The Bank Only Financial Statements	
	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Individuals	3	4
Juristic entities	97	96

#### Classified by Nationality

	Percentage	
	Consolidated Financial Statements and The Bank Only Financial Statements	
	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Thai	95	98
Foreign	5	2

#### Restrictions on Dividend Payment

In accordance with the Bank of Thailand announcement regarding bad or doubtful assets, the Bank is not allowed to pay any dividends to the shareholders during any period in which the bad or irrecoverable assets have not been written off or an allowance for doubtful assets has not been fully provided.

According to the Bank of Thailand's announcement on guideline for commercial bank dividend payment, the commercial banks should not take unrealized profit or profit that is not based on actual cash flow to make dividend payments such as profit from mark-to-market

securities value, or any profit deriving from the reclassifying of financial assets or the profit sharing from associated and subsidiary companies. Commercial banks should not make dividend payments out of profit from the sale of assets, which is not actually completed, which may result in abnormally raising profit or loss level as well as sale of foreclosed properties where repurchase conditions are part of the deal.

#### 4.15 Loss per Share

	Consolidated Financial Statements and The Bank Only Financial Statements For the Year Ended December 31, 2003		
	Net loss ( Baht)	Shares	Loss per Share (Baht)
Basic loss per share			
Net loss of ordinary shareholders	(14,054,405,127)	3,713,022,406	(3.79)
The effect of equivalent ordinary share dilution			
Convertible preferred shares	-	1,992,095,479	-
Diluted loss per share	<u>(14,054,405,127)</u>	<u>5,705,117,885</u>	<u>(2.46)</u>

	Consolidated Financial Statements and The Bank Only Financial Statements For the Year Ended December 31, 2002		
	Net loss (Baht)	Shares	Loss per Share (Baht)
Basic loss per share			
Net loss of ordinary shareholders	(160,322,596)	2,010,867,600	(0.08)
The effect of equivalent ordinary share dilution			
Convertible preferred shares	-	1,992,099,600	-
Diluted loss per share	<u>(160,322,596)</u>	<u>4,002,967,200</u>	<u>(0.04)</u>

#### 4.16 Surplus on Fixed Asset Revaluation

At December 31, 2003, the surplus on fixed asset revaluation represented the surplus on land revaluation of Baht 1,873 million and the surplus on building revaluation of Baht 1,665 million (net of accumulated depreciation of Baht 264 million). The land and building revaluation was assessed by independent appraisal companies. The Bank has submitted its letter to the Bank of Thailand seeking for their approval, and not yet to receive the response. Therefore, the Bank, as at December 31, 2003, did not include the surplus on fixed assets revaluation for 2003 to be Tier 2 capital.

At December 31, 2002, the surplus on fixed asset revaluation represented the surplus on land revaluation of Baht 881 million, and the surplus on building revaluation of Baht 62 million, (net of accumulated depreciation of Baht 242 million). The land and building revaluation was assessed by an independent appraisal company in 1992. The land and building valuation was approved by the Bank of Thailand in its letters dated February 16, 1993 and June 14, 1993.

Surplus on building revaluation is transferred directly to offset the deficit when the surplus is realized.

#### 4.17 Capital Requirements

The Bank's capital maintained in ratio to risk assets, as required by the Bank of Thailand, at December 31, 2003 and 2002 consisted of:

	Amounts : Million Baht	
	Consolidated Financial Statements and The Bank Only Financial Statements December 31, 2003	December 31, 2002
<b>Tier 1 capital</b>		
Issued and fully paid share capital and premium on ordinary and preferred shares	67,735	45,480
Legal reserve	2,100	2,100
Other reserves	8,717	8,717
Net loss after appropriation	(56,798)	(42,767)
Subordinated debentures cum preferred shares	-	9,958
Total Tier 1 capital	<u>21,754</u>	<u>23,488</u>

		Amounts : Million Baht	
		Consolidated Financial Statements and The Bank Only Financial Statements	
		<u>December 31, 2003</u>	<u>December 31, 2002</u>
<b>Tier 2 capital</b>			
Surplus on land revaluation		484	616
Surplus on premises revaluation		23	31
Provision for assets classified as "pass"		2,000	2,000
Subordinated debentures		4,887	8,487
(Net) Unrealized gain on revaluation of available - for - sales equity securities*		<u>883</u>	<u>-</u>
Total Tier 2 capital		<u>8,277</u>	<u>11,134</u>
<b>Total</b>		<u>30,031</u>	<u>34,622</u>

\*The reserve for revaluation of available-for-sale equity securities is in accordance with the Accounting Standard on Accounting for Investment in Debt and Equity Securities and further amendment, effective as from May 1, 2003 onwards,

		Consolidated		The Bank Only	
		<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>
		<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Tier 1 capital	Percentage	7.70	7.68	7.67	7.64
Total capital	Percentage	10.63	11.32	10.59	11.26
Minimum tier 1 capital ratio requirement	Percentage	4.25	4.25	4.25	4.25
Minimum total capital ratio requirement	Percentage	8.50	8.50	8.50	8.50

The consolidated financial statements include the financial statements of the Bank and Phayathai Asset Management Company Limited.

#### 4.18 Contingencies

Contingencies at December 31, 2003 and 2002 consisted of:

		Amounts : Million Baht					
		Consolidated Financial Statements and The Bank Only Financial Statements					
		<u>December 31, 2003</u>			<u>December 31, 2002</u>		
		Foreign			Foreign		
		<u>Baht</u>	<u>Currency</u>	<u>Total</u>	<u>Baht</u>	<u>Currency</u>	<u>Total</u>
Aval to bills		1,627	-	1,627	1,538	-	1,538
Loan guarantees		2,325	750	3,075	2,446	1,434	3,880
Other guarantees		28,310	3,258	31,568	29,093	2,394	31,487
Letters of credit		616	9,467	10,083	287	7,206	7,493
Exchange rate contracts							
Forward exchange bought		-	8,257	8,257	-	6,403	6,403
Forward exchange sold		-	14,447	14,447	-	9,782	9,782
Unused overdraft credit lines		30,536	1	30,537	28,524	1	28,525
Others		<u>87</u>	<u>604</u>	<u>691</u>	<u>102</u>	<u>763</u>	<u>865</u>
<b>Total</b>		<u>63,501</u>	<u>36,784</u>	<u>100,285</u>	<u>61,990</u>	<u>27,983</u>	<u>89,973</u>

The Bank issued a letter of guarantee to a foreign bank in accordance with a share purchase contract dated April 3, 1996 in proportion with its shareholding percentage of 10% amounting to Hong Kong Dollar 73 million and USD 0.07 million. At December 31, 2003 and 2002 the outstanding amount, in proportion with the shareholding percentage, is Hong Kong Dollar 4 million.

In addition, at December 31, 2003 and 2002 legal proceedings from guarantees and others, had been brought against the Bank in 132 cases amounting to Baht 2,944 million for 2003 and in 120 cases amounting to Baht 6,882 million for 2002, including a law suit in which the Bank is a joint defendant together with 5 other financial institutions under a loan syndication, where the debtor as plaintiff has claimed damages of Baht 26,132 million as a result of the lenders under the loan syndication suspending the loans. The Bank's responsibility is only proportional to its share of 15% of the credit line. Management believe that the liability, if any, resulting from the litigation will not be material to the Bank's financial position and results of operations.

At December 31, 2003 and 2002 the Bank had commitments with listed companies under rehabilitation plans of Baht 164 million and Baht 198 million, respectively.



#### 4.19 Pledged Assets

At December 31, 2003 and 2002, government securities has been used as collateral at face value as follows:

	Amounts : Million Baht	
	Consolidated Financial Statements and The Bank Only Financial Statements	
	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Pledged as securities for repurchase agreements	6,156	7,860
Pledged as securities for daily liquidity	500	-
Pledged as securities for Ruam Jai Housing Loan	57	-
Pledged as securities with the court	<u>6</u>	<u>-</u>
<b>Total</b>	<b><u>6,719</u></b>	<b><u>7,860</u></b>

#### 4.20 Related Party Transactions

Loans and commitments made to employees from the rank of department manager upward, and to enterprises, the shares of which are held by the Bank, directors or employees from the rank of department manager upward totalling over 10% of their paid-up capital, according to the prescriptions of the Bank of Thailand, are summarized as follows:

	Consolidated		The Bank Only	
	Average Balance		Average Balance	
	At the End of Month <u>December 31, 2003</u>	At the End of Month <u>December 31, 2003</u>	At the End of Month <u>December 31, 2003</u>	At the End of Month <u>December 31, 2003</u>
Loans	717	1,198	7,071	23,508
Commitments	1,704	1,615	1,705	1,615

	Consolidated		The Bank Only	
	Average Balance		Average Balance	
	At the End of Month <u>December 31, 2002</u>	At the End of Month <u>December 31, 2002</u>	At the End of Month <u>December 31, 2002</u>	At the End of Month <u>December 31, 2002</u>
Loans	951	1,072	30,483	33,797
Commitments	1,479	1,689	1,479	1,689

#### 4.21 Significant Transactions with Subsidiary, Associated and Related Companies

Investments in subsidiary, associated and related companies at December 31, 2003 and 2002 were as follows:

	Amounts : Million Baht					
	Consolidated					
	<u>December 31, 2003</u>					
	Type of Business	Type of Share Capital	Holding Percentage	Investment Cost Method	Investment Equity Method	Dividend
<u>Subsidiary Companies</u>						
Designee for ETA Contract Limited	Utility	Ordinary	99.40%	0.01	0.01	-
<u>Associated Companies</u>						
TMB Asset Management Company Limited	Financial Institution	Ordinary	45.00%	36	72	16
Phayathai Property Fund	Mutual Fund	Unit	30.00%	180	193	12
The Thai Business Fund I	Mutual Fund	Unit	22.22%	193	193	13
<u>Related Companies</u>						
Ajala Company Limited	Property	Ordinary	99.99%	0.05	-	-
TMB Property Development Company Limited	Property	Ordinary	99.93%	4	-	-
NSRF (Thailand) Company Limited	Utility	Ordinary	59.80%	<u>0.01</u>	<u>0.01</u>	<u>-</u>
<b>Total</b>				<b><u>413.07</u></b>	<b><u>458.02</u></b>	<b><u>41</u></b>

Amounts : Million Baht

Consolidated December 31, 2002						
	Type of Business	Type of Share Capital	Holding Percentage	Investment		Dividend
				Cost Method	Equity Method	
<u>Subsidiary Companies</u>						
Designee for ETA Contract Limited	Utility	Ordinary	99.40%	0.01	0.01	-
NSRF (Thailand) Company Limited	Utility	Ordinary	59.80%	0.01	0.01	-
<u>Associated Companies</u>						
TMB Asset Management Company Limited	Financial Institution	Ordinary	45.00%	36	71	22
Phayathai Property Fund	Mutual Fund	Unit	30.00%	180	198	13
The Thai Business Fund I	Mutual Fund	Unit	33.33%	261	261	17
<u>Related Companies</u>						
Ajala Company Limited	Property	Ordinary	99.99%	0.05	-	-
TMB Property Development Company Limited	Property	Ordinary	99.93%	<u>4</u>	<u>-</u>	<u>-</u>
<b>Total</b>				<u>481.07</u>	<u>530.02</u>	<u>52</u>

Investments in subsidiary, associated and related companies at December 31, 2003 and 2002 were as follows:

Amounts : Million Baht

The Bank Only December 31, 2003						
	Type of Business	Type of Share Capital	Holding Percentage	Investment		Dividend
				Cost Method	Equity Method	
<u>Subsidiary Companies</u>						
Phayathai Asset Management Company Limited	Financial Institution	Ordinary	100.00%	3,500	2,668	-
Designee for ETA Contract Limited	Utility	Ordinary	99.40%	0.01	0.01	-
<u>Associated Companies</u>						
TMB Asset Management Company Limited	Financial Institution	Ordinary	45.00%	36	72	16
Phayathai Property Fund	Mutual Fund	Unit	30.00%	180	193	12
The Thai Business Fund I	Mutual Fund	Unit	22.22%	193	193	13
<u>Related Companies</u>						
Ajala Company Limited	Property	Ordinary	99.99%	0.05	-	-
TMB Property Development Company Limited	Property	Ordinary	99.93%	<u>4</u>	<u>-</u>	<u>-</u>
NSRF (Thailand) Company Limited	Utility	Ordinary	59.80%	<u>0.01</u>	<u>0.01</u>	<u>-</u>
<b>Total</b>				<u>3,913.07</u>	<u>3,126.02</u>	<u>41</u>

Amounts : Million Baht

	The Bank Only					
	December 31, 2002					
	Type of Business	Type of Share Capital	Holding Percentage	Investment Cost Method	Investment Equity Method	Dividend
<u>Subsidiary Companies</u>						
Phayathai Asset Management Company Limited	Financial Institution	Ordinary	100.00%	3,500	2,925	-
Designee for ETA Contract Limited	Utility	Ordinary	99.40%	0.01	0.01	-
NSRF (Thailand) Company Limited	Utility	Ordinary	59.80%	0.01	0.01	-
<u>Associated Companies</u>						
TMB Asset Management Company Limited	Financial Institution	Ordinary	45.00%	36	71	22
Phayathai Property Fund	Mutual Fund	Unit	30.00%	180	198	13
The Thai Business Fund I	Mutual Fund	Unit	33.33%	261	261	17
<u>Related Companies</u>						
Ajala Company Limited	Property	Ordinary	99.99%	0.05	-	-
TMB Property Development Company Limited	Property	Ordinary	99.93%	4	-	-
<b>Total</b>				<u>3,981.07</u>	<u>3,455.02</u>	<u>52</u>

Significant loans and accrued interest receivable, other assets, deposits, other liabilities, contingencies, income and expenses of the Bank with its subsidiary, associated and related companies (whose shares are over 20 % of their paid-up capital held by the Bank) at December 31, 2003 and 2002 and for each of the years ended December 31, 2003 and 2002 were as follows:

	Amounts : Million Baht			
	Consolidated		The Bank Only	
	December 31, 2003	December 31, 2002	December 31, 2003	December 31, 2002
<u>Loans and Accrued Interest Receivable</u>				
<u>(Before allowance for doubtful accounts)</u>				
<u>Subsidiary Company</u>				
Phayathai Asset Management Company Limited	-	-	6,410	29,597
<u>Other Assets</u>				
<u>Subsidiary Company</u>				
Phayathai Asset Management Company Limited	-	-	-	7
<u>Associated Company</u>				
The Thai Business Fund I	42	4	42	4
<u>Deposits</u>				
<u>Subsidiary Company</u>				
Phayathai Asset Management Company Limited	-	-	182	49
<u>Associated Companies</u>				
TMB Asset Management Company Limited	2	-	2	-
Phayathai Property Fund	29	48	29	48
<u>Related Companies</u>				
Ajala Company Limited	58	58	58	58
TMB Property Development Company Limited	4	4	4	4
<u>Contingencies</u>				
<u>Subsidiary Company</u>				
Phayathai Asset Management Company Limited	-	-	-	1

For each of the years ended December 31, 2003 and 2002

	Consolidated		Amounts : Million Baht The Bank Only	
	2003	2002	2003	2002
<u>Interest and Dividend Income</u>				
Subsidiary Companies	-	-	320	644
<u>Non-interest Income (Commission and Service Income)</u>				
Associated Companies	76	68	76	68
<u>Interest Expenses</u>				
Subsidiary Companies	-	-	-	3
<u>Non-interest Expenses</u>				
Subsidiary Companies	-	-	3,000	-
<u>Other Expenses</u>				
Associated Companies	21	24	18	23

At December 31, 2003 average balances of loans, deposits and contingencies were as follows:

	Amounts : Million Baht		
	Consolidated December 31, 2003		
	Average Loans At the End of Month	Average Deposits At the End of Month	Average Contingencies At the End of Month
<u>Associated Companies</u>			
TMB Asset Management Company Limited	-	1	-
Phayathai Property Fund	-	37	-
<u>Related Companies</u>			
Ajala Company Limited	-	58	-
TMB Property Development Company Limited	-	4	-
	The Bank Only December 31, 2003		
	Average Loans At the End of Month	Average Deposits At the End of Month	Average Contingencies At the End of Month
<u>Subsidiary Company</u>			
Phayathai Asset Management Company Limited	22,364	117	-
<u>Associated Companies</u>			
TMB Asset Management Company Limited	-	1	-
Phayathai Property Fund	-	37	-
<u>Related Companies</u>			
Ajala Company Limited	-	58	-
TMB Property Development Company Limited	-	4	-

At December 31, 2002 average balances of loans, deposits and contingencies were as follows:

	Amounts : Million Baht		
	Consolidated December 31, 2002		
	Average Loans At the End of Month	Average Deposits At the End of Month	Average Contingencies At the End of Month
<u>Associated Companies</u>			
Phayathai Property Fund	-	33	-
<u>Related Companies</u>			
Ajala Company Limited	-	58	-
TMB Property Development Company Limited	-	4	-

Amounts : Million Baht

	The Bank Only		
	December 31, 2002		
	Average Loans At the End of Month	Average Deposits At the End of Month	Average Contingencies At the End of Month
<u>Subsidiary Company</u>			
Phayathai Asset Management Company Limited	32,778	526	1
<u>Associated Companies</u>			
Phayathai Property Fund	-	33	-
<u>Related Companies</u>			
Ajala Company Limited	-	58	-
TMB Property Development Company Limited	-	4	-

Amounts : Million Baht

Consolidated Financial Statements and  
Bank Only Financial Statements  
December 31, 2003      December 31, 2002

Allowance for doubtful accounts

<u>Subsidiary Company</u>	64	296
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Significant transactions between the Bank and its related parties, in which the Bank's executive officers are the directors with control or significant influence and in which the Bank owns equal to or more than 10% to 20% of their paid-up capital as at December 31, 2003 and 2002 and for each of the years ended December 31, 2003 and 2002 are as follows :

Amounts : Million Baht

	Consolidated		The Bank Only	
	December 31, 2003	December 31, 2002	December 31, 2003	December 31, 2002
<u>Loans and accrued interest receivable</u> (Before allowance for doubtful accounts)				
Mahachai Land Development Co.,Ltd.	-	50	-	50
Thoon Ruamkarn Co.,Ltd.	12	12	12	12
CH. Karnchang PCL.	554	764	554	764
M. Thai Estate Co.,Ltd.	54	54	-	-
M Home SPV1 Co.,Ltd.	45	45	45	45
Pathumthani Jute Mill Co.,Ltd.	1	-	1	-
Siam Steel Syndicate Co.,Ltd.	29	-	29	-
<b>Total</b>	<u>695</u>	<u>925</u>	<u>641</u>	<u>871</u>
<u>Deposits</u>				
CH. Karnchang PCL.	74	3	74	3
M. Thai Estate Co.,Ltd.	1	2	1	2
Pathumthani Jute Mill Co.,Ltd.	-	2	-	2
Mahachai Land Development Co.,Ltd.	-	34	-	34
Paiboon Insurance Co.,Ltd.	29	18	29	18
Ace Capital Co.,Ltd.	42	-	42	-
Bangkok Pattaya Hospital Co.,Ltd.	1	-	1	-
<b>Total</b>	<u>147</u>	<u>59</u>	<u>147</u>	<u>59</u>
<u>Contingencies</u>	1,702	1,477	1,702	1,477

At December 31, 2003 average balances of loans, deposits and contingencies were as follows:

	Amounts : Million Baht			
	Consolidated		The Bank Only	
	December 31, 2003		December 31, 2003	
	Average Loans At the End of Month	Average Deposits At the End of Month	Average Loans At the End of Month	Average Deposits At the End of Month
M. Thai Estate Co.,Ltd.	54	2	-	2
Paiboon Insurance Co.,Ltd.	2	26	2	26
Thoon Ruamkarn Co.,Ltd.	12	-	12	-
CH. Karnchang PCL.	1,016	69	1,016	69
Pathumthani Jute Mill Co.,Ltd.	1	1	1	1
M Home SPV1 Co., Ltd.	45	-	45	-
Ace Capital Co.,Ltd.	-	21	-	21
Siam Stell Syndicate Co.,Ltd.	<u>36</u>	<u>-</u>	<u>36</u>	<u>-</u>
<b>Total</b>	<u>1,166</u>	<u>119</u>	<u>1,112</u>	<u>119</u>

At December 31, 2002 average balances of loans, deposits and contingencies were as follows:

	Amounts : Million Baht			
	Consolidated		The Bank Only	
	December 31, 2002		December 31, 2002	
	Average Loans At the End of Month	Average Deposits At the End of Month	Average Loans At the End of Month	Average Deposits At the End of Month
M. Thai Estate Co.,Ltd.	54	3	-	3
Mahachai Land Development Co.,Ltd.	46	20	46	20
Paiboon Insurance Co.,Ltd.	3	31	3	31
Ace Capital Co.,Ltd.	1	-	1	-
Thoon Ruamkarn Co.,Ltd.	12	-	12	-
CH. Karnchang PCL.	879	21	879	21
Pathumthani Jute Mill Co.,Ltd.	-	4	-	4
AVIVA Insurance (Thai) Co.,Ltd	-	14	-	14
M Home SPV1 Co., Ltd.	<u>45</u>	<u>-</u>	<u>45</u>	<u>-</u>
<b>Total</b>	<u>1,040</u>	<u>93</u>	<u>986</u>	<u>93</u>

	Amounts : Million Baht			
	Consolidated		The Bank Only	
	<u>December 31, 2003</u>	<u>December 31, 2002</u>	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Allowance for doubtful accounts	61	18	61	18
Average contingencies	1,613	1,687	1,613	1,687
<b>For each of the years ended</b>	<u>December 31, 2003</u>	<u>December 31, 2002</u>	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Interest income	67	52	67	52
Non Interest expenses	1	-	-	-
Interest expenses	1	-	1	-

The related parties include debtors under restructuring.

Significant transactions between the Bank and its related parties, in which the Bank's executive officers are the directors with control or significant influence and in which the Bank owns less than 10 % of their paid-up capital as at December 31, 2003 and 2002 and for each of the years ended December 31, 2003 and 2002 are as follows:

Amounts : Million Baht

Consolidated Financial Statements  
and The Bank Only Financial Statements

December 31, 2003                      December 31, 2002

Loans and accrued interest receivable  
(Before allowance for doubtful accounts)

Bangkok Polyester PCL.	1,180	1,268
Thai Watana Pharmaceutical Dextrose Co.,Ltd.	1,140	1,140
Thai Asia Pacific Brewery Co.,Ltd.	1,212	243
Bangkok Expressway PCL.	4,970	4,521
Bridge View Co.,Ltd.	937	943
Kad Suan Kaew Co.,Ltd.	-	2,301
Vibhavadi Medical Center PCL.	86	393
Kangwal Polyester Co.,Ltd.	1,619	1,581
Bangkok Metro Co.,Ltd.	2,855	-
Mahachai Land Development Co.,Ltd.	48	-
Advance Info Service PCL.	923	-
Charan Insurance PCL.	<u>5</u>	<u>-</u>
<b>Total</b>	<b><u>14,975</u></b>	<b><u>12,390</u></b>

Amounts : Million Baht

Consolidated Financial Statements  
and The Bank Only Financial Statements

December 31, 2003                      December 31, 2002

Deposits

Nava Leasing PCL.	41	46
Charan Insurance PCL.	167	122
AVIVA Insurance (Thai) Co.,Ltd	186	118
Bangkok Polyester PCL.	4	4
Thai Asia Pacific Brewery Co.,Ltd.	99	14
Bangkok Expressway PCL.	18	207
Bridge View Co.,Ltd.	34	33
Kad Suan Kaew Co.,Ltd.	-	1
Kangwal Polyester Co.,Ltd.	-	1
Vibhavadi Medical Center PCL.	6	15
Shin Corporation PCL.	-	1
Mahachai Land Development Co.,Ltd.	20	-
Advance Info Service PCL.	<u>3</u>	<u>-</u>
<b>Total</b>	<b><u>578</u></b>	<b><u>562</u></b>
<u>Accrued interest payable</u>	-	1
<u>Contingencies</u>	321	82

At December 31, 2003 and 2002 average balances of loans, deposits and contingencies were as follows:

Amounts : Million Baht

	Consolidated Financial Statements and The Bank Only Financial Statements			
	December 31, 2003		December 31, 2002	
	Average Loans At the End of Month	Average Deposits At the End of Month	Average Loans At the End of Month	Average Deposits At the End of Month
Nava Leasing PCL.	48	29	75	19
Charan Insurance PCL.	2	207	2	127
AVIVA Insurance (Thai) Co.,Ltd	-	156	-	273
Bangkok Polyester PCL.	1,187	4	1,236	51
Thai Watana Pharmaceutical Dextrose Co.,Ltd.	1,070	-	1,052	-
Thai Asia Pacific Brewery Co.,Ltd.	1,144	41	294	40
Peroxy Thai Co.,Ltd.	-	-	8	-
Bangkok Expressway PCL.	4,640	88	4,228	69
Bridge View Co.,Ltd.	903	33	905	23
Kad Suan Kaew Co.,Ltd.	-	1	2,134	1
Kangwal Polyester Co.,Ltd.	1,602	1	1,591	4
Bangkok Metro Co.,Ltd.	2,532	-	1,388	-
Thai Vegetable Oil PCL.	-	-	200	-
Vibhavadi Medical Center PCL.	281	14	422	23
Shin Corporation PCL.	-	-	1,000	1
Mahachai Land Development Co.,Ltd.	45	25	-	-
Advance Info Service PCL.	<u>988</u>	<u>2</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b><u>14,442</u></b>	<b><u>601</u></b>	<b><u>14,535</u></b>	<b><u>631</u></b>

Amounts : Million Baht

	Consolidated Financial Statements and The Bank Only Financial Statements	
	December 31, 2003	December 31, 2002
	Allowance for doubtful accounts	325
Average contingencies	413	305
<u>For each of the years ended</u>	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Interest income	635	586
Non-interest income	4	7
Interest expenses	4	4

The related parties included debtors under restructuring.

Significant transactions between the Bank and its related parties, in the Bank's executive officers own shares, or who are the directors with control or significant influence as at December 31, 2003 and 2002 and for each of the years ended December 31, 2003 and 2002 were as follows :

Amounts : Million Baht

	Consolidated Financial Statements and The Bank Only Financial Statements	
	December 31, 2003	December 31, 2002
	<u>Loans and accrued interest receivable</u> (Before allowance for doubtful accounts)	
North Bangkok Expressway Co.,Ltd.	-	756
Advance Info Service PCL.	-	1,003
Ratchaburi Electricity Generating PCL.	-	2,520
Wang Kanai Sugar Co.,Ltd.	1,855	1,921
Tor Tor Bor 5 Co.,Ltd.	1,536	1,537
T.C.C Business Co.,Ltd.	-	6
Riverside Pavilion Hotel Co., Ltd.	-	393
Term Engineering Co.,Ltd.	<u>13</u>	<u>-</u>
<b>Total</b>	<b><u>3,404</u></b>	<b><u>8,136</u></b>



Amounts : Million Baht

Consolidated Financial Statements  
and The Bank Only Financial Statements

	<u>December 31, 2003</u>	<u>December 31, 2002</u>
<u>Deposits</u>		
Advance Info Service PCL.	-	2
North Bangkok Expressway Co.,Ltd.	26	13
Phutathum Insurance Co.,Ltd.	66	33
Syn Mun Kong Insurance PCL.	10	-
Wang Kanai Sugar Co.,Ltd.	3	9
Tor Tor Bor 5 Co.,Ltd.	1,270	906
Subsansawai Co.,Ltd.	1	1
Riverside Pavilion Hotel Co., Ltd.	-	2
Thai British Security Printing PCL.	1	-
Thai Airways International PCL.	75	-
Airport Authority of Thailand PCL.	1,095	-
Term Engineering Co.,Ltd.	20	-
Far East DDB PLC.	<u>54</u>	<u>-</u>
<b>Total</b>	<u>2,621</u>	<u>966</u>
<u>Accrued interest payables</u>	5	1
<u>Contingencies</u>	53	752

At December 31, 2003 and 2002 average balances of loans, deposits and contingencies were as follows:

Amounts : Million Baht

Consolidated Financial Statements and The Bank Only Financial Statements

	<u>December 31, 2003</u>		<u>December 31, 2002</u>	
	Average Loans	Average Deposits	Average Loans	Average Deposits
	At the End of Month	At the End of Month	At the End of Month	At the End of Month
North Bangkok Expressway Co.,Ltd.	746	13	756	13
Advance Info Service PCL.	-	-	1,000	3
Ratchaburi Electricity Generating PCL.	2,498	-	1,121	-
Phutathum Insurance Co.,Ltd.	-	23	-	59
Syn Mun Kong Insurance PCL.	-	10	-	-
Wang Kanai Sugar Co.,Ltd.	1,922	38	1,897	33
Tor Tor Bor 5 Co.,Ltd.	1,536	1,024	1,536	608
Newimperial Hotel PCL.	-	-	7	-
T.C.C Business Co.,Ltd.	6	-	3	-
Subsansawai Co.,Ltd.	-	1	287	1
Riverside Pavilion Hotel Co., Ltd.	373	2	370	2
Thai British Security Printing PCL.	-	1	-	-
Land & House PCL.	-	44	250	81
Thai Vegetable Oil PCL.	314	3	-	-
Thai Airways International PCL.	-	129	-	-
Airport Authority of Thailand PCL.	-	916	-	-
Aeronautical Radio of Thailand Co.,Ltd.	68	-	-	-
Pan Pacific Engineering Co.,Ltd.	-	1	-	-
Term Engineering Co.,Ltd.	30	25	-	-
Far East DDB PLC.	<u>-</u>	<u>31</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<u>7,493</u>	<u>2,261</u>	<u>7,227</u>	<u>800</u>

	Amounts : Million Baht	
	Consolidated Financial Statements and The Bank Only Financial Statements	
	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Allowance for doubtful accounts	28	45
Average contingencies	345	752

	Consolidated		The Bank Only	
<u>For each of the years ended</u>	December 31,	December 31,	December 31,	December 31,
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Interest income	230	268	230	268
Non-interest income	-	3	-	3
Interest expenses	36	10	36	10

Additionally significant transactions between the Bank and its directors and employees from the rank of department manager upward at December 31, 2003 and 2002 and for each of the years ended December 31, 2003 and 2002 were as follows:

	Amounts : Million Baht	
	Consolidated Financial Statements and The Bank Only Financial Statements	
	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Welfare loans	28	24
Loans and accrued interest receivable	23	33
Deposits	246	256
Accrued interest payable	1	1

At December 31, 2003 and 2002 average balances of loans, deposits and contingencies were as follows:

	Amounts : Million Baht	
	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Average welfare loans at the end of month	28	28
Average loans at the end of month	32	37
Average deposits at the end of month	269	295
Average contingencies at the end of month	2	2

At December 31, 2003 and 2002 the balances of allowance for doubtful accounts and contingencies were as follows:

	Amounts : Million Baht	
	Consolidated Financial Statements and The Bank Only Financial Statements	
	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Contingencies	2	2
<u>For each of the years ended</u>	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Interest income	2	3
Interest expenses	6	4

Pricing and interest rate policy for related party transactions

The Bank's pricing and interest rate policy is as follows :

- Interest rates of loans are in accordance with the market rate except for the interest rate of staff welfare loans which are in accordance with the Bank's regulations and the interest rate of loans to certain subsidiary and related companies which are based on the deposit interest rate.
- Interest rate on deposits is in accordance with the market rate.
- Fee and service income is in accordance with the market price except that the monthly service income for acting as the agent for debt collection and receiving debt repayment for a subsidiary is equal to Baht 10,000, and that the annual registrar fee received from an associated company and fees and service income for paying agency fees received from on associated company, for the funds managed by that company and the trailing fee received from an associated company are charged at rates based on conditions specified in contracts negotiated in the normal course of business, which are determined by the size of funds and purchase and sale volumes of investment units in respect of which the Bank acts as the selling agent and fees and service income for providing

collateral appraisal service to subsidiary company, is equal to Baht 500 per transaction, as these debtors were formerly bank client and the collaterals which were assessed by the Bank in the past.

- The Bank entered into office rental and service agreements with an associated company, and the rental and service fees were determined on a mutually agreed basis.

#### 4.22 Other Benefits Payable to the Directors and Executives

The Bank's directors and executives from the rank of department manager upward do not receive other benefits, monetary or non-monetary items, except for the benefits that are normally paid such as salary, bonus, directors' fees and pension funds.

#### 4.23 Long-Term Lease Agreements

At December 31, 2003 and 2002 the Bank had lease contracts covering branch offices amounting to Baht 218 million and Baht 265 million, respectively, the majority of which were with the Ministry of Finance. The Bank is required to arrange for fire insurance with the lessor as a beneficiary. The Bank is responsible for property tax and is not allowed to sublease the properties.

#### 4.24 The Financial Position and Results of Operations

The financial position categorised by domestic and overseas business as at December 31, 2003 and 2002 is summarized as follows:

##### Financial Position Categorised Separated by Type of Business

	Amounts : Million Baht			
	Consolidated			
	December 31, 2003			
	Domestic Business	Overseas Business	Eliminated Transactions	Total
Total assets	614,125	4,450	(239,579)	378,996
Interbank and money market items (assets)	8,684	1,863	(1,888)	8,659
Securities purchased under resale agreements	6,200	-	-	6,200
Loans	299,299	449	-	299,748
Investments	46,981	-	-	46,981
Deposits	321,681	377	-	322,058
Interbank and money market items (liabilities)	11,827	4,067	(1,888)	14,006
Borrowings	7,287	-	-	7,287
Contingencies	100,229	104	(48)	100,285

	Amounts : Million Baht			
	Consolidated			
	December 31, 2002			
	Domestic Business	Overseas Business	Eliminated Transactions	Total
Total assets	396,913	8,630	(14,278)	391,265
Interbank and money market items (assets)	20,796	812	(589)	21,019
Securities purchased under resale agreements	3,000	-	-	3,000
Loans	297,208	3,121	(2,573)	297,756
Investments	42,379	-	-	42,379
Deposits	321,568	453	-	322,021
Interbank and money market items (liabilities)	16,112	8,163	(3,083)	21,192
Borrowings	16,607	-	-	16,607
Subordinated debentures cum preferred shares	9,958	-	-	9,958
Contingencies	89,946	27	-	89,973

The financial results categorised by domestic and overseas business for each of the years ended December 31, 2003 and 2002 are summarized as follows:

#### Results of Operations Categorised by Type of Business

Amounts : Million Baht

	Consolidated			Total
	For the Year Ended December 31, 2003			
	Domestic Business	Overseas Business	Eliminated Transactions	
Interest and dividend income	15,666	120	(105)	15,681
Interest expense	<u>8,275</u>	<u>92</u>	<u>(104)</u>	<u>8,263</u>
Net income from interest	7,391	28	(1)	7,418
Non-interest income	3,925	20	1	3,946
Non-interest expenses	<u>25,340</u>	<u>32</u>	<u>-</u>	<u>25,372</u>
Net Income (loss) before income tax	<u>(14,024)</u>	<u>16</u>	<u>-</u>	<u>(14,008)</u>

Amounts : Million Baht

	Consolidated			Total
	For the Year Ended December 31, 2002			
	Domestic Business	Overseas Business	Eliminated Transactions	
Interest and dividend income	16,395	149	(127)	16,417
Interest expenses	<u>10,364</u>	<u>117</u>	<u>(126)</u>	<u>10,355</u>
Net income from interest	6,031	32	(1)	6,062
Non-interest income	4,270	10	1	4,281
Non-interest expenses	<u>10,385</u>	<u>71</u>	<u>-</u>	<u>10,456</u>
Net loss before income tax	<u>(84)</u>	<u>(29)</u>	<u>-</u>	<u>(113)</u>

#### 4.25 Financial Instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

##### Accounting Policies

Details of significant accounting policies and methods adopted, including criteria for recognition, the basis of measurement and the basis on which revenue and expenses are recognized in respect of each class of financial assets and financial liabilities are disclosed in Note 3.

##### Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Bank and its subsidiaries. The Bank and its subsidiaries have adopted the policy of only dealing with creditworthy counterparts and obtaining sufficient collateral or other security, where appropriate, as a means of mitigating the risk of financial losses from defaults.

In the case of recognized financial assets, the carrying amount of the assets recorded in the balance sheets net of any applicable provision for loss, represents the Bank's maximum exposure to credit risk.

The Bank has to take certain risks related to its issuing of guarantees against loans and other obligations as well as its issuing of letters of credit and endorsements on commercial bills and notes for its customers. Such activities require that careful attention be paid to financial information provided by the customers in the same manner as for direct lending. The Bank normally demands the placement of adequate collateral by customers in various forms including, for example, bank deposits, securities and personal guarantees. The Bank also makes it a standard practice to set conditions to minimize the elements of risk in the same manner as for other credit granting procedures.

##### Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Interest rate movements are materially significant to the Bank's largest source of income because interest rates directly affect the Bank's income and expenses from assets and liabilities. The Bank manages its interest rate policy through a high level interest rate committee that meets fortnightly to assess the market conditions and make changes if necessary. The Bank also has an Asset and Liability Management Program (ALM) to systematically analyze and manage its assets and liabilities.

Most of the Bank's financial assets earn interest at floating rates, based on MRR, MLR, MOR, interest rate of time deposits or other benchmark floating rate (e.g. SIBOR or LIBOR).

Information concerning fixed versus floating rates of loans at December 31, 2003 and 2002 is as follows.

	Consolidated		The Bank Only	
	December 31,	December 31,	December 31,	December 31,
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Fixed interest rate	15,234	26,236	14,008	17,281
Floating interest rate	<u>284,551</u>	<u>271,468</u>	<u>287,213</u>	<u>284,775</u>
<b>Total</b>	<u>299,785</u>	<u>297,704</u>	<u>301,221</u>	<u>302,056</u>

Amounts : Million Baht

#### Currency Risk

Currency risk is the risk that value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Bank enters into derivative transactions for two main purposes:

#### - Hedging of the Bank's exposure

The derivatives which the Bank enters into are foreign currency forward bought/sold contracts. The purpose of these transactions is to manage the Bank's exposure on its assets and liabilities. The amounts and term of any foreign currency forward bought /sold contract are based on the amount and term structure of assets and liabilities of the Bank.

The associated exposures are counter party risk and price/ market risk. The control procedures adopted are limit approvals which must be given by the Assets and Liabilities Management Committee. Trading and speculative derivative transactions are prohibited.

#### - Hedging of customers' exposure

The derivatives which the Bank enters into are foreign currency forward bought/sold contracts. The purpose of these transactions is to satisfy the Bank customers' needs and to hedge the customers' exchange rate risk.

The Bank controls credit risk and default risk by adopting procedures similar to those used when granting loans and close control is maintained in the case of default contracts. Customers may only enter into hedging forward bought/sold contracts. Trading and speculative derivative transactions are prohibited.

The amounts, exchange rate and terms of the foreign currency forward bought/sold contract must be confirmed and agreed in writing by both the Bank and the customer within the credit line approved by the Credit Committee.

The significant financial assets and liabilities classified by maturity with average effective rate of interest and dividend at December 31, 2003 are summarized as follows:

	Amounts : Million Baht									
	Consolidated									
	December 31, 2003									
	<u>At call</u>	<u>within 1 month</u>	<u>over 1-3 months</u>	<u>over 3-12 months</u>	<u>over 1-5 years</u>	<u>over 5-10 years</u>	<u>over 10 years</u>	<u>No Maturity</u>	<u>Total</u>	<u>Average Rate(%) per annum</u>
<b>Financial Assets</b>										
Cash	8,925	-	-	-	-	-	-	-	8,925	-
Interbank and money market items	4,174	3,876	357	214	38	-	-	-	8,659	1.49
Securities purchased under resale agreements	-	6,200	-	-	-	-	-	-	6,200	2.05
Investments in securities - net	-	50	100	1,124	2,938	28,076	6,380	8,313	46,981	3.00
Loans	46,957	12,968	20,105	14,771	50,197	84,120	70,630	-	299,748	4.71
<b>Financial Liabilities</b>										
Deposits	133,445	41,221	81,429	60,919	5,044	-	-	-	322,058	1.69
Interbank and money market items	4,264	839	1,481	3,403	4,019	-	-	-	14,006	2.04
Securities sold under repurchase agreements	-	-	-	-	-	-	-	-	-	2.16
Borrowings	-	-	-	-	6,000	1,287	-	-	7,287	10.41

The significant financial assets and liabilities classified by maturity with average effective rate of interest and dividend at December 31, 2002 are summarized as follows:

	Amounts : Million Baht								
	Consolidated								
	December 31, 2002								
<u>At call</u>	<u>within 1 month</u>	<u>over 1-3 months</u>	<u>over 3-12 months</u>	<u>over 1-5 years</u>	<u>over 5-10 years</u>	<u>over 10 years</u>	<u>No Maturity</u>	<u>Total</u>	<u>Average Rate(%) per annum</u>
<b>Financial Assets</b>									
Cash	7,340	-	-	-	-	-	-	7,340	-
Interbank and money market items	6,963	3,035	8,084	2,640	127	-	-	20,849	2.63
Securities purchased under resale agreements	-	3,000	-	-	-	-	-	3,000	1.86
Investments in securities - net	-	40	-	252	1,239	28,015	9,440	42,379	3.60
Loans	74,193	9,546	16,952	9,818	50,246	82,936	54,065	297,756	4.95
<b>Financial Liabilities</b>									
Deposits	105,871	39,176	78,503	40,475	57,996	-	-	322,021	2.23
Interbank and money market items	3,155	2,121	3,120	4,688	8,108	-	-	21,192	2.74
Borrowings and Subordinated debentures cum Preferred shares	-	-	-	-	25,278	1,287	-	26,565	10.30

The significant financial assets and liabilities classified by maturity with average effective rate of interest and dividend at December 31, 2003 are summarized as follows:

	Amounts : Million Baht								Average Rate(% per annum	
	The Bank Only									
	December 31, 2003									
<u>At call</u>	<u>within 1 month</u>	<u>over 1-3 months</u>	<u>over 3-12 months</u>	<u>over 1-5 years</u>	<u>over 5-10 years</u>	<u>over 10 years</u>	<u>No Maturity</u>	<u>Total</u>		
<b>Financial Assets</b>										
Cash	8,922	-	-	-	-	-	-	8,922	-	
Interbank and money market items	4,175	3,876	357	214	38	-	-	8,660	1.49	
Securities purchased under resale agreements	-	6,200	-	-	-	-	-	6,200	2.05	
Investments in securities - net	-	50	100	1,124	2,938	27,069	6,380	9,892	47,553	2.97
Loans	43,615	12,968	20,105	14,294	49,113	90,459	70,630	-	301,184	4.35
<b>Financial Liabilities</b>										
Deposits	133,626	41,221	81,429	60,919	5,044	-	-	-	322,239	1.69
Interbank and money market items	4,264	839	1,481	3,403	4,019	-	-	-	14,006	2.04
Securities sold under repurchase agreements	-	-	-	-	-	-	-	-	-	2.16
Borrowings	-	-	-	-	6,000	1,287	-	-	7,287	10.41



The significant financial assets and liabilities classified by maturity with average effective rate of interest and dividend at December 31, 2002 are summarized as follows:

	Amounts : Million Baht								
	The Bank Only								
	December 31, 2002								
<u>At call</u>	<u>within 1 month</u>	<u>over 1-3 months</u>	<u>over 3-12 months</u>	<u>over 1-5 years</u>	<u>over 5-10 years</u>	<u>over 10 years</u>	<u>No Maturity</u>	<u>Total</u>	<u>Average Rate(%) per annum</u>
<b>Financial Assets</b>									
Cash	7,299	-	-	-	-	-	-	7,299	-
Interbank and money market items	6,963	3,035	8,084	2,640	127	-	-	20,849	2.63
Securities purchased under resale agreements	-	3,000	-	-	-	-	-	3,000	1.86
Investments in securities - net	-	40	-	252	1,239	27,027	9,440	43,819	3.57
Loans	50,223	9,545	16,936	9,791	49,786	111,765	54,065	302,111	4.74
<b>Financial Liabilities</b>									
Deposits	105,920	39,176	78,503	40,475	57,996	-	-	322,070	2.25
Interbank and money market items	3,155	2,121	3,120	4,688	8,108	-	-	21,192	2.74
Borrowings and Subordinated debentures cum									
Preferred shares	-	-	-	-	25,278	1,287	-	26,565	10.30

The significant financial assets and liabilities classified by maturity of interest repricing as at December 31, 2003 are as follows:

	Amounts : Million Baht					
	Consolidated					
	December 31, 2003					
	Immediate Repricing <u>within 3 months</u>	Over <u>3-12 months</u>	Over <u>1 year</u>	Non- interest <u>bearing</u>	Non-performing <u>Assets</u>	Total
<b>Financial Assets</b>						
Securities purchased under resale agreements	6,200	-	-	-	-	6,200
Investments	6,842	1,124	30,702	8,313	-	46,981
Loans and interbank and money market items	218,426	18,257	34,034	4,085	33,605	308,407
<b>Financial Liabilities</b>						
Deposits and Interbank and money market items	257,944	63,476	5,096	9,548	-	336,064
Borrowings	-	-	7,287	-	-	7,287

The significant financial assets and liabilities classified by maturity of interest repricing as at December 31, 2002 are as follows:

	Amounts : Million Baht					Total
	Consolidated					
	December 31, 2002					
Immediate Repricing <u>within 3 months</u>	Over <u>3-12 months</u>	Over <u>1 year</u>	Non- interest <u>bearing</u>	Non-performing <u>Assets</u>		
<b>Financial Assets</b>						
Securities purchased under resale agreements	3,000	-	-	-	-	3,000
Investments	6,768	243	31,975	3,393	-	42,379
Loans and interbank and money market items	194,765	21,367	27,715	6,565	68,194	318,606
<b>Financial Liabilities</b>						
Deposits and Interbank and money market items	228,479	45,433	61,244	8,057	-	343,213
Borrowings and Subordinated debentures						
Cum Preferred shares	-	-	26,565	-	-	26,565

The significant financial assets and liabilities classified by maturity of interest repricing as at December 31, 2003 are as follows:

	Amounts : Million Baht					
	The Bank Only					
	December 31, 2003					
Immediate Repricing <u>within 3 months</u>	Over <u>3-12 months</u>	Over <u>1 year</u>	Non- interest <u>bearing</u>	Non-performing <u>Assets</u>	Total	
<b>Financial Assets</b>						
Securities purchased under resale agreements	6,200	-	-	-	-	6,200
Investments	5,835	1,124	30,702	9,892	-	47,553
Loans and interbank and money market items	224,002	18,257	33,677	4,077	29,831	309,844
<b>Financial Liabilities</b>						
Deposits and interbank and money market items	258,124	63,476	5,096	9,549	-	336,245
Borrowings	-	-	7,287	-	-	7,287

The significant financial assets and liabilities classified by maturity of interest repricing as at December 31, 2002 are as follows:

	Amounts : Million Baht					
	The Bank Only					
	December 31, 2002					
Immediate Repricing <u>within 3 months</u>	Over <u>3-12 months</u>	Over <u>1 year</u>	Non- interest <u>bearing</u>	Non-performing <u>Assets</u>	Total	
<b>Financial Assets</b>						
Securities purchased under resale agreements	3,000	-	-	-	-	3,000
Investments	5,780	243	31,975	5,821	-	43,819
Loans and interbank and money market items	224,217	21,367	27,617	6,562	43,197	322,960
<b>Financial Liabilities</b>						
Deposits and interbank and money market items	228,528	45,433	61,244	8,057	-	343,262
Borrowings and Subordinated debentures						
Cum Preferred shares	-	-	26,565	-	-	26,565

Off-Balance Sheet Contingencies by maturity at December 31, 2003 are summarized as follows:

	Amounts : Million Baht							<u>Total</u>
	Consolidated Financial Statements and The Bank Only Financial Statements							
	December 31, 2003							
	<u>At call</u>	<u>within 1 month</u>	<u>over 1-3 months</u>	<u>over 3-12 months</u>	<u>over 1-5 years</u>	<u>over 5-10 years</u>	<u>over 10 years</u>	
<b>Off-balance Sheet</b>								
Aval to bills	89	246	365	540	387	-	-	1,627
Guarantees of loans	828	280	470	1,449	48	-	-	3,075
Other guarantees	14,154	943	3,436	9,364	3,651	16	4	31,568
Letters of credit	1,181	414	2,356	2,013	4,119	-	-	10,083
Exchange rate contracts								
Forward exchange bought	-	2,613	1,407	4,237	-	-	-	8,257
Forward exchange sold	-	6,846	4,969	2,632	-	-	-	14,447
Others	-	209	275	206	-	-	1	691

Off-Balance Sheet Contingencies by maturity at December 31, 2002 are summarized as follows:

	Amounts : Million Baht							<u>Total</u>
	Consolidated Financial Statements and The Bank Only Financial Statements							
	December 31, 2002							
	<u>At call</u>	<u>within 1 month</u>	<u>over 1-3 months</u>	<u>over 3-12 months</u>	<u>over 1-5 years</u>	<u>over 5-10 years</u>	<u>over 10 years</u>	
<b>Off-balance Sheet</b>								
Aval to bills	64	270	487	393	324	-	-	1,538
Guarantees of loans	1,627	221	602	1,141	289	-	-	3,880
Other guarantees	15,394	2,280	3,488	7,077	3,230	14	4	31,487
Letters of credit	845	762	1,853	1,958	2,075	-	-	7,493
Exchange rate contracts								
Forward exchange bought	80	3,138	1,380	1,805	-	-	-	6,403
Forward exchange sold	-	8,520	1,010	252	-	-	-	9,782
Others	-	173	485	207	-	-	-	865

### Significant Risk Management Policies

The Bank uses VaR (Value-at-Risk) as a risk management tool in measuring risk level and setting up limits in order to prevent and minimize losses, such as position limit, stop position limit, stop loss limit, management action triggers and transaction limit. The Bank's Assets/Liabilities Management Committee (ALCO) is responsible for controlling and monitoring risk levels in compliance with the Bank's capital adequacy policy.

### Market Risk

Market Risk refers to risk arising from movements in the level or volatility of the market prices of underlying assets.

### Liquidity Risk

Liquidity risk refers to risk that arises when assets cannot be liquidated into cash at current market prices or from an inability to raise funds at a normal cost.

The Bank's Assets/Liabilities Management Committee (ALCO) has the main task of setting up the liquidity management policy, including monitoring and controlling procedures. When establishing such a policy, ALCO focuses on sources and uses of funds, both in the short run and the long run, to comply with the bank's Asset/Liability structure, economic environment and market conditions in order to obtain the optimal liquidity level.

### Estimated Market Value of Financial Instruments

The market values have been estimated by using available market information and appropriate valuation methodologies. The following is a summary of carrying amounts and estimated market values of significant financial instruments as at December 31, 2003 and 2002:

	Consolidated		Amounts : Million Baht The Bank Only	
	December 31, 2003		December 31, 2003	
	Carrying Amounts	Market Value	Carrying Amounts	Market Value
<b>Financial Assets:</b>				
Cash	8,925	8,925	8,922	8,922
Interbank and money market items	8,659	8,659	8,660	8,660
Securities purchased under resale agreements	6,200	6,200	6,200	6,200
Investments in securities-net	46,981	47,425	47,553	48,002
Loans and accrued interest receivable-net	275,878	275,878	277,805	277,805
Customers' liabilities under acceptances	571	571	571	571
<b>Financial Liabilities:</b>				
Deposits	322,058	322,227	322,239	322,409
Interbank and money market items	14,006	14,013	14,006	14,013
Borrowing	7,287	7,287	7,287	7,287
Bank's liabilities under acceptances	571	571	571	571
Forward exchange bought contract	8,257	8,257	8,257	8,257
Forward exchange sold contract	14,447	14,447	14,447	14,447



	Consolidated		Amounts : Million Baht The Bank Only	
	December 31, 2002		December 31, 2002	
	Carrying Amounts	Market Value	Carrying Amounts	Market Value
<b>Financial Assets:</b>				
Cash	7,340	7,340	7,299	7,299
Interbank and money market items	21,019	21,019	21,019	21,019
Securities purchased under resale agreements	3,000	3,000	3,000	3,000
Investments in securities-net	42,379	42,700	43,819	44,218
Loans and accrued interest receivable-net	283,774	283,774	288,475	288,475
Customers' liabilities under acceptances	450	450	450	450
<b>Financial Liabilities:</b>				
Deposits	322,021	322,363	322,070	322,412
Interbank and money market items	21,192	21,464	21,192	21,464
Borrowing and Subordinated debentures cum preferred shares	26,565	26,565	26,565	26,565
Bank's liabilities under acceptances	450	450	450	450
Forward exchange bought contract	6,403	6,404	6,403	6,404
Forward exchange sold contract	9,782	9,783	9,782	9,783

Methods and assumptions in estimating market value or fair value of financial instruments are as follows:

- Cash and interbank and money market items (Assets)

The fair value is approximated by the carrying value.

- Securities purchased under resale agreements

The fair value is approximated by the carrying value.

- Investments in securities

The market value of investments in securities is disclosed in Notes 3.6 and 4.3

- Loans and accrued interest receivable

The fair value is based on the carrying value of loans and accrued interest receivable net of allowance for doubtful accounts as most of loans being floating rate loans.

- Customers' liabilities under acceptances

The fair value is approximated by the carrying value.

- Deposits

The carrying value of deposits approximates fair value, except the negotiable certificates of deposit which have been calculated using the current yield of negotiable certificates of deposit.

- Interbank and money market items (Liabilities)

The fair value is calculated by using the expected yield of borrowings.

- Borrowings and subordinated debentures cum preferred shares

The fair value is approximated by the carrying value.

- Bank's liabilities under acceptances

The fair value is approximated by the carrying value.

- Forward exchange bought/sold contracts.

The fair value is approximated by the carrying value.

#### 4.26 Phayathai Asset Management Company Limited

Phayathai Asset Management Company Limited (the "PAMC") was registered with the Ministry of Commerce on August 9, 2000 and registered with the Bank of Thailand to operate as an asset management company on September 1, 2000. The Bank holds approximately 100% of the share capital of PAMC.

In 2003, the Bank entered into to transfer assets under the category of Doubtful of Loss debtors with collaterals and without collaterals to Phayathai Asset Management Company Limited (the "PAMC") of Baht 1,877 million with net book value (net off allowance for doubtful accounts) summarized as follows:

Classified Asset Categories	Amounts : Million Baht
	Net Book Value
Loans and accrued interest receivables	1,876

The Bank earned a profit from the mentioned asset transfers of Baht 1 million and realized a reduction in its share of profit in subsidiary company of the same amount according to the equity method. This mentioned profit has been eliminated in the consolidated financial statements. The Bank will receive the payment to the above transferred non-performing assets to the subsidiary company.

At December 31, 2003 Bank had obligations to register the transfer of ownership of the mentioned transferred assets.

The conditions of the asset transfers are that the Bank (transferor) would deliver the documents relating to these assets to the Company (transferee) within 30 days from the transfer date (the date stated in the contract to transfer non-performing assets) except that the contracting parties can agree to extend the delivery period. Thus, the transferor or transfer has the right to revise the transfer prices of such assets within 180 days from the transfer date.

During the third quarter of 2003, the subsidiary (as transferor) has made a sale transfer of investment in receivables, loans and receivables, in the terms of secured and unsecured loans as well as properties foreclosed and related assets to BBC Asset Management Co., Ltd. (as transferee) at a total transfer value of Baht 19,533 million. At the transfer date, the transferee paid for the transferred assets by negotiable promissory notes of Baht 19,533 million. On the same date, the subsidiary as the transferor took the action to endorse the promissory notes to make it as an financial instrument of payment for the Bank as part of its repayment on a borrowing from the Bank.

In selling off its investment in receivables, loans and other debtors as well as properties foreclosed to BBC Asset Management Co., Ltd. The subsidiary had a substantial loss, which, in fact, profoundly affected the financial position of the subsidiary, particularly, the deficit in the shareholders' equity. The Bank, therefore, decided to reduce its loan principal to the subsidiary of Baht 3,000 million. At the Bank's Executive Board meeting No.24/2003 held on October 14, 2003, a resolution was passed to approve the said loan principal reduction of Baht 3,000 million. Currently, the Bank has made a restructuring agreement with the subsidiary.

#### 4.27 Thai Asset Management Corporation

On October 12, 2001, the Bank and a subsidiary company entered into agreements with the Thai Asset Management Corporation (TAMC), to transfer non-performing assets in accordance with the Emergency Decree on The Thai Asset Management Corporation B.E. 2544. The transfer price of the non-performing assets equaled the value of assets, being the lower of the collateral value or the book value, less the required amount of allowance for doubtful accounts on the transfer date in accordance with the regulations of the Bank of Thailand.

In 2002, the Bank transferred 23 loans accounts, with a book value net of allowance for doubtful accounts of Baht 278 million as at the transfer date. In addition, the Bank was informed by TAMC to cancel the loan transfers in the fourth quarter of 2001 of 5 accounts of Baht 78 million, as these were not in accordance with the transfer conditions. The Bank has been informed to revise the transfer price of 2 loans transferred in the fourth quarter of 2001 of Baht 13 million.

In 2002, the Subsidiary transferred 4 loans accounts at cost of Baht 598 million as at the transfer date. The Subsidiary has estimated gains on transfer of approximately Baht 6 million and recognized this gain in the statement of income.

In 2003, the Bank transferred loans of 8 accounts, with a book value net of allowance for doubtful accounts, of Baht 79 million as at the transfer date. The Bank has estimated gains on transfer of approximately Baht 7 million and has recorded this by increasing the allowance for doubtful accounts. In addition, the Bank has been informed by TAMC to cancel the transferred loans for the fourth quarter of 2001 and the second quarter of 2002 of 2 accounts of Baht 49 million as these were not in accordance with the transferred condition, and the Bank has been informed to revise the transferred price of the transferred loans in the fourth quarter of 2001 of 47 accounts of Baht 89 million.

In 2003, the Subsidiary transferred loans of 2 accounts, at cost of Baht 19 million as at the transfer date.

TAMC should complete its review of the values of transferred assets within 180 days from the transfer date. A confirmation letter on the value of assets transferred should be issued within 7 days from the completion date of the review. The settlement of the transfer value will be through the issue of non-negotiable promissory notes availed by the Financial Institutions Development Fund (FIDF). The promissory notes are due in 10 years from their issue date but TAMC has an option to redeem each of them before the due date. The interest rate of the promissory notes is the average rate of the five largest domestic commercial banks and the interest is payable on the last working day of each year. The interest payment is to be paid by non-negotiable promissory notes availed by the FIDF due in one year from the issuing date. However, TAMC has the right to extend the maturities of the promissory notes for interest payment as it deems appropriate.

As at December 31, 2003 and 2002, the Bank and the subsidiary received non-negotiable promissory notes availed by the FIDF of Baht 5,954 million and Baht 3,345 million, respectively for the loans transferred to TAMC. These promissory notes are due in 2011 to 2013 and are classified as held-to-maturity debt instruments. TAMC has redeemed some promissory notes of Baht 1.67 million as TAMC has

completely collected debts accordance with restructured plans. TAMC is still examining the remaining transferred assets of Baht 738 million for 2003 and Baht 3,383 million for 2002 respectively and will confirm the transferred price in order to issue promissory notes to the Bank and subsidiary.

As at December 31, 2003, the Bank and its subsidiary received interest payment from TAMC in cash and non-negotiable promissory notes availed by the Financial Institutions Development Fund of Baht 7 million and Baht 63 million respectively. The promissory notes are due on December 31, 2003. The Bank and subsidiary received the maturity amounts in January 2004.

In accordance with the conditions of the Emergency Decree on The Thai Asset Management Corporation B.E. 2544, the TAMC and the transferors are jointly responsible for sharing the profits or losses from managing the non-performing assets by the TAMC, in accordance with the conditions specified in the agreements, at the end of the fifth year and at the end of the tenth year commencing July 1, 2001.

In case of losses, the transferors will be responsible for the first portion of losses, not exceeding 20% of the transfer price. The second portion of losses, not exceeding 20% of the transfer price, will be equally shared between the TAMC and the transferors. The remaining losses will be absorbed by the TAMC.

In case of profits, the first portion of profits, not exceeding 20% of the transfer price, will be equally shared between the TAMC and the transferors. Should there be any profits remaining, the transferors are entitled to the remaining profits up to an amount not exceeding the book value of non-performing assets less the transfer price and the transferor's share in the first portion of the profits.

#### 4.28 The Bank's Financial Plan

The Bank has been preparing a Financial Restructuring Plan, and appointed a financial advisor as from the fourth quarter of 2002 to involve in capital increase plan. The objectives are to increase the capital to maintain the Tier 1 capital equivalent to at least 8.0% of risky assets and total statutory capital fund equivalent to at least 12.0% of risky assets, and also to provide net allowance for doubtful accounts of not less than Baht 7,800 million at the same time. This amount is in addition to the excess of allowance provided over the Bank of Thailand minimum requirement of Baht 3,133 million as at December 31, 2002, to cover the total allowance for doubtful accounts which the Bank has to additionally provide to achieve the amount of Baht 10,940 million, in accordance with the Bank of Thailand's examination report dated December 26, 2002 and the Bank of Thailand's letter dated February 27, 2003. The Bank has submitted such a capital increase plan to the Bank of Thailand, with the target date for capital increase and additional provision for doubtful accounts by June 2003.

The 2003 Annual General Meeting of Shareholders held on April 29, 2003, passed a resolution to increase the new ordinary share capital in the amount of Baht 22,000 million and to target to maintaining the Tier 1 capital equivalent to at least 8.0% of risky assets after the increase share capital and also to provide an additional allowance for doubtful accounts of not less than Baht 10,000 million, in accordance with the Bank of Thailand's requirement. The arrangement to the capital increase and the additional provision for doubtful accounts was to be finished by September 2003.

The Extraordinary General Meeting No.1/2003 held on August 28, 2003, passed the resolution, to decrease the authorized share capital from Baht 100,030 million to Baht 40,030 million, and increasing the authorized share capital from Baht 40,030 million to Baht 104,080 million by issuing 6,405 million ordinary shares, of Baht 10 par value by allocating the newly issued ordinary shares to the existing shareholders at a ratio of 5 existing shares for 8 new shares at the offering price of Baht 3.50 each, and if there are remaining ordinary shares, to investor in and/or outside the country to subscribe and/or institutional investors according to the related announcements of the Securities and Exchange Commission. (Note No.4.14)

On September 15, 2003, the Bank registered the decrease in its share capital to Baht 40,030 million from Baht 100,030 million with the Ministry of Commerce. And on September 17, 2003, the Bank registered the new authorized share capital of Baht 104,080 million, increasing it from of Baht 40,030 million.

On September 26, 2003, the Bank registered its fully paid-up capital of Baht 104,080 million, consisting of 8,415,867,700 ordinary shares, of Baht 10 par value and 1,992,099,500 preferred shares of Baht 10 par value.

In September 2003, the Bank provided an additional allowance to Baht 10,940 million for doubtful accounts according to the Bank's of Thailand's examination report dated December 26, 2002 and the Bank of Thailand's letter dated February 27, 2003.

#### 4.29 The Assets Selling of Phayathai Asset Management Company Limited

On September 3, 2003, the subsidiary (as transferor) signed an agreement with BBC Asset Management Co., Ltd. (as transferee) for the sale of its assets as mentioned above. The effective date of the asset transfer was on September 30, 2003. The transfer of the assets and

their underlying securities was arranged under the provisions of the Royal Decree on Asset Management Company, BE 2541 (1998) allowing the fixing of transfer prices as agreed by the transferor and the transferee. This agreement would be effective only when the Bank signs its letter of consent for the transfer.

At the transfer date, the transferee would pay the transferor the total value of the assets in the form of negotiable promissory note issued on September 30, 2003 with a maturity date on September 30, 2015. The face value of the promissory note would be the same as fixed in the asset verification document. The interest on the promissory note was fixed at a rate, equivalent to the weighted average interest rates for all types of Thai Baht deposits at the 5 largest local commercial banks. The interest rate calculation was based on quarterly data on each calendar year, beginning from October 1, 2003. Interest payment was by a 12-month period but the first payment will be effective on the 6th anniversary of promissory note issuing date while subsequent payments will be on a yearly basis after the first payment until the maturity date. One condition was that endorsement on the promissory note by the transferor to negotiate the promissory note with any party other than the Thai Military Bank Pcl., the Bank of Thailand and the Financial Institutions Development Fund was non-exercisable. In case of the transferee's decision to go into liquidation before the promissory note's maturity date, the transferee is required to transfer the rights and obligatory commitments over the promissory note to an other juristic person as consented to by the transferor.

At the transfer date, the transferor was required to deliver to the transferee completed information on the assets as recorded in transitional documents as well as in electronic media and accompanied by asset verification documents.

The asset transfer was inclusive of all the transferor's rights over the assets, including the rights to make claims over debtors before the transfer date. The assets bearing the rights to make claims were categorized as group 1, group 2 and group 4. For the assets categorized as group 3, the rights means the title of ownership.

The first group of assets included secured debtors, who have gone through debt restructuring of soft settlement process. These debtors have been able to meet the repayment terms as set in their restructuring agreements without a default for 3 consecutive months or 3 repayment periods whichever is longer, before the transfer date. The amount of repayment as said above at the transfer date must be as follows: (a) not less than 20% of the debt amount set in the restructuring agreement at the transfer date for debts with repayment term of not over 3 years; (b) not less than 10% of the debt amount set in the restructuring agreement at the transfer date for debts with repayment term of over than 3 years but not longer than 5 years; (c) not less than 10% of the debt amount set in the restructuring agreement at the transfer date for debts with repayment term longer than 5 years.

The second group of assets included secured debtors but their debt restructuring agreements have not yet signed as well as secured debtors under debt restructuring but who failed to meet their repayment conditions.

The third group of assets included foreclosed properties held by the transferor before the transfer date and free of any commitment to the respective debtors or tenants, particularly the restriction on sale of the properties to any third parties.

The fourth group of assets included unsecured debtors without restructuring agreements at the transfer date.

Setting of the asset values can be summarized as follows:

For the first group of assets, the transfer prices were based on the current weighted average prices of the assets (in proportion from 40% to 70% of the current price of the assets) and the values of securities used to back up the assets (in proportion from 30% to 60% of the back-up security values), depending on the type of asset.

For the second group of assets, the transfer prices were based on the transferor's costs with no discount and a discount at 5% to 15% of the values of the back-up securities but not larger than the mortgage values or outstanding debts as at the transfer date whichever one was smaller.

For the third group of assets, the transfer prices were based on the transferee's computation method involving variables and assumptions as follows: appraised prices of the assets, expected selling prices of the assets at 80% of the appraised prices, asset holding period from 1-5 years, asset grading (basing on location, accessibility, public utilities provided, physical conditions of the assets and usefulness of the assets). Financial cost of each asset was set at 4% per annum. Operating cost was set at 2% a year. Profit rate was at 5% of the appraised price. Withholding tax and specific business tax were also taken into consideration.

For the fourth group of assets, the transfer prices were set at Baht 1 per debtor account.

Both transferor and transferee have the right to call for adjustment on the prices of the transferred assets within 180 days from the transfer date. The price adjustment, if in effect, can be done by issuing an additional promissory note by the transferee or by the transferor as the case may be.

In recognition of profit or loss from the transfer, an agreement was made between the transferor and transferee that recognition of profit or loss for groups 1, 2 and 4 would be computed at the end of year 6 and year 12 after the transfer date.

Computation of profit or loss from management of groups 1, 2, and 4 is to be made on the value received from the debt collection process. The debt collection can be accumulated on a cash basis until the computation date only on the debts that are fully settled. The recognition must come from the value received less cost of each asset at the transfer date, administrative expenses on each of the debts settled and interest expense on the promissory note. At the end of year 6 and year 12 from the transfer date, results of the asset management, under the agreement must be brought up for sharing between the transferor and the transferee. In case of debt settlement done through asset transfer, recognition of profit or loss is to be done only after the asset is successfully disposed of to clear the debt.

In case of loss from the management of group 1 assets, sharing of loss by the transferor will be at 20%. For the next 20% of the loss, the loss will be shared equally at 1:1 between the transferor and the transferee. The rest of the loss will be absorbed fully by the transferee.

In case of loss in the group 2 assets, sharing of loss will be done in different manners, as follows:

(a) If the transfer prices were not at a discount, the transferor will absorb the loss at the first 30% while the next 20% of the loss will be shared equally at a ratio of 1:1 between the transferor and transferee. The rest of the loss will be absorbed fully by the transferee. (b) If the transfer prices were at a discount of 5%, the transferor will share the first 25% while the next 20% will be shared equally between the transferor and the transferee at a ratio of 1:1. The rest of the loss will be absorbed in full by the transferee. (c) If the transfer prices were at a discount of 10%, the transferor will absorb the loss at the first 20% while the next 20% of the loss will be shared equally at a ratio of 1:1 between the transferor and transferee. The rest of the loss will be absorbed fully by the transferee. (d) If the transfer prices were at a discount of 15%, the transferor will absorb the loss at the first 20% while the next 20% of the loss will be shared equally at a ratio of 1:1 between the transferor and transferee. The rest of the loss will be absorbed fully by the transferee.

In case of profit, the first portion at not over 20% of the transfer prices, the portion will be shared equally at a ratio of 1:1 between the transferor and the transferee and the rest of the profit will be taken by the transferor. However, this portion must not be higher than the margin between the book value and the transfer prices. The rest of the profit, if any, will be taken by the transferee.

Hence, during the third quarter of 2003, the subsidiary (as the transferor) has transferred its loans and investment in loans of various categories previously transferred from its parent company (the Bank) to BBC Asset Management Co., Ltd. or the transferee. These assets came in the forms of loans and debts, both secured and unsecured, as well as foreclosed properties and related assets. The total transfer price was Baht 19,533 million and at the transfer date the transferee paid for those assets to the transferor in the form of negotiable promissory note. The net book values of the transferred assets can be summarized as follows.

	Amounts : Million Baht
	<u>Net Book Value</u>
Investments in loans transferred from the Bank	18,522
Loans and receivables, including interest receivable	1
Foreclosed properties	4,630
Related assets	<u>7</u>
Total	<u>23,160</u>

The transfer of the said assets as described above resulted in a loss to the subsidiary of Baht 3,627 million, which was recognized in its financial statements for the year ended December 31, 2003, in the financial statements of the subsidiary company and consolidated and the Bank only financial statements.

As regards to the asset sale agreement signed on September 3, 2003 between Phayathai Asset Management Co., Ltd. (the Bank's subsidiary as transferor) and BBC Asset Management Co., Ltd. (as transferee), whereas actual transfer of the assets took place on September 30, 2003. It was found later on that there were a number of incorrect transfer prices of certain assets while some of the assets were not qualified as transferable or as good as transferable in future. In the latter case, an addendum to the main agreement is needed to enable the two parties to continue the asset transfer. The transferor (the Bank's subsidiary) has issued its confirmation to the transferee of the correct prices on those assets where wrong pricing was detected as well as further finding of the incorrect prices. Initially, it was agreed that the transferee was required to issue its promissory notes to pay for the transferred assets. However, it was required by the

transferee's corporate regulations that the issuing of P/N under such circumstances needed approval from its board first. As a result, at December 31, 2003, the subsidiary was still unable to record in its accounts the effects of the asset transfer as conducted. In the meanwhile, the transferee is able to recheck the asset prices and transfer prices for readjustment if necessary within 180 days of all relevant documents being received by the transferee.

As at December 31, 2003, the transferor and the transferee were in the process of verifying the prices of the transferred assets.

#### 4.30 Subsequent Events

On January 20, 2004, the Cabinet endorsed the Draft Emergency Decree amending the Industrial Finance Corporation of Thailand Act B.E. 2502 proposed by the Ministry of Finance (MOF) to allow the Industrial Finance Corporation of Thailand (IFCT) to merge with Thai Military Bank Public Company Limited. If the Bank and DBS Thai Danu Bank Public Company Limited (DTDB) have agreed on merging, IFCT would have been considered on merging also.

At the Bank's Board meeting No.1/2004 held on January 27, 2004, resolutions were passed as follows.

1. Approval was granted for Thai Military Bank Pcl. to enter into a memorandum of understanding with DTDB, and DBS Bank to fix an initial framework for a merger and related matters concerning the merger and post-merger management, procedures, timeframe, agreement and documentation. All steps to be taken must fall strictly within the regulatory and legal requirements as applicable in Thailand as well as the Bank's Board resolutions.
2. Approval in principle was granted for the merger between the Bank and DTDB. Through the method of tender offer all the assets and business operations of DTDB are to be merged with the assets and operations of Thai Military Bank Pcl. The merger is to be carried out in accordance with the Section 38 (quarter) of the Commercial Banking Act B.E. 2505 with the consent from the Minister of Finance and recommendations from the Bank of Thailand.
3. Approval was granted for the Bank to join DTDB and DBS Bank in studying the viability and suitability of merging with IFCT. This resolution also gives consent to DTDB and DBS Bank to negotiate for being part of merger with IFCT. The Board also granted the Bank to take what steps are necessary for the due diligence process to start and proceed and also to set the structure for all transactions. The hiring of a financial adviser (FA) and legal adviser (LA) and independent auditor to conduct all necessary works leading to a successful conclusion of the merger in question was also approved by the Board. However, it is required that results of negotiation for the tripartite merger of TMB/DTDB/IFCT must be reported to the Board for final consent.

The Bank is now in the due diligence process with IFCT to evaluate its assets and set their fair book values, which is necessary for the setting of the terms and conditions for the tripartite merger. It is expected that the due diligence process will be concluded for the preparation of a memorandum of understanding for the three institutions to mutually agree by the end of March 2004. After the MOU signing, the merger plan will be forwarded to the Bank of Thailand and the Ministry of Finance for final approval.

At present, the effect from this due diligence on the Bank's financial position and results of operation has not been determined but management believe it will not have a material effect on the financial statements as at December 31, 2003.

#### 4.31 Reclassification

Certain accounts in the 2002 financial statements have been reclassified to conform with the 2003 financial statements presentation.

## FINANCIAL STATISTICS AND RESULTS OF OPERATIONS

**AS AT DECEMBER 31, 2003, 2002 , 2001 and 2000**

(Million Baht)

	2003*	2002*	2001* (Restated)	2000*
<b>ASSETS</b>				
Cash	8,922	7,298	6,246	5,497
Interbank and money market items - net	8,660	21,019	18,112	13,995
Securities purchased under resale agreements	6,200	3,000	-	-
Investment - net	47,553	43,819	52,241	38,071
Loans and accrued interest receivables - net	277,805	288,475	270,248	264,715
Properties foreclosed - net	16,325	16,279	10,060	3,056
Customers' liability under acceptances	571	450	1,269	1,660
Premises and equipment - net	9,495	7,848	8,220	7,966
Accrued interest receivables - net	734	739	744	617
Accounts receivable - net	771	184	23	27
Other assets - net	2,111	2,185	1,899	1,051
<b>Total Assets</b>	<b>379,147</b>	<b>391,296</b>	<b>369,062</b>	<b>336,655</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Deposits	322,240	322,070	300,894	268,588
Interbank and money market items	14,006	21,192	16,576	15,923
Liability payable on demand	2,401	869	841	481
Borrowings	7,287	16,607	17,607	22,755
Subordinated debentures cum preferred shares	-	9,958	9,958	9,958
Bank's liability under acceptances	571	450	1,269	1,660
Accrued interest payables	728	1,357	1,439	1,728
Other payable	2,011	3,640	5,469	1,054
Other liabilities	2,427	867	1,390	1,475
<b>Total Liabilities</b>	<b>351,671</b>	<b>377,010</b>	<b>355,443</b>	<b>323,622</b>
<b>Shareholders' Equity</b>	<b>27,476</b>	<b>14,286</b>	<b>13,619</b>	<b>13,033</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>379,147</b>	<b>391,296</b>	<b>369,062</b>	<b>336,655</b>
<b>OFF-BALANCE SHEET ITEMS-CONTINGENCIES</b>				
Aval to bills and guarantees of loans	4,702	5,419	8,847	6,762
Liability under unmatured import bills	691	865	1,169	1,118
Letters of credit	10,083	7,493	10,065	6,665
Other contingencies	84,809	76,196	71,120	80,330
Interest and dividend income	14,754	16,008	15,237	14,890
Interest expenses	8,263	10,358	11,501	12,943
Net income from interest	6,491	5,650	3,736	1,947
Bad debt and doubtful accounts	16,759	1,100	272	23,170
Loss on debt restructuring	(642)	1,505	(253)	50
Net income (loss) from interest after bad debt, doubtful accounts and loss on debt restructuring	(9,626)	3,045	3,717	(21,273)
Non-interest income	3,403	4,189	3,491	2,707
Non-interest expenses	7,786	7,348	6,509	6,467
<b>NET INCOME (LOSS) BEFORE INCOME TAX</b>	<b>(14,009)</b>	<b>(114)</b>	<b>699</b>	<b>(25,033)</b>
Income tax	45	46	44	31
<b>NET INCOME(LOSS)</b>	<b>(14,054)</b>	<b>(160)</b>	<b>655</b>	<b>(25,064)</b>
<b>BASIC EARNINGS (LOSS) PER SHARE (Baht)</b>	<b>(3.79)</b>	<b>(0.08)</b>	<b>0.33</b>	<b>(15.35)</b>
<b>ORDINARY SHARES (Million shares)</b>	<b>8,415.9673</b>	<b>2,010.8676</b>	<b>2,010.8676</b>	<b>2,010.8676</b>
<b>NUMBER OF EMPLOYEES</b>	<b>5,922</b>	<b>6,072</b>	<b>7,074</b>	<b>7,273</b>
<b>NUMBER OF BRANCHES</b>	<b>368</b>	<b>363</b>	<b>366</b>	<b>367</b>

\*The financial statements of 2003, 2002, 2001 and 2000 are presented in accordance with the announcement of the Bank of Thailand date May 10, 2001

## FINANCIAL STATISTICS AND RESULTS OF OPERATIONS

**AS AT DECEMBER 31, 1999**

	(Million Baht)
	1999*
	(Restated)
<b>ASSETS</b>	
Cash	5,440
Interbank and money market items	24,246
Securities purchased under resale agreements	1,000
Investment in securities - net	18,271
Loans and accrued interest receivables - net	270,949
Properties foreclosed - net	4,318
Customers' liability under acceptances	706
Premises and equipment - net	8,475
Other suspense accounts	513
Accrued interest receivables	327
Other receivables	372
Other assets - net	451
<b>Total Assets</b>	<b>335,068</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	
Deposits	259,843
Interbank and money market items	26,814
Liability payable on demand	745
Securities sold under repurchase agreements	3,300
Borrowings	18,753
Subordinated debentures cum preferred shares	9,958
Bank's liability under acceptances	706
Accrued interest payables	2,384
Other payable	2,325
Other liabilities	1,315
<b>Total Liabilities</b>	<b>326,143</b>
<b>Shareholders' Equity</b>	<b>8,925</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>335,068</b>
<b>OFF-BALANCE SHEET ITEMS-CONTINGENCIES</b>	
Aval to bills and guarantees of loans	6,348
Liability under unmatured import bills	1,589
Letters of credit	6,076
Other contingencies	78,525
Interest and dividend income	19,217
Interest expenses	17,313
Net income from interest	1,904
Bad debt, doubtful accounts and loss on restructuring loans	9,110
Net income (loss) from interest after bad debt, doubtful accounts and loss on debt restructuring	(7,206)
Non-interest income	2,260
Non-interest expenses	6,642
<b>NET LOSS BEFORE INCOME TAX</b>	<b>(11,588)</b>
Income tax	27
<b>NET LOSS</b>	<b>(11,615)</b>
<b>LOSS PER SHARE (Baht)</b>	<b>(11.45)</b>
<b>ORDINARY SHARES (Million shares)</b>	<b>1,014.8676</b>
<b>NUMBER OF EMPLOYEES</b>	<b>7,561</b>
<b>NUMBER OF BRANCHES</b>	<b>364</b>

\*The financial statements of 1999 are presented in compliance with the Ministerial Regulation No.7 (B.E. 2539)



## RESULTS OF OPERATIONS IN 2003

The Bank's Board of Directors has reported the results of the operations on follows:-

	Amounts : Baht
Retained deficit brought forward	(42,743,485,553)
Net loss for the year ending December 31, 2003	(14,054,405,127)
Amortization of surplus on fixed assets revaluation	<u>77,968,270</u>
Retained deficit carried forward	<u>(56,719,922,410)</u>

The Banks' Board of Directors has decided that there will be no dividend payments.

## ADDITIONAL INFORMATION

### Thai Military Bank Public Company Limited

Main business	:	Commercial banking
Head Office	:	3000 Phahon Yothin Road, Chatuchak, Bangkok 10900
Registration No.	:	Bor Mor Jor (Public Limited Company) 248
Website	:	<a href="http://www.tmb.co.th">http://www.tmb.co.th</a>
Tel.	:	0-2299-1111
Fax	:	0-2273-7121-4

### Registered capital/Paid-up capital/Number of shares

The Bank registered its capital at Bht 104,079,672,000 divided into:

Paid-up capital at a total of Bht 104,079,672,000 divided into:

- Ordinary share of 8,415,967,300 shares at a par value of Bht 10 each
- Preferred share series B of 1,991,999,900 shares at a par value of Bht 10 each

### Other Referral Parties

Share Registrar	:	Thailand Securities Depository Co., Ltd. The Stock Exchange of Thailand Building 62 Ratchadapisek Road, Klongtoey Bangkok 10110, Thailand Tel. 0-2229-2800
Auditors	:	Mr. Nirand Lilamethwat                      CPA No. 2316 Or Mr. Supoj Singsaneh                      CPA No. 2826 Or Mr. Thirdthong Thepmungkorn        CPA No. 3787 Or Mrs. Wilai Buranakittisophon        CPA No. 3920  KPMG Bhumichai Audit Co., Ltd. 21-22 Empire Tower 195 South Sathorn Rd., Yannawa, Sathorn District, Bangkok 10120 Tel. 0-2677-2000
Legal Advisor	:	Mr. Punlop Pisitsungkakarn* Mr. Vichit Paethong* Ms. Nattanich Satitjindavong Remark : *Contracts expired Dec. 31, 2003  3000 Phahon Yothin Road Ladyao, Chatuchak, Bangkok 10900 Tel. 0-2299-1111

## Statement of the Audit Committee

In 2003, the Bank's Audit Committee, served fully by independent directors who were not the bank's executives or employees of any kind, carried out its responsibilities, within its given authority and in accordance with the guidelines set out by the Stock Exchange of Thailand. Major areas of responsibilities can be summed up as follows.

1. Reviewing the Bank's quarterly, half-yearly and yearly financial statements for the Bank to report its financial statements basing on true and accurate data and information in a manner consistent with the generally accepted accounting standards and regulatory requirements.
2. Reviewing the Bank's internal control system to ensure that appropriate, adequate and effective procedures are in place, particularly on transparency and risk management. The Committee also advised and supported the Bank's management on personnel development relating to control self-assessment.
3. Reviewing the Bank's compliance practices to ensure that the Bank strictly complied with the provisions of the Commercial Banking Act and the Securities and Exchange Act and other related regulatory and legal requirements. Points of observation and recommendations were given to the Bank's management to prevent damaging circumstances. The Committee also insisted that the management be required to supervise the staff to strictly adhere to all legal and regulatory requirements.
4. Taking the responsibility of considering and selecting external auditor and fixing of appropriate auditing fee for the annual ordinary general shareholders' meeting to approve.
5. Closely supervising the Bank's internal audit functions. The Committee had two departments, the General Audit Dept and Information Technology Audit Dept. to report directly to. The Committee approved their auditing plans and made assessment of the two departments' performances to ensure that all auditing activities were independently and effectively conducted in accordance with the regulatory requirements.
6. Providing points of view and recommendations to the Bank's management on various matters related to administration of the Bank via the Board of Directors. The purpose was to enhance effectiveness and efficiency in the Bank's administration and operations.

The Audit Committee closely reviewed and monitored the Bank's operations in its role as representative of the shareholders, aiming at preventing excessive risk-taking transactions and practices that might become serious damages to the Bank in various ways. Throughout the past year, there was no transaction that had materially affected the Bank. The Bank's Board of Directors and the Management had taken internal control and audit as well as the principles of good governance practices very seriously.



Bodi Chunnananda  
Chairman of Audit Committee

## Investment of Thai Military Bank Pcl in Other Companies

As at Dec. 31, 2003 investments in companies in which the Thai Military Bank Public Company Limited held more than 10% of the paid-up capital in each company were as follows :

Company	Head Office Location	Type of Business	Type of Capital (Shares)	Paid-up Capital (Shares)	TMB's ownership		
					Amount (Shares)	Percentage	Amount (Baht) (net of allowance for diminution in value)
1. Phayathai Asset Management Tel. 0-2245-0001 Fax 0-2273-7417	Bangkok	Financial Institution	Ordinary	70,000,000	70,000,000	100.00	2,668,407,699.19
2. Ajala Co., Ltd.	Bangkok	Property	Ordinary	50,000	49,994	99.99	49,994.00
3. TMB Property Development Co.,Ltd. Tel. 0-2299-1686 Fax 0-2273-7674	Bangkok	Property	Ordinary	10,000	9,993	99.93	4,169,342.92
4. Designee For ETA Contract. Co., Ltd. Tel. 0-2299-1566 Fax 0-2299-1237	Bangkok	Utility	Ordinary	1,000	994	99.40	13,617.80
5. NSRF (Thailand) Limited. Tel. 0-2299-1566 Fax 0-2299-1237	Bangkok	Utility	Ordinary	1,000	598	59.80	14,950.00
6. TMB Asset Management Co., Ltd. Tel. 0-2636-1800 Fax 0-2636-1820	Bangkok	Financial Institution	Ordinary	10,000,000	4,499,999	45.00	72,266,411.90
7. Phayathai Property Fund. Tel. 0-2636-1818 Fax 0-2636-1820	Bangkok	Mutual Fund	Unit Trust	60,000,000	17,999,800	30.00	192,910,037.77
8. The Thai Business Fund 1 Tel. 0-2670-4900 Fax 0-2679-1824	Bangkok	Mutual Fund	Unit Trust	135,000,000	30,000,000	22.22	193,104,008.05
9. Thoon Ruam Karn Co., Ltd. Tel. 0-2259-7153-4 Fax 0-2258-7043	Bangkok	Service	Ordinary	240,000	40,000	16.67	1,044,400.00
10. Thai Pattana Fund 1 Tel. 0-2659-8888 Fax 0-2659-8860-1	Bangkok	Mutual Fund	Unit Trust	108,000,795	21,000,000	19.44	198,743,590.50
11. M-Home SPV 1 Co., Ltd Tel. 0-2681-0078 Fax 0-2681-0079	Bangkok	Property	Ordinary	10,000	1,471	14.71	8,826.00
12. Siam Steel Syndicate Co.,Ltd Tel. 0-2716-1580-2 Fax 0-2716-1580-2	Bangkok	Industry	Preferred	37,238,120	5,398,006	14.50	1,781,341.98
13. The Thai Business Fund 4 Tel. 0-2670-4900 Fax 0-2679-1824	Bangkok	Mutual Fund	Unit Trust	315,000,000	35,000,000	11.11	350,000,000.00
14. CH.Karnchang Public Co., Ltd. Tel. 0-2277-0460 Fax 0-2275-7029	Bangkok	Property	Ordinary	1,050,000,000	105,000,000	10.00	2,703,750,000.00
15. Pathumthani Jute Mill Co., Ltd. Tel. 0-2246-9668-9 Fax 0-2246-9669	Bangkok	Industry	Ordinary	330,000	33,000	10.00	3,300,000.00
16. T.A.B.Brokers Co., Ltd. Tel. 0-2246-9793	Bangkok	Service	Ordinary	50,000	5,000	10.00	500,000.00
17. Paiboon Insurance Co., Ltd. Tel. 0-2246-9635-54 Fax 0-2246-9660-61	Bangkok	Service	Ordinary	2,000,000	200,000	10.00	30,200,000.00
18. Wholesale Town Co., Ltd. Tel. 0-2531-6860 Fax 0-2532-3009	Bangkok	Property	Ordinary	22,000	2,200	10.00	2,683,181.37
19. Bangkok Pattaya Hospital Co., Ltd. Tel. 0-3842-7770-7 Fax 0-3842-7777	Bangkok	Service	Ordinary	28,000,000	2,800,000	10.00	60,762,000.00
20. M.Thai Estate Co., Ltd. Tel. 0-2261-1144 Fax 0-2261-1143	Bangkok	Property	Ordinary	30,000,000	3,000,000	10.00	0.00
21. Ace Capital Co., Ltd. Tel. 0-2652-1510-4	Bangkok	Financial Institution	Ordinary	30,000,000	3,000,000	10.00	20,150,236.80
22. TPF Leasing Co., Ltd. Tel. 0-2639-9180-91 Fax 0-2639-9192	Bangkok	Financial Institution	Ordinary	6,000,000	600,000	10.00	0.00
23. Nava SC Securities Investment Ltd. Tel. 2822-6888 Fax 2845-0971	Hongkong	Financial Institution	Ordinary Preferred	95,001,000 74,925	9,500,100 7,492	10.00 10.00	0.00

## Type of Business

### Overview of the businesses conducted by the bank, its subsidiary and associated companies

Thai Military Bank Pcl has operated its commercial banking business under the license granted by the Ministry of Finance and the consent given by the Bank of Thailand. The bank has also operated securities business as licensed by the Ministry of Finance and consented by the Securities and Exchange Commission. The businesses of the bank and its subsidiary and associated companies can be summed up as follows.

1. The bank's commercial banking business is carried out in accordance with the provisions of the Commercial Banking Act. The business covers a wide variety of banking services that include accepting of deposits, giving out credit facilities, issuing guarantee and aval facilities, foreign exchange transactions, international remittance services, issuing of letter of credit, ATM card and credit card services, custodial services and telephone banking services.
2. Offshore banking (Bangkok International Banking Facilities), which covers lending out with fund available from the outside to overseas customers (out-out transactions) and to local customers (out-in transactions). Other off-shore banking service include foreign exchange trading, aval facility, acceptances and guarantee facilities in foreign currencies, forward exchange contracts, etc.
3. Investment banking, which includes financial advisory service, being a mutual fund and securities agent and bond selling agent, pension fund management, private fund management and custodial service.
4. Other businesses include acting as alliance partner with an insurance company as their agent, etc.

### Subsidiary Companies

1. **Phayathai Asset Management Co., Ltd.**  
Established by the Bank to manage impaired assets and their collateral back-ups transferred from the bank for highest rate of yield possible.
2. **Designee for ETA Contracts Co., Ltd.**  
Established specially under the agreement made between a group of major creditors and Bangkok Expressway Pcl to hold all titles transferred from the Phase 2 Expressway Building and Operating Concession Agreement signed between the Expressway and Rapid Transit Authority of Thailand and Bangkok Expressway Pcl. The bank, acting as its security agent, is the subsidiary's largest shareholder.
3. **NSRF (Thailand) Co., Ltd.**  
Established specially under the agreement made between a group of major creditors and North Bangkok Expressway Co., Ltd. to hold all titles transferred from the Bang Pa-In - Pakkred Expressway Building and Operating Concession Agreement signed between the Expressway and Rapid Transit Authority of Thailand and North Bangkok Expressway Co., Ltd. The Bank, acting as its security agent, is the subsidiary's largest shareholder.  
(At the extraordinary general shareholders' meeting, a resolution was passed for liquidation of this company. The company registered for dissolution of its corporate entity on Dec. 1, 2003. Presently, liquidation is in the process.)

### Associated Companies

1. **TMB Asset Management Co., Ltd.**  
This is a company established by the bank to engage in the business of mutual fund and private trust fund management under the provision of the Securities and Stock Exchange Act as licensed by the Securities and Exchange Commission.
2. **Phayathai Property Fund**  
Operates as a mutual fund offering institutional investors opportunities to make long-term investment on prime properties the fund has acquired for subleasing. The Fund issued its investment units on a non-redeemable basis.
3. **Thai Business Fund 1**  
This is a property mutual fund established to offer institutional investors opportunities to invest on properties and claim rights in the form of non-redeemable investment units.

### Policy for the Group's Business Structure

The group's business is structured into different categories as follows.

1. **Core-business Member Companies:** The bank's investments in member companies engaging in financial business were aimed to provide supports and development activities that would boost the effectiveness in the bank's financial services and expand range of services for the bank's customers. The focus is on the deployment of the bank's own resources, tools and service channels to their full potentials, maximizing the benefits to come from them.
2. **Back-up Companies:** The investments in group's members that operate in support of the bank's business aimed primarily to build own basis for vital supports needed by the bank and at the same time make them capable of acting as the bank's own agencies in other businesses.
3. **Non-core Companies:** Group's members doing businesses outside the banking business are to be sold off when appropriate prices are offered. Divestment in non-core members of the group is part of the bank's policy.
4. **Debt-tied Companies:** The bank has a policy to divest its holdings in companies owned through debt settlements. The divestment will be done in accordance with the Bank of Thailand's guidelines.

## Income Structure

From its non-consolidated and consolidated financial statements at the end of 2003, the bank's net interest and dividend income after provision for bad and doubtful debts and losses from debt restructuring amounted to Bht 9,626 million and 6,667 million respectively. Likewise, non-interest income amounted to Bht 3,403 million and Bht 3,946 million respectively, mainly came from fees and service charges. Next on ranking were earnings from profits from investment and foreign exchange dealings in that order.

### Income Structure Classified by Product Lines and Business Types

Unit : Million Baht

	Consolidated Financial Statements						Bank-Only Financial Statements					
	2003		2002		2001		2003		2002		2001	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%
Net interest and dividend income after provision for bad and doubtful debts and losses from debt restructuring	(6,667)	(245.02)	3,145	42.35	3,679	50.70	(9,626)	(154.68)	3,045	42.10	3,717	51.57
Non-interest income												
Profit from investment	598	21.98	835	11.25	632	8.71	574	9.22	828	11.45	632	8.77
Sharing of profit from investment based on equity method	397	14.59	200	2.69	369	5.08	(320)	(5.14)	161	2.22	282	3.91
Fees and service charges	2,348	86.29	2,253	30.34	2,082	28.69	2,348	37.73	2,253	31.15	2,082	28.88
Profit from foreign exchange	470	17.27	863	11.62	363	5.00	470	7.55	863	11.93	363	5.04
Profit from asset disposition	-	-	61	0.82	-	-	203	3.26	15	0.21	-	-
Other income	133	4.89	69	0.93	132	1.82	128	2.06	68	0.94	132	1.83
Non-interest Income Total	3,946	145.02	4,281	57.65	3,578	49.30	3,403	54.68	4,188	57.90	3,491	48.43
Income Grand Total	(2,721)	(100.00)	7,426	100.00	7,257	100.00	(6,223)	(100.00)	7,233	100.00	7,208	100.00

## Significant Changes and Developments in 2003

### 1. Organization Changes

- The bank undertook some changes in its organization aiming to become more dynamic in its operations. In the changes, Mr. Montri Visoldilokpun was promoted from his former position as first executive vice president to senior executive vice president position replacing Mr. Akadej Bijaphala, who became adviser to the president. On Feb. 1, 2003, three senior executives, including Dr. Chandreka Wiriyawit, Mr. Prakam Tawisuwan and Dr. Subhak Siwaraksa were all promoted from the rank of executive vice president to the rank of first executive vice president. On April 16, 2003, another executive vice president, Mr. Sompol Chaiyachow, was also promoted to the rank of first executive vice president.

- On July 29, 2003, Dr. Subhak Siwaraksa, an FEVP, was appointed as Acting President and, on Dec. 26, 2003, as new President of the bank.

- On Nov. 18, 2003, Mr. Sommai Phasee, formerly a board director, was appointed to take the two top board-positions as the bank's Chairman of the Board of Directors and Chairman of the Executive Board.

- Changes in organization of function units were also take place as a department known as Asset Management and Building Department was set up and a new function group known as Data Set Management Group became a separate unit in the Accounting Dept.

### 2. Capital Injection

- By a resolution passed by an extraordinary general shareholders' meeting held on Aug. 28, 2003, the bank's registered capital was to increase by Bht 22,255 million with a new rights issue for 6,405 million ordinary shares at a par value of Bht 10 per share. The rights issue was offered to the shareholders of record at a ratio of 5 shares held to 8 new shares at a price of Bht 3.50 per share. The bank accepted the shareholders' subscription rights during a weeklong exercise period from Sept. 10-16, 2003. The shareholders' response was above expectations.

- The bank had sought approval from the Bank of Thailand for pre-maturity redemption of its Super Caps debt on Dec. 8, 2003 as the bank's capital fund had enough liquidity to do so. This was first time a bank in Thailand had been able to redeem its debt instruments before maturity.

### 3. Product Development

- The bank in its alliance with Thai Cardif Life Insurance Co., Ltd. has offered its customers with life insurance coverage at all of its local branch offices. Two products, "TMB Cardif Accident Plus" and "TMB Cardif Happy Loan" were offered. In addition, the bank also went into alliance with Phaiul Insurance Co., Ltd. to offer "TMB Safety Drive", for two different types of car accident coverage (Types 1 and 3) to its customers.

- The bank also launched its new deposit scheme known as "Senior Account", focusing on tapping new deposits from government officials and state enterprise workers who are nearing their retirement dates.

- The bank has continued its "Home Improvement Credit" scheme further to provide its funding for home improvement to needy customers with 4 different low-interest repayment plans. The bank also launched its new SME funding known as "Get 100-Payback 50 Credit".

- Securities and Exchange Commission has granted its consent for the bank to start its custodial service to manage assets of private funds.

- The bank took another step to upgrade its ATM card service by increase daily drawing limit from Bht 40,000 to Bht 60,000. The bank's "VISA Electron" debit card service was also upgraded as daily cash-drawing limit was changed from Bht 40,000 to Bht 200,000 while daily fund-transfer limit was increased from Bht 50,000 to Bht 200,000.

- In its alliance with Tang Hua Seng Department Store, the bank arranged a promotion campaign for clients who shop and pay with the bank's credit or debit card. A discount was offered on all items purchased.

- To expedite the disposal of properties foreclosed, the bank arranged a series of housing exhibition and auction as well as sales promotion, offering buyers with attractive conditions starting with 0% interest in the first year.

#### 4. Branch Operations

- The bank opened 4 new mini-branches, 3 of them in Bangkok at Ramkhamhaeng University, Sri Nakarinvirote- Prasarnmit University and Big C-Rama 2 Road Superstore. The fourth one was at Koh Chang in Trat.

- At the Rajabhat Institute-Surat Thani Campus, the bank's mini-branch there has started to open for business on Saturday in addition to the traditional week-day operations.

#### 5. Social Contribution

- The bank in a joint campaign with TMB Foundation arranged "Heart for Health" a social contribution project in which a medical team was set up to provide free medical care to people at Lak Si District Office and Niam Klam Community.

- The bank had donated blankets to poor people in rural areas in the North and the Northeast. Other donations included cash donations to Eye Center of the Thai Red Cross Society under H.M. the King Patronage and to aid patrol troops on active duty in sensitive border areas.

- The bank continued to host its annual national student band competition for H.M. the King's Trophy.

- A special talk on "The Stock Market and Added Business Opportunities" was jointly organized with the Stock Exchange of Thailand for the public to attend free of charge. Another talk on "Economic Recovery and Opportunities for Savings Cooperatives" was also organized jointly with the government's Cooperatives Promotion Department and Savings Cooperatives Association of Thailand.

### Market Conditions and Competition

The bank moved on with its product development effort in different product groups including credit facilities, card services, financial products, deposits, investment funding and bancassurance. In 2003, the bank provided its customers with a wide range of products and services including 28 different credit facilities, 17 card services, 17 financial services, 7 types of deposit, 6 investment funding services and 6 types of bancassurance coverage.

All banking products and services were promoted widely through the bank's various channels including branch offices throughout the country, direct mail, advertising and public relations in a variety of media. The bank communications reached its customers and target groups in a broad array of channels on its own initiatives such as TMB Internet website, ATM monitors, print materials accompanying account statements, in-house posters, brochures, billboards, PR or sales booths at some trade exhibitions, in-house promotion and direct customer calls. Advertising campaigns in the mass media such as newspapers, magazines, radio spots were also organized from time to time to promote the bank's products and services.

At present, the banking industry is full of competition with a high degree of aggressiveness. The competition evolved from different strategies. The end-results have been far-reaching as innovative products, enhanced customer service and in-house facilities to accommodate customer needs in a fast and effective way had been introduced and new service channels to reach more customers added. New branches in well-populated communities once again emerged and modernistic redesigning of branch offices has been in fashion while management restructuring took place in most of the banks as a way to reach higher level of overall efficiency. Because of changes in customer behaviors and banking needs as well as economic landscape has been very fluid, commercial banks could not afford to be complacent about the market conditions. They need to come up with new competitive edges to do well in their operations. Organization and customer service developments have become the hot items in the list priorities. Product differentiation is now a byword for creating a wider customer base as well as for increasing frequency in customer transactions. Best practices in customer service are also recognized as key factors to maintain market share and attract new customers.

#### Trends of Competition in Commercial Banking

Due to strong economic recovery, demand for credit facilities in the financial market is expected to increase significantly in 2004. This would lead to stronger competition among commercial banks in lending. Bank credit in various forms in both consumer and corporate banking is most likely to expand considerably. Banks would have to intensify their marketing efforts, particularly in customer service and service channel improvement, to protect their customer bases. Commercial banks would have to make their range of products and services more attractive in both quality and innovation aspects. Banking services in which competition is expected to be increasingly intense are as follows.

**SME Credit Services:** Because the government has a policy aiming primarily to improve the economy at the grassroots level, the SMEs are, therefore, seen as key to sustainable economic growth. It is clear that commercial banks are under pressure to revise their credit-giving strategies to support the government's economic policy. In 2004, it is very likely that commercial banks with strong liquidity position would play a stronger role in support of SMEs in general. As economic growth looks likely to continue at a high rate, SMEs are less vulnerable in terms of credit risk and have a good chance to thrive on and make enough profits to repay their loans. Naturally, commercial

banks have no other options but to be highly competitive if SME market become increasingly a dominant issue in the country's overall development strategy.

**Consumer Credit:** It is expected that competition among commercial banks will heat up, particularly in unsecured credit for personal consumption. This is possible as the government aims to promote private spending as a force behind economic growth. Banks cannot afford to play down the high tide of consumer credit as personal consumption picks up strongly. The consumer credit providers, banks and non-bank operators included, would compete side by side to serve consumers' spending needs. Supply of personal credit in the market will shoot up both in volume and value. The key factor contributing to the rise in personal spending is the low interest rates.

**Housing Loans:** In 2004, the tendency would continue for housing loans to stay at the top of most wanted list of bank credit. During the first-half of the year, competition is likely to become less intense as during the period just before the end of 2003 property developers sold off quite a number of completely built homes as the government easing of fee rates on real property transfer was still in effect. The demand curve in 2004, therefore, moved on the downward side. However, the housing demand will not stay on the downside for long. It is expected that the demand will pick up again in second half of the year. The property market would stir up again as developers offer the buyers with attractive terms of sales in response to strong economic growth. Sales incentives will vary, low interest rates will not be any more the focus but quality and location will be the key points. It is likely that banks will find alliances with outside goods or service providers to offer their customers with housing loans that tied up with side benefits to come from their alliance partners.

**Credit Card Business:** Competition in this core business among the commercial banks will remain strong throughout 2004. Banks will not stop promoting their credit card businesses. However, with tighter control put in place by the Bank of Thailand to cut down payback default rate among cardholders, commercial banks need to come up with new strategies to protect their market shares as overspending cardholders crashed out. Banks will not any more focus on finding more and more cardholders. Big spending on credit card by each customer will be the key factor for banks to keep their credit card business on the upside. One way for the banks is to give another card with different brand name to the good customers with added credit limit. This is to counteract against the expected drop in the rate of cardholder growth. Bonus points or purchasing mileage tied to each payment charged to the credit card may work well to motivate cardholders to use their cards more frequently. Issuing cards for customers in any niche market or segment by segment of the consumer market basing on lifestyles, gender or social standing of the potential customers. Banks may have to seriously find their alliance with certain commercial establishments, where credit cards are accepted for payments in exchange for higher rate of customer turnover. More co-branding of credit cards between banks and other businesses is most likely to happen.

## Risk Factors

Commercial banking is deeply intertwined with financial market and economic conditions internally and externally. Changes are common place and may take place swiftly. A situation in banking business may easily change as new regulatory requirements are introduced and competition in the market becomes heated up and when a shift in government policy occurs. Risks are common in banking business. They can be identified as major risk factors as follows.

### 1. Credit Risk

The credit risk is coming from the situation when a customer or a counterpart fails to comply with the terms and conditions of the credit given or avoids paying back the borrowed fund as agreed. The bank has a policy to lessen this kind of risk through a careful credit granting procedure. Financial position of each customer or a counterpart is thoroughly analyzed while credit granting is to be done step by step under a set of practice rules. Credit is sufficiently secured against certain collateral assets or guarantees to protect the bank from possible credit loss or any financial damages. Besides, the bank also takes the business or industrial trend into consideration to determine the viability of a customer's business and ability to pay back. The bank's lending business is not concentrating in any particular business sector. This is to spread out the credit risk the bank has to take in its normal operations. As at Dec. 31, 2003, credit facilities were largely given to manufacturing and commercial sectors at around 43.61% of the total credit given to all sectors. The second largest amount of credit at a combined ratio of 17.16% was given to the public utility and service sectors.

In addition to risk spreading, the bank takes it seriously not to give credit to any single customer or a business group in excess of the standard limit set by the Bank of Thailand. However, there was an exception in the case credit granted to Phayathai Asset Management Co., Ltd. (PAMC), the bank's subsidiary. In 2003, the bank arranged a transfer of impaired debts classified as doubtful assets to PAMC at a total of Bht 1,877 million. The bank has been closely supervising the operations PAMC and following up on its management of the impaired assets to minimize any debt loss that might possibly happen.

As regards to credit approval procedure, the approval is done through a committee system while all applications for credit received from all customers are processed by two separated units, one unit is responsible for customer service and another for credit analysis. A function unit known as Credit Risk Management Office is responsible for business trend analysis, assessment, providing supporting information, setting risk spreading policy and setting of appropriate risk-return policy. The bank also uses risk grading tool and credit scoring model to evaluate the credit risk exposure of each credit facility applied by a customer. After a credit facility is granted to a customer, the bank would closely monitor the customer's credit utilization. The bank standard procedure involves reviewing of the credit status, credit control and following up of payment default and taking reappraisal of the debt security as required by the Bank of Thailand's regulations.

### 2. Risk on NPLs and Debt Restructuring

AS at Dec. 31, 2003, the bank's NPL (excluding inter-bank and money market items) totaled Bht 29,831 million or 9.90% of the bank's total loans. In 2003, the bank arranged debt restructuring with 34 customers and had to absorb a total debt loss of Bht 2,777 million as a result. Some of the NPLs, classified as doubtful debts were transferred to Phayathai Asset Management Co., Ltd. in an asset sale arrangement. The bank also sold some of its investments in certain assets and properties transferred from customers as debt settlements as well as some debts both secured and unsecured, foreclosed properties and related assets to BBC Asset Management



Co., Ltd. The total value of the sales arranged with BBC-AMC was Bht 19,533 million.

In its effort to reduce the level of NPLs, the bank took different approaches to arrange debt restructuring with customers in financial troubles. The approaches ranged from interest rate reduction, a cut in past due interest payable, repayment term extension, transfer of asset as a means for debt settlement and debt-to-equity conversion.

### 3. Market Risk

Market risk involves the risk brought about by the fluctuation of foreign exchange rates, volatility in interest rates and prices of equity securities, all of which have strong impacts on the bank's assets and liabilities.

The bank has laid down a policy on risk management and compiled market risk management manual, aiming to control foreign exchange transactions and trading of financial instruments including derivatives, debt and equity securities. Market risk in securities trading is managed basically through a technique known as Value at Risk (VaR). The bank also sets position and loss limits for its securities investment portfolio and uses a warning system known as Management Action Trigger (MAT).

Office of Market Risk Management is a function unit with direct responsibility in producing a daily report on market risk for other units concerned and the senior executives. A biweekly report is also compiled for the Asset and Liability Committee (ALCO) to take action as necessary as ALCO is in charge of overall risk control and making top-level strategic policy changes to keep the bank's market risk exposure at manageable level. The bank has also set up a risk management committee to set policies for risk management in all areas and set up overall risk control system to be consistent with the bank's policy and regulatory requirements.

As regards to foreign exchange risk, the bank has set a policy to manage the risk on two purposes. One is to protect the bank from being damaged from various transactions. Another is to protect the customers' interests. Derivative instruments used for the transactions are foreign currency forward bought/sold contracts. All foreign exchange transactions are conducted in compliance with the regulations set by the Bank of Thailand and strictly in line with the bank's policy. The bank has no policy to speculate those transactions for profit. Market risk in foreign exchange transactions is related mainly to default by counterpart, which is known specifically as counterparty risk. The bank manages this kind of risk through risk analysis and the setting of transaction limit and timeframe. The Board of Directors would first approve transaction limit set for any counterparts. It is the responsibility of the Office of Market Risk Management to see to it that each transaction is done within the limit as approved by the Board.

As at Dec. 31, 2003, the total values of foreign exchange forward contracts were as follows.

Forward bought contracts on the bank only financial statements had a total value of Bht 8,257 million. The market value was the same at Bht 8,257 million.

Forward sold contracts on the bank only financial statements had a total value of Bht 14,447 million. The market value was the same at Bht 14,447 million.

### 4. Investment Risk

The bank's securities investment is carefully processed in a series of screenings starting at the operative level in the money market management function line and goes all the way up to the ALCO and the Executive Board before being approved by the bank's Board of Directors. ALCO is responsible for setting investment policy under the bank's investment objectives as well as picking of potential securities for investment and setting of the gross and loss limits. ALCO is also responsible for ensuring that securities investment remains at all time within the bank's policy and the limits as approved.

Fund for securities investment is set aside under a procedure known as capital allocation, basing on risk data available on each securities picked for investment and counterparts involved. Gross limit and loss limit for each securities marked for investment are set in relation to the bank's ability to support the risk according to its capital adequacy position.

The Office of Market Risk Management is responsible for reporting portfolio position, results of investment and risk exposure to ALCO on a regular basis. This is to allow ALCO to have information to effect policy changes that would make securities investment consistent with the bank's mainline business as well as the trends in the local money and capital markets.

In investment accounting, the bank has strictly followed the generally accepted accounting practices. The bank's investment portfolio is evaluated on a monthly basis. This is to know exactly how much each type of investment in the portfolio is worth at market prices. If the actual value of any investment at market prices or return on the investment is lower than the cost, the bank will set aside allowance for diminution in value of the securities and recognize the investment loss immediately. This particular accounting practice is in compliance with the accounting standards relating to impairment of assets. It is very helpful as the bank's investment position is constantly updated and any necessary change in investment policy can be taken at an appropriate time to reduce the impact of the risks taken.

As at the end of 2003, the bank's net investment in securities at fair value in the bank only financial statements amounted to Bht 47,553 million. The ratio of investment in debt instruments issued by the government and state enterprises was 72.46%. The bank's investment in debt instruments within the private sector was 6.74% while allowance of Bht 37 million was set aside for value adjustment and impairment of the securities portfolio as required by the accounting standards.

The bank's investment in equity securities was at a ratio of 20.80% of total securities investment. Total investment in subsidiary and associated companies was at 6.58%. Allowance for value adjustment and impairment of the investment as required by the accounting standards was at Bht 1,462 million.

### 5. Liquidity Risk

The bank's ALCO and Income and Expense Committee are jointly responsible for oversight of liquidity management. The main purposes are to maintain the bank's liquidity level as required by the Bank of Thailand's regulations and keep watch to ensure that the bank's liquidity position is sufficient for the bank's normal operations as well as at any critical situation that may arise. The two committees are also responsible for finding funding sources that can provide appropriate support when needed. The bank has its own liquidity management policy to keep liquidity risk at manageable level. Review of the policy has been conducted on an annual basis while the Office of Market Risk Management is responsible for keeping watch and assessment of liquidity risk, which can be characterized as follows.

1. Short-term involving daily, fortnightly and monthly activities
2. Medium-term involving 1-6 month activities
3. Long-term involving activities for a period from 6 months upward

Maturity gap report and liquidity assessment report basing on trends of consumer behavior are routinely prepared while liquidity risk control procedure is in place to send out signal for the management to readjust the bank's asset and liability structure so as proper liquidity position can be maintained.

The maturity gap assessment and tracking of consumer behavior trends is done by using a computer software to process data available from the bank's own database and run risk management tools as well as stress test. The software is helpful in becoming well prepared with sufficient liquidity when unexpected situation arises.

As at the end of 2003, the bank's ratio of total loans to total deposits at 93.47%, down from 93.80% at the end of 2002. This was due to a rise in deposits resulting from redemption of the bank's preferred shares and preferred shares cum subordinated debentures by some customers. More deposits also came from some customers who received their provident funds. However, the bank managed to have some liquidity surplus during 2003. Such surplus was invested in certain investment grade debt securities on short- and medium-terms as required by the bank's investment policy.

#### **6. Interest Rate Risk**

The bank's ALCO has one of its responsibilities in defining direction and procedure for the management of interest rate risk. This is to make the bank be able to assess the interest rate trends and prepare to adjust its financial positions as necessary. The bank needs to readjust its financial positions to keep the interest rate risk at a safe level. The Office of Market Risk Management is responsible for monitoring interest trends and preparing of repricing gap report on a regular basis to determine and set the bank's asset and liability positions at proper levels basing on the bank's interest rate adjustment period.

The bank's assessment and analysis of interest rate risk is done through the use of a computer-software, using the data available from the bank's database. Analysis covers the impact on the bank's assets and liabilities deriving from interest rate changes. Sensitivity analysis has also been conducted to determine a proper change in interest rate when necessary. The analysis helps the bank to gauge the impact of interest rate change on the bank's asset and liability positions, allowing the bank's to readjust the positions to be consistent with the circumstances and business strategies. This mainly aims to protect the interests of the customers and shareholders of the bank.

#### **7. Loan Guarantee Risk**

The bank normally makes its obligatory commitments by providing guarantees on loans and other types of credit facility including the issuing of its letters of credit and avals on bills of exchange for its customers. Each commitment is made after thorough checking of each customer's financial standing and credit worthiness. Collateral against the commitment is also called for. The process is the same with the standard procedure used in granting loans to customers. As at Dec. 31, 2003, the bank's total obligatory commitments amounted to Bht 46,353 million, comprising of Bht 3,075 million in loan guarantees and Bht 31,568 million in other guarantees, Bht 10,083 million in outstanding letters of credit and Bht 1,627 million in aval on bills.

#### **8. Risk Associated with Impairment in Value of Loan Security**

The bank's loans given to customers are normally secured against real estate class assets. Reappraisal of such assets is required on a regular basis by the Bank of Thailand's regulations. Chances are the values of certain pieces of those assets would become impaired to the point that each of the loans secured by those assets would have its outstanding amount higher than the value of its security. This situation requires the bank to set aside additional allowance to cover the impairment of such loan securities. However, the bank in 2003 had increased its allowance for loan loss as much as required. The bank has regularly engaged outside professional appraisers to carry out the reappraisal process aside from that done by internal appraisers as required by the Bank of Thailand's guidelines.

#### **9. Risk Associated with Inadequacy of Capital Fund**

The bank, in Sept. 2003, increased its registered capital by Bht 22,255 million by issuing new ordinary shares of 6,405 million shares for exclusively offering to the bank's shareholders of record at a ratio of 5:8 between the new shares and the shares already in holding. The subscription price was Bht 3.50 a share. The capital increase, in effect, made the bank's capital fund to risk assets ratio as at Sept. 30, 2003 standing at 16.66%. In December 2003, the bank decided to redeem before maturity its Super Caps instruments worth Bht 13,280 million.

As at 31 Dec. 2003, the bank's capital fund stood at Bht 30,031 million, divided into tier 1 capital at Bht 21,754 million and tier 2 at Bht 8,277 million. The capital adequacy ratio was at 10.59%, higher than the standard minimum ratio set by the Bank of Thailand.

#### **10. Risk Associated with Changes in Regulatory Requirements**

Regulatory requirements are normally certain in banking business even though some changes of the requirements are curtailing the banking business. But it is compulsory for every bank to accept, understand and put them into practice. Every change in regulations serves at least a purpose and applies fairly to all parties whether in the debtor side or the creditor's or whether they are board members or staff members. The bank operates a function unit to take supervisory role to ensure that all of the bank's operating units carried out their responsibilities in strict compliance with all legal and regulatory requirements. This unit is also responsible for informing all other units and the bank's executives of the legal and regulatory requirements relating to the bank's entire business and see to it that practices conforming to the requirements are carried out. The unit also takes responsibility in advising and guiding all operating units on how to follow the legal and regulatory requirements and to be consistent in their practices. The bank during the past year effectively complied with all legal and regulatory requirements.

#### **11. Operational Risk**

In normal circumstances, any business undertaking involves more or less a number of risks that come with mistakes or failures to operate properly. Business operators are all aware of such a risk which is know as operational risk. All business operators at

present are exposed to operational risk in an intensive and wider scale because most of the businesses are increasingly complicated and involved with a large number of parties inside or outside. Chances for human errors and mistakes being done are multiplying. Large organizations, therefore, pay serious attention to control of operational risk. The bank has recognized this kind of risk and has studied the root problems that may turn the risk into serious damages to find way for control the risk in two parts as follows.

The first part is to recognized that operational risk is directly associated with the activities carried out by the bank's employees. The bank, therefore, took its basic step in defining the responsibilities of each function unit in a very clear manner as well as compiling an operating manual for each key function and setting up of internal audit and control system. Reporting system was also established while dual control was put in place and based on information collected from reporting system.

The second part is to recognized that operational risk also involved failures by the bank's own personnel in manually carrying out work procedures. The bank therefore widely uses up-to-date IT technology to support the bank diverse business activities and collect data to build its own database. With valuable data to base on, the bank can effectively operate and be able to avoid errors and mistakes, which may easily happen if some works are done manually. IT systems are also useful in providing warning signs of potential mistakes or something is about to go wrong. With an early warning system, the bank can fix things up before it becomes too late. It helps keep operational risk under control to some extent.

#### 12. Securities Holding Risk

As at Dec. 31, 2003, the bank recorded a net loss from operations of Bht 14,054 million. According to a regulatory requirement, the bank is barred from paying dividends to its shareholders if accumulated loss is still stated in its financial statements. However, the bank has been trying hard to solve every problem. New strategies have been formulated and implemented to return the bank to the position that profit can be realized and dividends paid to the shareholders as fast as possible.

#### 13. Risk Associated with Properties Foreclosed

According to a regulation set by the Bank of Thailand, all commercial banks are required to dispose their properties foreclosed taken over between Jan. 1, 1997 and Dec. 31, 2001 within a period of 10 years. Disposition of the properties foreclosed is to be done on a piece by piece basis after 5 years of possession. Such requirement may possibly create a situation that the bank will hardly be able to dispose such assets at prices, which reflect their original values as loan collateral. Besides, if the bank is unable to dispose the properties foreclosed in question within the timeframe as required the bank would be subject to a fine.

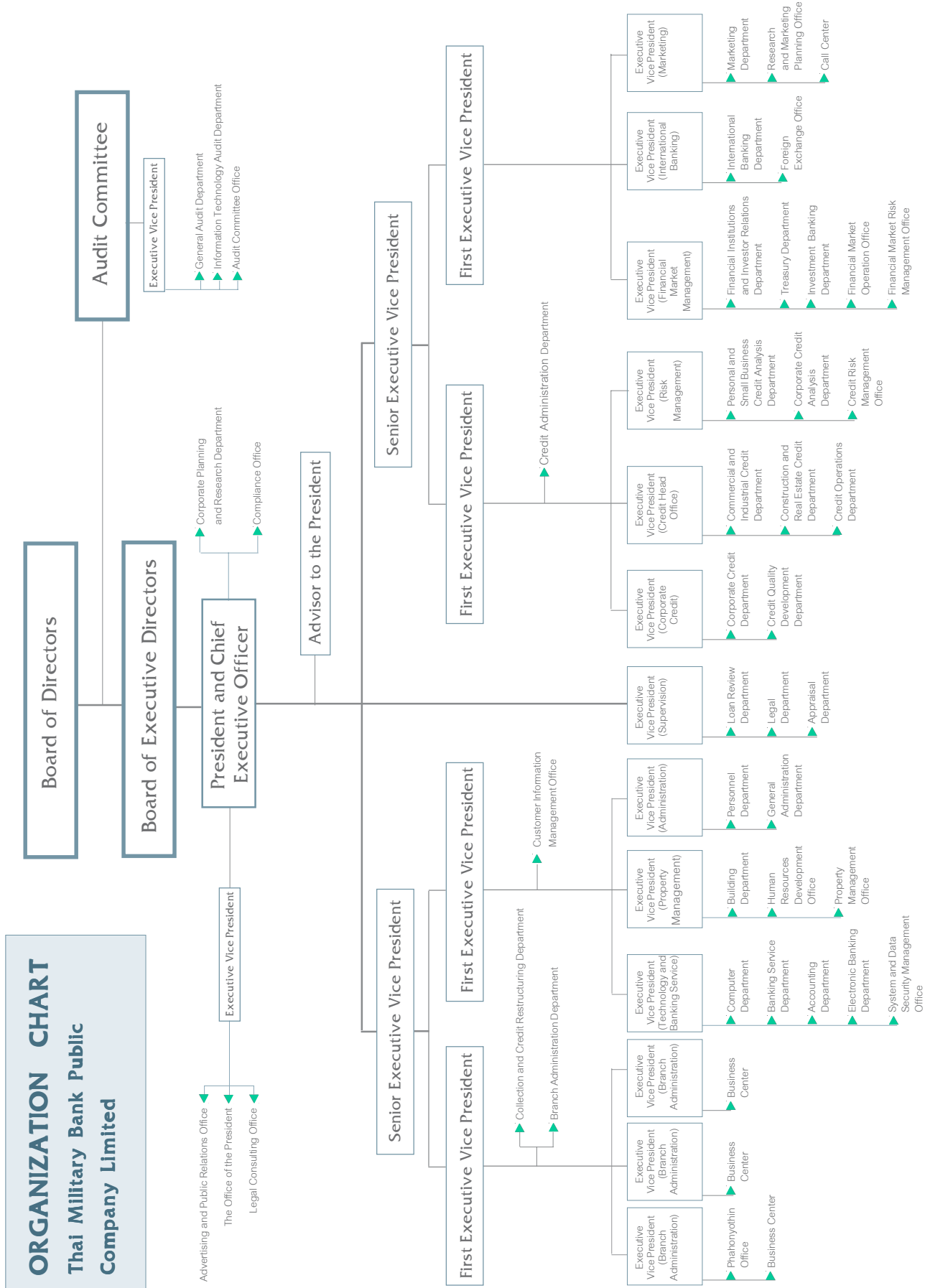
## Shareholding and Management Structures

Below is the list of 10 largest shareholders and their shareholding percentages

Name of Largest Shareholders Ranked by Holding Size	Dec. 31, 2003		
	Holding Percentage (share)		
	Ordinary Share	Class B Preferred Share	%
1. Thailand Securities Depository Company Limited for Depositors	4,463,854,578	6,500	42.89
2. Ministry of Finance	2,234,485,323	1,991,992,200	40.61
3. Thailand Securities Depository Company Limited for Depositors	559,092,184	-	5.37
4. Royal Thai Army	552,309,401	-	5.31
5. Tor Tor Bor.5 Company Limited	137,241,694	-	1.32
6. Royal Thai Air Force	87,847,882	-	0.84
7. Royal Thai Navy	70,953,508	-	0.68
8. Mr. Thawatchai Techawatanawana	26,208,000	-	0.25
9. Mr. Pisit Pruekpaiboon	10,400,000	-	0.10
10. Mr. Sanguan Asavasithithavorn	8,000,000	-	0.08

# ORGANIZATION CHART

## Thai Military Bank Public Company Limited



## Management

### Management Structure

The bank's management structure is based primarily on its two boards and 3 top-level committees including the Board of Directors, the Board of Executive Directors (the Executive Board), Audit Committee, Nomination and Remuneration Committee and Risk Management Committee. There are also 23 other committees and working groups. Among the working groups, 5 are for policy matters, 2 for health-related issues, 4 for credit management, 3 for income-related matters, 1 for operations, 5 for human resources management, 3 for Information Technology. Scopes of responsibilities of the two boards and principal committees are as follows.

### The Board of Directors' Scope of Responsibilities

1. Setting of strategic overall direction and objectives of the bank's operations as well as approving business policies and plans laid down by the management. The board is also responsible for overseeing that the management operates the bank in line with the bank's vision and true to its direct responsibilities as defined by the board. The board's oversight over the management aims to make the bank capable of producing good results and competing effectively with other commercial banks so that the best in organization's and shareholders' benefits can be expected.

2. To see to it that codes of good business practices and moral ethics for the executives and staff members are established as internal guidelines.

3. To steadily monitor the bank's operations to ensure that the board directors who also serve as the bank's executives carrying out their responsibilities in compliance with the bank's policies and legal and regulatory requirements.

4. To see to it that the management has the capability to operate the bank effectively and take responsibility in appointing senior executives of the bank.

5. To ensure that the bank's effective internal control and audit systems are in place.

6. To ensure that the management can deliver its timely and appropriate report on important matters to the board.

7. To see to it that the bank has an effective system in which policies and procedures for management of various types of risk the bank is exposed to in its normal operations. The system must at least cover credit risk, market risk, investment risk, liquidity risk, operational risk, Reputation risk, legal risk and strategic risk. The board is to consider and approve risk management policies and take regular review of the risk policies and strategic direction as well as the actual practices.

8. To approve the hiring and appointment, reshuffling, dismissal, fixing of remuneration, taking disciplinary actions, severance of employment and resignation of all senior executives in the ranks of first executive vice president, senior executive vice president and president of the bank.

9. To approve the scopes of responsibilities of junior boards or committees as well as changes in their structures and other changes which are materially significant to their performances.

10. To ensure that the bank's management in general is highly transparent and open to investigative inquiry in the context of good corporate governance principles.

### The Board of Executive Directors' Scope of Responsibilities

1. To screen the bank's policies, business strategies and plans, operating budget submitted by the management before passing them on to the Board of Directors to approve as well as follow up the implementation of such matters.

2. To approve all kinds of credit facility, joint venture, debt restructuring cases or debt settlement solutions within the ceiling limits as set by the Board of Directors.

3. To approve disposal or the bank's assets and assets possessed through debt settlements.

4. To approve the hiring and appointment, reshuffling, dismissal, fixing of remuneration, taking disciplinary actions, severance of employment and resignation of all senior executives in the ranks of first vice president to executive vice president of the bank.

5. To screen all matters submitted by the management before passing on to the Board of Directors for approval.

6. To carry out other responsibilities as assigned by the Board of Directors.

### Audit Committee's Scope of Responsibilities

1. To review and make sure that the bank has adequate and accurately produced financial reports.

2. To review that the company's internal control is in place with appropriate and effective internal audit.

3. To review that the company is operating in compliance with the law on securities and stock exchange, stock exchange regulations and other laws governing the bank's lines of business.

4. To select and propose the appointment of external auditor and their auditing fee.

5. To ensure that the bank's information disclosure is sufficient and accurate as regards to interrelated transactions and transactions that may possibly be in conflicts of interest.

6. To report on the committee's supervisory and review activities and disclose the contents of the report on the bank's annual report.

7. To ensure that the bank's good supervisory system is in place and carry out review on the bank's risk management with the bank's executives responsible for internal audit and external auditor to ensure that acceptable level of significant risk factors are established and all risks factors are effectively minimized.

8. To review internal control system with the responsible executives to make performance assessment of each management function line to check their ability to reach objectives and produce results as aimed for.

9. To investigate the facts behind complaints made by the bank's personnel and customers.
10. To look into the facts and the management's corrective measures against finding of regulatory breaches and improprieties as referred to in the Bank of Thailand's examination report.
11. Having the authority to call the management and other parties concerned to meet and provide information as necessary.
12. To report results of its activities to the Board of Directors at least once every quarter.
13. Having the authority to hire or engage the service of any specialist in certain fields of expertise to help with its responsibilities after receiving approval from the Board of Directors.
14. To carry out any assignment as given by the Board of Directors as consented by the Audit Committee itself.
15. To carry out any activity if the Board of Directors considers necessary due to the possibility that certain transactions or activities might cause undesirable impact on the bank's financial positions and results of operations. Such transactions might be in conflicts of interest or arising from significant shortcomings in internal control system or misdeeds, including frauds, irregularities, breach of securities and exchange law, stock exchange regulations as well as legal and regulatory requirement.

#### **Nomination and Remuneration Committee**

1. To set policy, principles and method for nomination of independent directors and senior executives for the bank's Board of Directors to consider and approve. The policy is for forwarding to the Bank of Thailand if asked for.
2. To select and nominate names of qualified persons to be appointed as members of the Board of Directors, senior executives, and directors at the board of any company in which the bank holds at least 50% of its equity. The nomination is to be made by the bank's management for the bank's Board of Directors to consider.
3. To set policy on and the amounts of remuneration and other compensations for directors and independent directors as well as senior executives in a clear and transparent manner for the bank's Board of Directors to consider and approve. The policy is to be forwarded to the Bank of Thailand if asked for.
4. To oversee that members of the Board and senior executives of the bank would receive remuneration appropriate and justifiable to their roles and responsibilities.
5. To lay down guidelines on performance appraisal for the bank's members of the Board and senior executives in relation to annual adjustment of their remuneration basing on the scopes of their responsibilities and the risks involved. However, the seriousness of long-term realization of value in the shareholders' equity must also be taken into consideration.

#### **Risk Management Committee**

1. To set policy and guidelines for the bank's risk management in a manner consistent with the bank's business objectives and principles laid down by the authorities.
2. To exercise control with an aim to make sure that practices are in compliance with the guidelines as set and risk assessment would be done.
3. To develop and improve risk management systems with an aim to increase efficiency in the bank's operations from which optimization of the bank's benefits can be expected.
4. To set up working groups as seen fit.

#### **Nomination of Directors and Executives**

The selection of any person for nomination as member of the bank's Board to replace a director who resigned before reaching the due date is to be done by a member or several members of the Board. Such person must be found completely in possession of all the qualifications set out in the bank's Memorandum of Association. The nomination is to be made to the Nomination and Remuneration Committee for its consideration and proposing to the bank's Board of Directors for approval and appointment. The appointment is to be reported at the shareholders' meeting. In case of vacancies at the Board as a result of a number of directors at the end of their terms, the nomination will be made at the meeting for election of new directors to fill the vacancies.

#### **Number of Directors Representing Major Shareholders**

There are 4 directors representing the Ministry of Finance.

#### **Rights of Minority Shareholders in Appointment of Directors**

The minority shareholders have their rights to appoint directors in accordance with Article 16 of the bank's Articles of Association as follows.

- 1) A shareholder has the right to vote for appointment of a director on the one-share-one-vote basis.
- 2) Each shareholder is to use all of their voting rights as said in 1) above to vote for a candidate or several candidates as the meeting sees appropriate. However, each shareholder cannot split out their voting rights at any number in favor of any candidate.
- 3) The candidates with number of votes from the highest number down to next smaller numbers that are equal to the number of vacancies at the Board will be elected to the Board as needed. If any number of candidates receiving votes in an equal number exceeds the number of vacancies, the chair of the meeting will cast his decisive vote.

## Equity Holdings by Members of the Board and the Bank's Executive Officers

Name	Types of Securities held as at 31 December 2003		Number of Shares Increase (Decrease) between 2003
	Common Shares	Series B Preferred Shares	
1. Mr. Sommai Phasee Chairman of the Board of Directors	-	-	-
2. General Chaisit Shinawatra* Vice Chairman of the Board of Directors	220,000	-	-
3. General Somdhat Attanand Director	22,526	-	13,862
4. Admiral Chumpol Pachusanon* Director	422,043	-	-
5. Air Chief Marshal Kongsak Vantana Director	2,634,216	-	1,621,056
6. General Pang Malakul Director	1,600,000	-	680,576
7. Mr. Bodi Chunnananda Director	-	-	-
8. Mr. Twatchai Yongkittikul Director	-	-	-
9. Mr. Paiboon Limpaphayom Director	-	-	-
10. Mr. Sirote Swasdipanich* Director	-	-	-
11. Mr. Amorn Asvanunt Director	-	-	-
12. Mr. Somchai Apiwattanaporn* Director	1,000,000	-	-
13. Mr. Kampree Kaocharenn* Director	-	-	-
14. Mr. Subhak Siwaraksa* President and Chief Executive Officer	26,900	-	-
15. Mr. Montri Visoldilokpun Senior Executive Vice President	-	-	-
16. Mrs. Chandreka Wiriawit* First Executive Vice President	237,100	100	-
17. Mr. Prakarn Tawisuwan* First Executive Vice President	-	-	-
18. Mr. Sompol Chaiyachow* First Executive Vice President	-	-	-
19. Mr. Surasak Kiattiyotsakun Executive Vice President	100	-	40
20. Ms. Supamas Woranantakul Senior Vice President Accounting Department	-	-	-

\* Appointed during the year 2003

## Executive Remuneration

### Cash remuneration

1. All of the bank's 23 directors received monthly cash remuneration and additional meeting allowances were also paid to members of the Board, the Nomination and Remuneration Committee, the Credit screening Committee, the Financial Planning Committee, the Risk Management Committee and the Bank Property Management Committee. Altogether the payments amounted to a total of Bht 15.3 million.

2. All 11 members of the Board of Executive Directors received monthly remuneration and meeting allowances at a total of Bht 9.7 million.

3. All 7 members of the Audit Committee received monthly remuneration and meeting allowances at a total of Bht 3.1 million.

4. Eight senior executives altogether received their remuneration at a total of Bht 25.4 million.

### Other compensations

Other compensations in the forms of contribution to social security fund, contribution to pension fund, dress and insurance expenses for 8 senior executives from the rank of first executive vice president up amounted to a total of Bht 6.79 million.

## Oversight and Supervision

### 1. Oversight and Supervision Policy

It is a principle that a successful business organization is based primarily on good oversight and supervision policy. In the case of Thai Military Bank, it is the duty of the Board of Directors to set the tone for strategic direction of which the main objectives are to achieve a balanced growth and sustainable stability well into the future. The management is responsible for formulation and implementation of business plans within the policy framework to reach the objectives as aimed for. The management is also responsible for building an organizational structure with capability to effectively follow the current business trends and conduct increasingly complicated banking transactions. This means the bank needs to be very competitive in its customer service and highly efficient in risk management through well-designed operating systems and procedures. The bank also needs to operate in strict compliance to all legal and regulatory requirements. Overall effectiveness in banking operations bases primarily on well-built database and highly sophisticated IT systems. Good internal communications is also needed to create a sense of understanding and strong confidence of the staff in the bank and that will lead to unwavering loyalty and support from the staff.

Moreover, the bank needs to have a system for following up, checking and reporting of operating results. The reporting is done from the ground up to the top management and the board within a timeframe as set in a regular and consistent basis. This is to ensure that the operations of the bank would produce results as aimed for and in line with the core strategy.

In addition, the bank operates under the guidance of its board and committees including the Board of Directors, the executive board, the audit committee, risk management committee, Nomination and Remuneration Committee, Credit Screening Committee and others. The purpose is to follow the principles of good corporate governance and if we take the qualifications of each director or committee member into consideration we would find it very clearly that the board or a committee is served by highly qualified persons of vast experience in different fields. They are independent enough to express opinions and comments of high values purely for the bank's interests. It is true that the board and those committees as said have worked concertedly in their supervisory roles in a very transparent manner. On the part of its personnel, the bank has published a manual known as "The Code of Business Ethics and Personal Conduct" to guide their professional and personal behaviors.

### 2. Shareholders' Rights

1. The bank has encouraged the shareholders to attend shareholders' meetings to participate in the decision-making process of major issues.

2. The shareholders as owners of the bank can use their rights to inquire the Board of Directors on various matters as reported in the annual report. Any shareholder can also make any inquiry if it seems that the board has not performed their duties for the best interests of the bank and may recommend or propose whatever useful to the operations of the bank.

3. All shareholders have equal rights to make inquiries into the bank's future business trends in both positive and negative aspects.

4. All shareholders have equal rights to vote at any shareholders' meeting.

### 3. Rights of Stakeholders

The bank's operations normally involves several groups of people who have their stakes in the bank in one way or another and they make lose or gain from their stakes directly or indirectly depending on the bank's operations. We call them stakeholders, which include the shareholders, business counterparts, creditors, debtors, customers, employees, community members and the public at large. The bank, therefore, operates with high regard for basic rights and interests of all stakeholders as follows.

- **The shareholders** The bank is committed to its effort to build stability into the bank's operations and produce good results, which will lead to shareholders' satisfaction and good relationship with the bank. The bank has also done whatever possible to ensure that the shareholders can exercise their rights when needed, including disclosure of the information on the bank's operations in a clear, accurate and complete manner as well as equal rights among the shareholders to attend shareholders' meetings. The shareholders have been given opportunities to make inquiries, express opinions and recommend whatever useful to the board or the management of the bank at any shareholders' meeting.

- **Counterparts and Creditors** The bank strictly carries out its commitments to all obligations as agreed upon or promised in its aim to establish sustainable partnerships and good business relationships with its counterparts and creditors.

- **Debtors and Customers** The bank takes strong effort to provide good service and care with attention, accuracy and efficiency to all of its debtors and other customers. The bank also provides a wide range of financial products and services for its customers to make use of then as needed.



- **Employees** The bank takes its responsibility in personnel development very seriously. Employees of the bank at different levels were trained to increase their efficiencies and job knowledge. They were also trained to become good team workers in order to gain cross experience and learning. The synergy coming from the staff would boost up the bank's performance and good results in its operations.

- **The Public** The bank has carried out a variety of social contributions to support the communities the bank operated in and the general public. Social affairs projects of the bank are normally continuing such as the organizing of the TMB Annual Student Marching Band Competition, which has been organized an annual event for the last 23 years.

#### 4. Shareholders' Meeting

In 2003, the bank organized 2 meetings of the shareholders, including the annual general shareholders' meeting held on April 29, which was attended by 582 shareholders and 7 directors. The bank's chairman of the board chaired the meeting. Another one was the extraordinary general shareholders' meeting held on August 28 to consider and decide on registered capital increase. This meeting was attended by 633 shareholders and 5 directors of the bank and chaired by the bank's vice chairman of the board.

#### 5. Leadership and Vision

The bank's Board of Directors is served by directors, some of them directly involved in the bank's management. There are 4 principal boards or committees, including the Board of Directors, the Board of Executive Directors (Executive Board), the Audit Committee and the Nomination and Remuneration Committee. The Board of Directors, served by prominent persons of high qualifications and experience, normally involves in setting of the bank's operational and management policies, strategic direction and overall objectives. In 2003, the bank appointed Dr. Subhak Siwaraksa as its president and Mr. Sommai Phasee as Chairman of the Board and Chairman of the Executive Board. Mr Sommai is knowledgeable, highly capable with vast experience and broad sense of vision.

#### 6. Conflicts of Interests

The bank is prudent in its approach to the conflicts of interests issue. A policy is clearly set in writing to govern the making of transactions involving interrelated parties. The bank's conflicts of interests policy require all parties, in their positions as members of the board or executives of the bank to comply with the compliance rules as set by the authorities and disclose their transactions, which can be possibly interpreted as in conflicts of interests with the bank. In certain routine transactions, which can possibly be interpreted as in conflicts of interests if done inclusively by a single unit, are to be separately done by two different units.

In the inside information issue, the bank firmly believes in fairness to all parties. There are rules for disclosure of confidential information to outsiders and non-related persons. The rules are to prevent the use of information about the bank for personal gains unfairly. The bank strictly observes the rules set by the authorities for information disclosure and discloses information in a clear and transparent manner with full respect to fairness for all and not in any way misleading.

#### 7. Business Ethics

The bank has published a manual entitled "Code of Business Ethics and Personal Conduct". Copies of the Code were distributed to the bank's directors and all members of the staff to encourage professional practices and personal behaviors that fall within the accepted standards.

#### 8. Balancing of the Board Memberships

The bank's Board consists of 14 directors, of which 7 also serve in positions directly involving in the management of the bank while the other 7 are not employed as executives of the bank and among them 4 are independent directors and 3 are from the outside.

#### 9. Separation or Combination of Important Positions

The bank has a policy that the person who serves as the bank's chairman of the board shall not serve also as the bank's president. This is to separate the oversight and supervision of responsibilities from those of day-to-day management activities.

#### 10. Remuneration for the Bank's Directors and Senior Executives

The bank's director and executive remuneration has been set out transparently and in line with the commercial bank governance principles. The remuneration budget is normally approved at annual general shareholder's meeting each year. The remuneration scheme is comparable to the banking industrial standards. The remuneration principles are as follows.

1. Members of the Board of Directors and other panels of persons set up by the Board under the commercial bank good governance principles, including the executive board, the Audit Committee and Nomination and Remuneration Committee receive their remuneration as follows.

- Board or committee members who are from the outside receive monthly compensation and meeting allowance.
- Board and committee members who are the bank's executives receive only meeting allowance.

2. For members of other lesser committees set up by the Board to perform specific functions, including Credit Screening Committee, Asset Management Committee and Risk Management Committee, only those who are from the outside would receive meeting allowance.

3. Remuneration for the bank's executives depend on the bank's operating results and performance of each executive.

#### 11. Meetings of the Board and Principal Committee

The Board of Directors meets regularly once a month while both the Executive Board and the Audit Committee meet twice a month. During the past year, the Board held 12 regular meetings and 6 extra meetings. The Executive Board and the Audit Committee

held 30 regular meetings and 23 regular meetings respectively. Agenda for and documents for each meeting of the Board and the other committees were forwarded to members of the Board or the committees in advance.

#### **12. Other Committees**

In addition to the board and principal committees as said the bank also set up various committees to manage and supervise different areas of operations in accordance with the plans and guidelines laid down by the management. There were 23 committees to manage and supervise key functions in 2003, among them 5 for policy matters, 2 for health issues, 4 for credit management, 3 for income management, 1 for operations, 5 for HR issues and 3 for Information Technology.

#### **13. Internal Control and Audit Systems**

The bank has set its policy and direction with a strong focus on its internal control and audit systems at every level from the management down to the operating staff. Organization framework is set out clearly and displayed in a chart. Roles and responsibilities with proper authority are delegated down the rank while accountability is clearly established in writing for officers at every level. The bank also has its Code of Business Ethics and Personal Conduct in print for everyone in its employment to follow. Control has been in place for transactions that might be cases in conflicts of interests. Functions, which in their nature, conflicting are separated and done by different officers, particularly in credit processing, analysis, follow-up and appraisal. This is to establish a system of check and balance in all key functions. Control is also placed on the bank's assets to ensure that they are properly utilized in the bank's best interests.

In addition, the bank has an internal control system for administration of all financial transactions. Regular reporting systems are set to ensure that all line executives are well informed. A database is part of the bank's core information system while a wide-area communications network has been in operation to help with the flow of information among the units and their officers concerned. The bank's management information system is efficient for any executives to make important decisions.

Two function units, General Audit Dept. and IT Audit Dept., are responsible for two separate areas of internal audit and assessment. The bank's internal audit systems are there to make sure that all main functions and important financial transactions are conducted within the policy guidelines and effective and that all units take compliance practices seriously. To make the two internal audit departments independent enough in their works, the bank's Board has made it a rule that the two audit departments report their the results of their important financial and IT audit programs direct to the bank's audit committee. The committee also guides the internal audit activities of the two departments and regularly appraises their performances.

In 2003, the audit results showed nothing that could be considered as a major flaw in the bank's operations. The bank had clearly set out procedures for all transactions and activities with proper internal control systems and also took good care of its assets and properties.

#### **14. The Board of Directors' Reporting Responsibilities**

The Board of Directors is responsible for the accuracy and overall integrity of consolidated financial statements of the bank and its subsidiaries as published in the bank's annual report. All financial statements were prepared in accordance with the generally accepted accounting principles while information was sufficiently disclosed in the notes to financial statements.

#### **15. Investor Relations**

The bank has a main function unit known as Financial Institution and Investor Relations Dept. in operations since 2001 to carry out activities aimed to promote the bank's reputation in good corporate governance practices and credibility in management and business practices. This function unit is also responsible for disclosing of information to the public and investors in a transparent, clear, complete and fair manner. Information disclosure is done through different channels including the Stock Exchange of Thailand, the bank's website ([www.tmb.co.th](http://www.tmb.co.th)), meeting with securities analysts and investors. Inquiry for information by anyone, analyst or member of the public can be made with the bank by telephone or email. Activities in investor relations are as follows.

1. Collecting the bank's financial and policy information on a quarterly basis.
2. Responding to inquiries on financial information from analysts and investors.
3. Providing information on non-financial matters such as numbers of staff members, branch offices, largest shareholders, etc.
4. Information for disclosure as required by the Stock Exchange of Thailand's regulations such as those related to merger, strategic partnership, joint venture, changes in management structure, etc.
5. Setting of main topics to be discussed at a meeting with analysts including the bank's historical background, annual strategic plan, business objectives, executives' work experience and their abilities, the bank's competitiveness, operating results as disclosed and the bank's business trends.

#### **Inside Information Oversight**

The Board of Directors regards the bank's financial statements and reports on the bank's financial positions to be sent to the Stock Exchange of Thailand are strictly confidential and might have a strong impact on the bank's share price and market position. The Board has made it a policy that the bank's Accounting Dept. is required to first submit financial statements and relating reports to the bank's audit committee for its consideration before passing them on to the Executive Board for further consideration. This procedure is to be finished within the same day before sending to the Stock Exchange of Thailand for public disclosure. In oversight practices on inside information, the bank has taken it seriously that using of inside information for personal gain by executives is subject to punishment in accordance with the provision of the Securities and Stock Exchange Act BE 2535. In addition, such wrongful action is considered as a breach of disciplines as set out in the bank's Code of Business ethics and Personal Conduct.

## Internal Control

At the board's meeting No. 3 held on Mar. 23, 2003 which was attended by members, among them were 4 members who also served as members of the audit committee, the Board had made assessment of the bank's internal control systems by inquiring for information from the management. The board also approved an internal control appraisal form jointly prepared by the management and the General Audit Dept.

From assessment of the bank's internal control systems in 5 areas including organization and environment, risk management, the management's control on operations, information and communications system and follow-up procedures, the board had come to its conclusion that the bank's internal control systems were appropriate. And the systems could provide good protection on the assets held by the bank and its subsidiaries against any irregularities or unauthorized actions.

The board exercised its oversight authority mainly through the functions performed by the audit committee and operating units in the audit function line. The board has regularly reviewed the bank's internal control systems with an aim to make the systems effective and consistent to the changing environment. The Board also regularly reviewed the effectiveness in internal control system at the bank and its subsidiaries and followed up on actions to redress problems found.

Moreover, the bank takes its seriously to consider the recommendations and opinions expressed by the external auditor and the Bank of Thailand's examiner in its effort to improve the bank's procedures and practices in internal control and audit systems as well as risk management.

Transactions with major shareholders, directors/executives or anyone related to such persons have been conducted within the standard procedures and regulations adopted by the bank and the legal and regulatory requirements.

As regards to operations of the bank's subsidiaries, oversight and supervision aim at protecting their assets as required by the laws on commercial banking and securities exchange. The bank's senior executives were nominated as members of the board at each subsidiary to oversee policy matters and receive information on up-to-date operating results and financial positions. The investment unit of the bank has been assigned to coordinate with the bank's executives who sit at the boards of the subsidiaries in its review and analysis of the information received from the subsidiaries. The results of the review and analysis are passed to the bank's board of directors and the management for use as basis for setting of policies to guide the operations of the subsidiaries.

## Interrelated Transactions

1. Details of transactions with related parties possibly in conflicts of interests were given in Notes Nos. 4.20, 4.21, and 4.26 (investment in subsidiary and associated companies) of the Notes to Financial Statements.

2. Such transactions are normal business transactions under generally accepted commercial conditions.

Loans under staff welfare scheme are given at standard interest rates used by the bank while loans given to businesses related to the bank are based on interest rates for deposits. The bank makes it a rule that favorable rate of any service fees or bank charges used on the transactions made with certain interrelated parties must be carefully screened by a committee concerned. The committee, consisting of the bank's senior executives, would take the impact on the bank's income as well as best interests of the bank into consideration.

3. Approval of all transactions with interrelated parties is normally done through a screening process at different levels by working groups and committees concerned as spelled out in the bank practice regulations.

4. It is expected that transactions with interrelated parties would continue as usual under the normal business circumstances. However, such transactions would be subject to screening procedures before reaching the approval process as clearly laid out.

## Discussion and Analysis of the Bank's Financial Positions and Results of Operations

### Results of Operations

From the bank-only and consolidated financial statements for 2003 and 2002, the bank's operations resulted in net losses of Bht 14,054 million and Bht 160 million respectively. The increase in net loss was due mainly to the fact that the bank has set aside very large additional allowance for doubtful debts. Details of results of operations as stated in the bank-only and consolidated financial statements are as follows.

### Operating Income

The bank's income consists of two types of income, known as income from interest and dividends and non-interest income. From the bank-only financial statements for 2003, overall income was Bht 18,157 million, decreasing by 10.10% from the total income of Bht 20,197 million earned in 2002. From the consolidated financial statements, the bank and its subsidiaries, in 2003, earned a total income of Bht 19,627 million, decreasing by 5.18% compared with Bht 20,699 million earned in 2002. Details are as follows.

#### 1. Interest and Dividend Income

From the bank-only financial statements, the bank, in 2003, earned Bht 14,754 million from interest and dividend income, decreasing by 7.83% compared with Bht 16,008 million earned in 2002. This was due mainly to the effects of a slowdown in lending and a decline in overall yield rate as competition in the financial market became stronger. Interest income from loans dropped by Bht 708 million or 5.04% compared with 2002. From the consolidated financial statements, interest and dividend income was Bht 15,681 million, dropping by 4.48% compared with 2002 as the negative effects carried over from the bank-only income.

#### 2. Net Interest and Dividend Income

The net interest and dividend income from the bank-only financial statements for 2003 amounted to Bht 6,491 million, increasing by 14.89% from Bht 5,650 million in 2002. The main reason for the drop was the decline in interest rates while deposit accounts with higher rates of interest were becoming on due one after another. The bank also took its effort to increase the number of savings accounts to

improve its deposit mix. The ratio of savings deposits to total deposits changed from 30.52% at the end of 2002 to 38.29% at the end of 2003. The bank, during 2003, managed redeemed its Super Caps instruments before maturity, saving a large amount of interest payment. In fact the saving was larger than the drop in interest income, helping to offset the negative impact of having less interest income. As a result, the bank net interest and dividend income from the consolidated financial statement at the end of 2003 increased by 22.36% to Bht 7,418 million from Bht 6,062 million at the end of 2002.

### 3. Net Interest and Dividend Income after Doubtful Debt Allowance and Loss on Debt Restructuring

The bank's net interest and dividend income after doubtful debt allowance and loss sustained from debt restructuring in the bank only financial statements at the end of 2003 showed a loss margin of Bht 9,626 million. It was a drop of 416.12% if compared with the profit margin of Bht 3,045 million made in 2002, which resulted in. The loss was the effect of a steady decline in domestic interest rates and the sizable increase in doubtful debt allowance. In the consolidated financial statements, the net interest and dividend income after doubtful debt allowance and loss sustained from debt restructuring was a gap of Bht 6,667 million, a 311.95% negative reverse if compared with a net positive margin of Bht 3,145 million achieved in 2002. This was the effect carried over from the bank only financial statements.

### 4. Non-Interest Income

The bank's non-interest income from the bank-only financial statements at the end of 2003 amounted to Bht 3,403 million, an 18.76% drop compared with Bht 4,189 million gained in 2002. It was mainly caused by a drop of Bht 481 million or 299.31% in sharing of the profit (loss) from investment basing on the equity method. Profits from foreign exchange and investment also dropped by Bht 393 million and Bht 254 million or 45.55% and 30.69% respectively. However, profit from disposition of assets increased by Bht 187 million or 1,215%. Other types of income particularly commission and service charges increased by 86.98% and 4.24% respectively.

On consolidated financial statements, non-interest income amounted to Bht 3,946 million, decreasing by 7.84% compared with Bht 4,281 million in 2002. This was due to a decrease in profit from asset disposition by Bht 61 million; a 100% drop compared with 2002. The next largest drops in profit were from foreign exchange and investment, which were down by Bht 393 million and Bht 237 million or at 45.55% and 28.43% respectively. However, profit sharing by equity method increased by Bht 197 million or 98.81%. In income from commission and service fees, there were increases of 91.03% and 4.24% respectively.

## Operating Expenses

Operating expenses include mainly interest expense and other classified as non-interest expense. Details are as follows.

### 1. Interest Expenses

From the bank-only financial statements, interest expenses at the end of 2003 amounted to Bht 8,264 million, down by 20.22% compared with 2002 at Bht 10,358 million. This was the result a steady decline in domestic interest rates. However, high-cost deposit accounts were reaching their maturity dates one after another and the bank's decision to redeem its Super Caps instrument ahead of maturity date helped sizably cut down the interest expense. Interest expenses on deposits, long-term debts and on inter-bank and money market transactions were down by Bht 1,748 million, Bht 213 million and Bht 136 million or 24.60%, 7.66% and 28.66% respectively. From the consolidated financial statements, interest expenses amounted to Bht 8,264 million, dropping by 20.20%, compared with Bht 10,355 million at the end of 2002. The drop in interest expenses was the effect carried over from the bank-only financial statements.

### 2. Non-Interest Expenses

From the bank-only financial statements, non-interest expenses at the end of 2003 amounted to Bht 7,786 million, increasing by 5.96% from Bht 7,348 million at the end of 2002. The increase was mainly due to impairment in values of properties foreclosed and other assets after revaluation at around Bht 736 million or 389.79%. The next largest increases of non-interest expenses were in commission and service charges, building and premises and equipment at 18.39%, 15.42% and 9.90% respectively. However, personnel expenses decreased by Bht 622 million or 23.60%. This was because in 2002, there was a large expense on the so-called Mutual Separation Program or MSP in which a number of employees voluntarily retired from their positions before reaching their retirement ages. The second largest decrease in non-interest expenses was the tax expenses, which dropped by 7.74% from 2002.

From the consolidated financial statements, the non-interest expenses amounted to Bht 11,287 million, increasing from 2002 by 49.70%. Impairment in values of properties foreclosed and other assets after revaluation at Bht 3,377 million and Bht 650 million respectively were the two biggest items causing the non-interest expenses to rise. Other expense items, which also increased by 18.91%, 18.39% and 8.79% were respectively expenses on commission and service fee, building and premises, and equipment. The largest drop in expenses was in personnel expenses at Bht 623 million or 23.41%. The reason behind the drop was the same with the bank-only financial statements.

## Net Profit (Loss)

The bank's results of operations in the bank-only financial statements as at Dec. 31, 2003 improved somewhat if compared with the results in 2002. Net interest and dividend income was at Bht 6,491 million, increasing by Bht 841 million from 2002 while non-interest income amounted to Bht 3,403 million, dropping by Bht 786 million from 2002. The overall results before tax showed a profit of Bht 2,108 million. However, the bank needed to set aside its allowance for doubtful debts as required by the Bank of Thailand's regulations up to Bht 16,117 million, causing a net loss of Bht 14,054 million. In the consolidated financial statements, the net loss was the same at Bht 14,054 million. The reason for the loss was the same as with the bank-only financial statements.

## Financial Positions

### Total Assets

The bank's total assets as stated in the bank-only and consolidated financial statements at the end of 2003 were Bht 379,147 million and Bht 378,995 million respectively, decreasing from 2002 by Bht 12,149 million and Bht 12,269 million or 3.10% and 3.14%

respectively. The decreases in total assets as shown in both bank-only and consolidated financial statements were identically due to the need to set aside the high amount of allowance for doubtful debts as required by the regulations. The bank's earning assets of different categories included loans, inter-bank and money market items, net investment in securities and securities bought under repurchase (RP) agreement. Among such assets, the largest was the loans at 79.44% and 79.10% of the total assets in the bank-only and consolidated financial statements respectively. Changes in values of assets item by item were as follows.

- Inter-bank and money market items as stated in the bank-only and consolidated financial statements at the end of 2003 were the same at Bht 8,659 million, decreasing from the end of 2002 at Bht 12,360 million by 58.80%. This was because the bank received the payment on certificate of deposit issued by Krung Thai Bank on behalf of the Financial Institutions Development Fund at Bht 10,065 million.

- Securities bought under RP agreement as stated in the bank-only and consolidated financial statements at the end of 2003 had the same value of Bht 6,200 million, increasing by Bht 3,200 million from 2002.

- Net investment in securities stated in the bank-only and consolidated financial statements at the end of 2003 were Bht 47,553 million and Bht 46,981 million, increasing from 2002 by Bht 3,734 million and Bht 4,602 million respectively.

- Total loans in the bank-only financial statements at the end of 2003 amounted to Bht 301,184 million, decreasing from 2002 by Bht 927 million and in consolidated statements amounted to Bht 299,748 million, increasing from 2002 by Bht 1,991 million.

#### Quality of Assets

##### Loans

##### - Loans concentration analysis

Loans given to retails, wholesales and service sector were at 25.71% of the total loans

Loans given to manufacturing and export sectors were at 25.42% of the total loans

Loans given to consumers for housing and personal consumption were at 16.60% of the total loans

##### - Debt Maturity

#### Loans Classified by Remaining Term of Agreement

	From Consolidated Financial Statements	
	Dec. 31, 2003	Dec. 31, 2002
Not over 1 year	94,801	110,509
Over 1 Year	204,947	187,247
Total	299,748	297,756

Millions of Baht

##### - Loans and Interest Receivables, Loan Security and Doubtful Debt Allowance

#### Values of Classified Loans and Interest Receivables as at Dec. 31, 2003

Class	Millions of Baht		
	Loans and Interest Receivables	Loans Net of Collateral Values	Doubtful Debt Allowance
Normal	258,101	109,191	1,092
Special mention	8,043	1,921	38
Substandard	3,107	1,136	227
Doubtful	4,182	789	1,514 *
Extremely doubtful	27,699	8,118	17,153 *
Total	301,132	121,155	20,024
Allowance for doubtful debts in excess of the minimum requirement as set by the Bank of Thailand			5,319
Total			25,343

Remark : Allowances for doubtful debts according to the Bank of Thailand's announcement dated Feb. 27, 2003 (net of bad debts written off) were included in doubtful and Extremely doubtful classes at Bht 1,119 million and Bht 9,035 million respectively.

##### - Setting Aside of Allowance for Doubtful Debts

In 2003, the bank and its subsidiaries had their allowances for doubtful debts at a ratio not less than the standard set by the Bank of Thailand. In the bank-only and consolidated financial statements, the expenses on bad debts, doubtful debts and loss from debt restructuring amounted to Bht 16,117 million and Bht 14,084 million respectively. The allowances were set aside to include Bht 10,940 million as required by the Bank of Thailand in its examination report dated Dec. 26, 2002 and letter dated Feb. 27, 2003.

According to the bank-only balance sheet as at Dec. 31, 2003, allowance for doubtful debts at Bht 24,850 million and allowance for loss from debt restructuring at Bht 1,975 million. And in the consolidated balance sheet, the allowance for doubtful debts was Bht 25,343 million and allowance for loss from debt restructuring Bht 1,975 million.

### Non-Performing Loans

The loan accounts classified as substandard, doubtful and extremely doubtful as at Dec. 31, 2003 amounted altogether up to Bht 29,831 million (24,927 accounts), decreasing from Dec. 31, 2002 by Bht 13,366 million (4,688 accounts). This was due to the fact that some debtors began to pay back as required to the bank and their accounts were upgraded to the normal loan class while a number of debtors could settle their debts completely.

### Transfer of NPLs to Thai Asset Management Corporation (TAMC) and Phayathai Assent Management Co., Ltd. (PAMC)

In 2003, the bank struck a deal with TAMC to sell off and transfer its rights to claim on 8 NPL accounts with a total net book value (after doubtful debt allowance) at the transfer date of Bht 79 million. The bank had been able to realize some profit from this NPL sale/transfer deal with TAMC.

In 2003, the bank also arranged with its subsidiaries, PAMC, to sell off with rights to claim on its loan accounts classified as extremely doubtful both with and without security up to Bht 1,877 million. In the third quarter of 2003, PAMC had made a deal with BBC Asset Management Co., Ltd. to sell off, with the rights to claim, its investment in some of its assets and NPL accounts with and without security as well as foreclosed properties. The deal had a total value of Bht 19,533 million. On the deal date, BBC AMC had issued its negotiable promissory notes to pay PAMC for the deal in full amount. PAMC, on the same day, endorsed the promissory notes to transfer the value to the bank as part of its loan payment to the bank. The deal resulted in a net loss of Bht 3,627 million on the PAMC side.

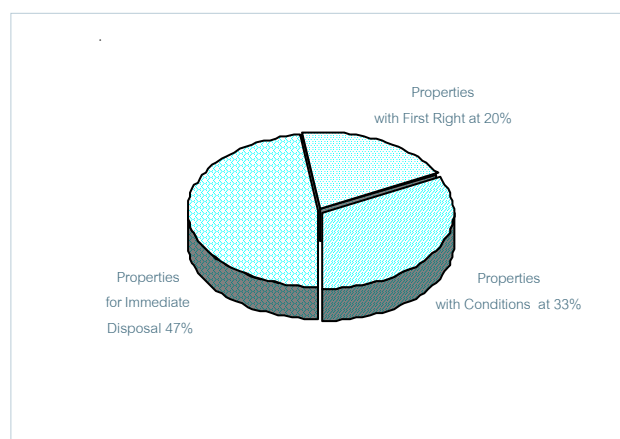
### Properties Foreclosed

As at Dec. 31, 2003, the bank had 2,439 pieces of properties foreclosed at a total value of Bht 16,325 million, increasing by 0.28% compared with 2002. The properties at around 47% valuing at Bht 7,672.75 million were in conditions good enough to dispose off. The rest were assets under the conditions set in debt restructuring agreements, which included the first right to buy back, at around 20% or Bht 3,265 million in their total value, and under certain conditions at around 33% or Bht 5,387.25 million in total value. The rise in total value of properties foreclosed, from Bht 10,060.39 million in 2001 to Bht 16,279 million in 2002 and finally to Bht 16,325 million in 2003, was due to the fact that the bank has a policy to accept asset transfer as an alternative method for debt settlement. The bank took opportunity to bid for certain assets at auctions organized by the authorities. The bank had been able to benefit from the possessing of such assets or directly dispose them off at a profit through a sale campaign at a later date.

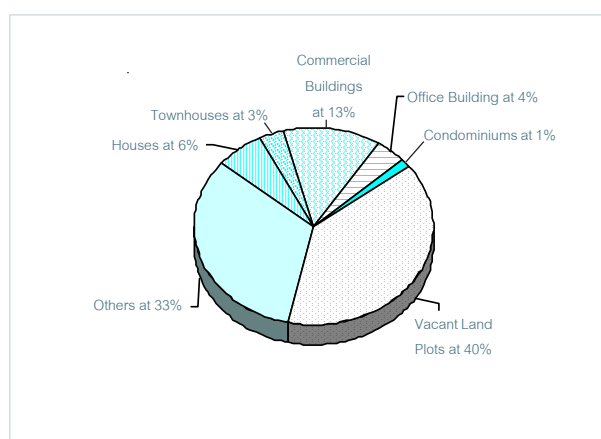
The bank's properties foreclosed are located around the country. Overhead expenses to keep the properties in good conditions and ready for disposal was around Bht 24.46 million a year. However, the bank has put up some of the properties for rent and in 2003 made an income from rental of such properties at Bht 49.79 million. This strategy helped considerably to save the maintenance cost on the properties as a whole.

In the disposal part, the bank has organized a data bank on the properties available through the bank's Internet web site and intranet system. The data were also published on print media for giving away to the public through sale channels internally and externally. All staff-members, totaling around 6,000 persons at different branch locations around the country, had taken part in the sale pitch. Real estate agents as well as members of the public would receive sale commission if they can help, in any way, to dispose the properties. In 2003, the bank's net income from disposal of its properties foreclosed was Bht 1,644 million.

Properties Foreclosed Classified by Status



Properties Forecloses Classified by Type



### Investment in Securities

- Analysis on Concentration of Investment

The bank's net investment in securities at the end of 2003 and 2002 in the bank-only financial statements were stated in fair value at Bht 47,553 million and Bht 43,819 million respectively. The increase was at 8.52%, mostly in private sector's debt and marketable equity securities with strong demand in the market. Ratios of investments at book value as at the end of 2003 were as follows.

1. Debt securities issued by public sector including state enterprises at 72.46%
2. Equity securities at 14.22%
3. Private sector's debt securities at 6.74%
4. Equity holding in subsidiary and associated companies at 6.58%

Allowance for adjustment in prices and diminution in values of the investment in securities was set aside sufficiently as required by accounting standards on securities investment.

### - Values of Investment in Securities and Allowance for Diminution in Values of the Securities

Type	Investment Value	Allowance	Net Investment Value
1. Public Sector's Debt Securities	34,367.39	90.51	34,457.90
2. Private Sector's Debt Securities	3,256.29	(53.22)	3,203.07
3. Equity Holdings in Subsidiary and Associated Companies	3,126.29	-	3,126.72
4. Marketable Equity Securities	3,025.37	1,973.27	4,998.64
5. Non-Marketable Equity Securities	<u>2,277.01</u>	<u>(510.80)</u>	<u>1,766.21</u>
	<u>46,052.78</u>	<u>1,499.76</u>	<u>47,552.54</u>

### Liquidity

In 2003, the bank's cash and cash equivalent items has a net increase of Bht 1,624 million of which Bht 571 million was a net cash increase from 2002 through activities as follows.

1. Capital funding activities resulted in an in-flow of Bht 22,255 million from recapitalization. Uses of fund included redemption of subordinated debentures at Bht 6,000 million and redemption of non-subordinated debentures and subordinated debentures in bundle with preferred shares (Super Caps) at Bht 13,280 million.

2. In investment activities, the fund used was Bht 1,485 million net. This was a result of investment in securities to hold until maturity at Bht 23,908 million while the fund received from sale of securities was at Bht 22,803 million.

### Capital Expenditure

In 2003, the bank's capital investment was directed mainly on IT development, for example, in Core Banking and Data Warehouse systems.

### Sources of Fund

The major sources of fund are basically from deposit accounts, which in 2003 accounted for 86.85% of the total funding. The next largest was the shareholder's equity at 7.40%. Inter-bank and money market items and borrowings were at 3.78% and 1.97% respectively.

Sources of Fund	Dec. 31, 2003		Dec. 31, 2002	
	Amount	Percentage	Amount	Percentage
Deposits	322,058	86.85	322,021	86.08
Inter-bank and Money Market Items	14,006	3.78	21,192	5.66
Borrowings	7,287	1.97	16,607	4.44
Shareholders' Equity	27,476	7.40	14,286	3.82
Total	370,827	100.00	374,106	100.00

### Shareholders' Equity

The shareholders' equity in the bank-only and consolidated financial statements as at the end of 2003 was the same at Bht 27,476 million, increasing from 2002 by Bht 13,191 million or 92.33%. This was the result of issuing a block of 6,405 million new ordinary shares, raising the bank's registered and paid up to Bht 64,050 million. However, the shortfall in ordinary shareholders' equity increased by Bht 41,795 million. In addition, the bank, in 2003, suffered a net operating loss of Bht 14,054 million while the premium on investment rose by Bht 2,286 million as value of securities appreciated and premium on assets rose by Bht 2,731 million as a result of reappraisal. However, the bank suffered a loss in depreciation of certain assets at Bht 135 million after reappraisal of its land and buildings in 2003.

### Total Liabilities

The bank's liabilities at the end of 2003 as stated in the consolidated financial statements amounted to Bht 351,519 million, decreasing by Bht 25,460 million or 6.75% from 2002. At 91.62% of total liabilities was in deposits while the next largest part was in inter-bank and money market items and borrowings.

### Relationship of Funding Sources and Fund Uses

The bank's main sources of fund were deposits while the fund was used mainly to provide loans to customers. As at Dec. 31, 2003, deposits and loans as stated in the bank only financial statements can be broken down on the remaining term before due dates basis as follows.

Millions of Baht

Remaining Term	In Consolidated Financial Statements				In Bank Only Financial Statements			
	Loans		Deposits		Loans		Deposits	
	Amount	%	Amount	%	Amount	%	Amount	%
Not Over 1 Year	94,801	31.63	317,014	98.43	90,982	30.21	317,195	98.43
Over 1 year	204,947	68.37	5,044	1.57	210,202	69.79	5,044	1.57
Total	299,748	100.00	322,058	100.00	301,184	100.00	322,239	100.00

The bank's deposits in the bank only financial statements as at the end of 2003 with remaining term at not over 1 year amounted to Bht 317,195 million, increasing from 2002 by Bht 53,121 million or 20.12%. For Bht 5,044 million deposits with term more than 1 year remaining, the amount decreased from Bht 52,952 million at the end 2002 or around 91.30%. In the consolidated financial statements, changes in deposits were the same with the bank-only financial statements.

Loans with remaining term not over 1 year as at the end of 2003 in the bank-only financial statements amounted to Bht 90,982 million, increasing by Bht 4,487 million or 5.19% from 2002. For loans with term over 1 year remaining, the total amount decreased by Bht 5,414 million or 2.51% to stay at Bht 210,202 million. The loans in consolidated financial statements changed in the same manner as with the bank-only financial statements.

If compare the remaining terms of loans with the remaining terms of deposits, it is clear that they are not in perfectly matching. This is normal circumstance in the banking business, particularly for the remaining term of over 1 year in both the bank-only and consolidated financial statements. The loan amounts were higher than deposits by Bht 205,158 million and Bht 199,903 million respectively. However, the bank's depositors normally chose to continue having their deposits in the bank term after term. This helped the bank to have ready-made sources of fund to support its lending activities year after year. The bank also issued subordinated and non-subordinated debt securities to attract long-term funding sources for its lending operations. This was done to eliminate the liquidity gap between deposits and fund uses as much as possible.

### Maintaining Capital Ratio as Fixed by the Authorities

As at Dec. 31, 2003, the bank's capital fund to risk assets ratio was 10.59%, which was higher than the minimum ratio fixed by the Bank of Thailand.

### Major Events or Factors Affecting the Bank's Future Operations and Financial Positions

#### 1. Merger and Integration

On Jan. 20, 2004, the Cabinet passed a resolution giving its consent for a decree on amendment of the Industrial Finance Corporation of Thailand Act. Afterwards the Ministry of Finance advised the bank that it had a policy to integrate the Industrial Finance Corporation of Thailand (IFCT) with the Thai Military Bank. And if the bank and DBS Thai Danu Bank come to an agreement to merge their operations together, the IFCT would consider to take part in the merger as well.

At the bank's Board of Directors' meeting No.1/2004 held on Jan 27, 2004, resolutions were passed as follows.

1. Approving the signing of Memorandum of Understanding (MOU) with DBS Thai Danu Bank Pcl. (DTDB) and Development Bank of Singapore (DBS) to lay down preliminary principles for merger and other related matters including procedures and timeline, agreements and documents to be signed between among them. However, the preparation for the merger must follow all necessary procedures and conditions as well as consistent with the Thai laws and resolutions passed by the bank's Board.

2. Approving in principle the procedures for the merger between DTDB and the bank by issuing tender offer. The integration of DTDB's business with the bank's business would be carried out under the provision of Article 38 quarter of the Commercial Banking Act BE 2505 with the consents from the Minister of Finance and the Bank of Thailand.

3. Approving the study of the feasibility of taking IFCT into the integration progress. The study was to be taken jointly between the bank and the two counterparts, DTDB and DBS. Both DTDB and DBS would take part in the bank's negotiation process with IFCT and other activities including the due diligence process, preparation of transaction process structure as well as outsourcing of financial and legal advisers and auditor to carry out necessary actions. The results of negotiation or any conditions and terms of integration with DTDB and IFCT must be reported first to the bank's Board for consideration and consent.

The due diligence process with IFCT to use the data obtained from the process as basis for the 3-way integration. The process was expected to finish and ready for the signing of memorandum of understanding in March 2004. The bank would submit its integration plan to the Bank of Thailand and the Ministry of Finance for their approval and consent.

The impact of the event as said above on the bank's operations at present cannot be evaluated while the bank's management believed that there was no impact at all on the bank's financial statements as at Dec. 31, 2003.



## 2. Subsidiary Companies

As at Dec. 31, 2003, the bank's investment in subsidiary companies as stated in the bank-only financial statements amounted to Bht 2,668.44 million. The investment was exclusively at 100% in the Phayathai Asset Management Co., Ltd. (PAMC), which operates as the bank's agent to take transfer of or buy problem loans from the bank to manage for the best rate of return as possible. The major factors or events that might have a strong impact on this subsidiary's operation or financial positions were therefore the same as with the bank.

On the part of other subsidiary company, Designee For ETA Contracts Co., Ltd. which was a company set up under the loan agreement to be recipient of rights transfer related to the stage 2 expressway concession in case the contractor defaults on its loan obligations. So far the contractor has been able to meet all of its payment obligations. This subsidiary therefore has no transaction to carry out.

## Business Policies

The bank's main business policy is to become the best in retail banking with focus on SMEs and consumers in general. The reach that objective the bank bases its operations primarily on its IT systems in both customer service and internal administration. IT systems are useful in increasing efficiency in the bank's service delivery channels or introducing innovative financial products to satisfy the banking needs of customers and also to attract new customers. The bank, in addition, makes it a policy to increase its non-interest income as well as to facilitate the disposal of properties foreclosed and other disposable assets.

In 2003, the bank's results of operations were at a satisfactory level as the bank's efforts in both business and internal developments were moving ahead very well. The overall results were above expectations. The bank's profit before tax was at Bht 2,108 million. However, the bank was required by the authorities to increase its allowance for doubtful debts by Bht 16,117 million, resulting in the need to report a net loss of Bht 14,054 million. The major activities of the bank in 2003 can be summed up as follows.

### 1. Acceleration of NPL Workout Process

In 2003, the bank took its extra effort to accelerate its NPL workout process in various ways, including negotiation with customers to find the best way to solve their NPL problems. A range of solutions were offered including loan restructuring, asset transfer to settle the outstanding debts through auctioning. The bank also used litigation as a final means of settlement as well as transferring of some NPL accounts to its subsidiary, PAMC, to manage. The efforts paid off remarkably as the bank managed to reduce its NPL level by Bht 13,366 million, decreasing its NPL ratio to total loans to stand at 9.90%.

On the part of non-performing assets (NPA), the bank had taken steps to speed up the sell them off through a promotion campaign and auctioning, offering a 0% interest for the first year of payment plan. The bank, in 2003, managed to dispose its NPA up to Bht 1,644 million.

### 2. Capital Increase

At the bank's extraordinary general shareholders' meeting held on Aug. 28, 2003, a solution was passed for a capital increase of Bht 22,255 million by a rights issue at a ratio of 5 existing ordinary shares to 8 new ordinary shares at a subscription price of Bht 3.50 per share. Applications for share subscription from the shareholders of record were received between Sept.10-16, 2003. Shareholders' response to the rights issue was excellent; the demand for the new shares was beyond expectation.

Additionally, the bank's request for redeeming of its subordinated debentures and debt instruments known as Super Caps before maturity was approved by the Bank of Thailand on Sept. 17, 2003. The bank has become the first bank in the country to be able to redeem debt instruments before maturity. The redemption of its Super Caps instruments was done in December 2003.

### 3. New Product Development

The bank, in 2003, continued its effort in product development, particularly by adding more value to its range of financial products and services. The aim is to better serve the needs of its customers. New products introduced included TMB Cardif Accident Plus, TMB Cardif Happy Loan, TMB Safety Drive, Senior Deposit Account and Custodian Service.

### 4. Branch Extension

New sub-branches were opened in 2003 at 4 locations, including the Ramkhamhaeng University, Bang Na Campus in Samutprakarn, Ko Chang, a small resort island off the east coast in Trad province, inside the BIG C Rama II Road Super Store, and at Prasanmit Campus of the Srinakharinwirot University in Bangkok. Moreover, the bank also added Saturday as another regular service day at its sub-branch inside the Rajabhat Institute, Surat Thani Province in the South.

### 5. Technology Development

The bank's technology development has been a continuing process for several years. The aim is to improve its operations and customer service to the highest standards. The bank now operates with Core Banking System and Data Warehouse System, which become very useful in the bank's delivery of retail services and the building of effectiveness in its management information.

### 6. HR Development

In 2003, the bank introduced a performance appraisal process known as KPI (Key Performance Indicator) for its annual staff performance evaluation.

### 7. Risk Management System Development

The bank has set up its risk management committee to set out risk management policies and guidelines to deal with major risk elements including market risk, credit risk and operational risk.

## Future Projects

The bank has been carrying out a number of on-going projects and it is the bank's policy to finish such projects before taking on any new project for the future.

The projects on which the bank is now concentrating are the Cash Center Project and NPA Redevelopment Project.

## BRANCH OFFICES

Head Office : 3000 Phahon Yothin Road, Chatuchak, Bangkok 10900  
P.O.Box 9 Bangkok 10400, Thailand  
Tel. : (662) 0-2299-1111  
Cable : MILITBANK  
Telex : MILITBKK TH 82323, 87697-9  
Fax : (662) 0-2273-7121-4  
SWIFT : TMBKTHBK

Branch Names	Tel.	Fax
1. Airport	0-2523-6601-2, 0-2535-2541	0-2535-2459
2. Amnat Charoen	0-4551-1590-4	0-4551-1593
3. Ang Thong	0-3561-1262	0-3561-2418
4. Aom Noi	0-2431-0975-6, 0-2420-2347	0-2431-0976
5. Aom Yai	0-2810-3325-9	0-2810-3325
6. Aou-Udom	0-3835-1642-4, 0-3835-1744	0-3835-1643
7. Aranyaprathet	0-3723-1280, 0-3723-1290	0-3723-2601
8. Asok	0-2259-3312-4, 0-2260-3840	0-2261-6651
9. Ayutthaya	0-3524-1417-8	0-3524-2417
10. Ban Chang	0-3860-1027, 0-3860-1357	0-3860-1727
11. Ban Dan Lan Hoi	0-5568-9110	0-5568-9070
12. Ban Khai	0-3864-1001-3	0-3864-1001
13. Ban Luang	0-5476-1076, 0-5476-1003	0-5476-1076
14. Ban Phai	0-4327-2750, 0-4327-2733	0-4327-2790
15. Ban Phu	0-4228-1264-5	0-4228-1265
16. Ban Pong	0-3220-0382-3, 0-3234-4767	0-3220-0383
17. Ban Rai	0-5653-9002-3	0-5653-9004
18. Ban Suan-Chon Buri	0-3879-9405-6	0-3879-9301-4
19. Bang Ban	0-3539-9508-10	0-3539-9510
20. Bang Bon	0-2451-0630-4	0-2451-0633
21. Bang Bua Subbranch	0-2972-9693-6	0-2972-9694
22. Bang Bua Thong	0-2920-2510-4	0-2920-2513
23. Bang Chak Subbranch	0-2332-9290-2	0-2332-9294
24. Bang Kapi Subbranch	0-2375-6347, 0-2375-7556	0-2375-7558
25. Bang Khae	0-2454-8110-2	0-2454-8110
26. Bang Khen	0-2513-2805, 0-2513-2807	0-2513-3132
27. Bang Khru Subbranch	0-2819-2165-9	0-2819-2165-9
28. Bang Khun Non	0-2424-2826, 0-2424-2832	0-2424-2829
29. Bangkok University-Rangsit Campus Subbranch	0-2516-8492-4	0-2516-8492-4
30. Bang Lamphu	0-2282-5021, 0-2282-5040	0-2282-5395
31. Bang Lamung	0-3872-7046-7, 0-3872-7060	0-3872-7046
32. Bang Na	0-2399-2470-3	0-2399-2482
33. Bang Pakok	0-2427-9568, 0-2428-0436	0-2427-9568
34. Bang Phlad Subbranch	0-2424-6499, 0-2424-5221	0-2424-5221
35. Bang Pho Subbranch	0-2585-6400, 0-2912-6594	0-2585-6594
36. Bang Rak	0-2237-1844, 0-2237-2620	0-2266-4115
37. Bang Su Subbranch	0-2911-3142-6	0-2911-3142-6
38. Bang Wua	0-3853-8277, 0-3853-9003	0-3853-8255
39. Bhumibol Adulyadej Hospital	0-2532-2854-7	0-2531-6278
40. Big C-Thanonrama 2 Subbranch	0-2416-7806, 0-2416-7881	0-2416-7806, 0-2416-7881
41. Bo Bae	0-2225-2823, 0-2225-4255	0-2222-3631
42. Bo Rai	0-3959-1041-2	0-3959-1041
43. Buri Ram	0-4461-3441-3	0-4461-3443
44. Cayman Islands	(662) 0-2299-1439	(662) 0-2273-7168
45. Chachoengsao	0-3851-2271, 0-3851-2279	0-3851-2275

## BRANCH OFFICES

Branch Names	Tel.	Fax
46. Chaeng Watthana	0-2574-0203-5, 0-2574-0097	0-2574-0205
47. Chai Nat	0-5641-1564, 0-5641-2382	0-5641-1118
48. Chaiyaphum	0-4482-2123, 0-4481-1666	0-4481-1659
49. Chandi	0-7548-6184-5, 0-7548-6304	0-7548-6184
50. Chanthaburi	0-3931-1799, 0-3932-1215	0-3931-1777
51. Charan Sanit Wong	0-2424-0087, 0-2424-5520-1	0-2435-2393
52. Chiang Mai	0-5325-1058-62	0-5323-3159
53. Chiang Rai	0-5371-1100, 0-5371-7515-6	0-5371-3590
54. Chiang-Inn Plaza	0-5328-1350	0-5328-1351
55. Chok Chai 4	0-2538-3125-6	0-2539-2615
56. Chon Buri	0-3827-4088, 0-3827-2984-5	0-3827-4089
57. Chong Nonsi	0-2285-3940-4	0-2285-3944
58. Chum Phae	0-4331-1170, 0-4331-1270	0-4331-2470
59. Chumphon	0-7750-2545, 0-7750-4960	0-7750-2544
60. Chumsaeng	0-5628-2498-9	0-5628-2499
61. Damnoen Saduak	0-3225-3348, 0-3225-3701	0-3225-3349
62. Dan Khun Thot	0-4438-9101-2	0-4438-9279
63. Dao Khanong	0-2476-3840-1, 0-2476-6561	0-2476-3840-1
64. Doi Mae Salong	0-5376-5159-60	0-5376-5160
65. Ekkamai	0-2381-7088-90	0-2381-7092
66. Fang	0-5345-1154, 0-5345-3506-7	0-5345-1002
67. Hang Chat	0-5426-9206-8	0-5426-9206
68. Hat Yai	0-7423-5301, 0-7423-1141-3	0-7423-5300
69. Hong Kong	001(852) 2845-6677	001(852) 2845-1182
70. Hot	0-5346-1055-6	0-5346-1056
71. Hua Hin	0-3253-1120-1	0-3253-1161
72. Hua Mak	0-2718-8057-8	0-2314-1412
73. Huahunjae-Ban Bung	0-3820-1026, 0-3820-1211	0-3820-1212
74. Huai Khrai	0-5376-3001-2	0-5376-3001
75. Huai Yot	0-7527-1147, 0-7527-1425	0-7527-1148
76. Huaikaeo Road-Chiang Mai	0-5340-4042-3	0-5340-4044
77. Indra-Pratunam	0-2208-0981-2	0-2208-0981
78. Intharak Subbranch	0-2374-0290-5	0-2374-0293
79. Jomtien	0-3823-2079, 0-3823-2973	0-3823-2080
80. Kairlai	0-2588-1418, 0-2588-1778	0-2588-1418
81. Kalasin	0-4381-2133-5	0-4381-2134
82. Kamphaeng Phet	0-5571-3801-3	0-5571-3803
83. Kamphaeng Saen	0-3435-1020-1	0-3435-1022
84. Kanchanaburi	0-3451-1677, 0-3451-2441	0-3451-2442
85. Kasetsart University	0-2561-4289-90	0-2561-4289
86. Khao Sai	0-5664-9111, 0-5664-9060	0-5664-9060
87. Khlong Chun	0-2377-1370, 0-2377-9737	0-2377-1360
88. Khlong Pang	0-7528-6066	0-7528-6055
89. Khlong Tan Subbranch	0-2717-9411-5	0-2717-9411
90. Khlong Toei	0-2249-1518, 0-2249-1831	0-2249-1619
91. Khok Matum-Phitsanulok	0-5521-2432-6	0-5521-2436
92. Khon Kaen	0-4324-1497-9	0-4324-2053
93. Khuan Niang	0-7438-7155-7	0-7438-7157
94. Klaeng	0-3888-4595-8	0-3888-4597
95. Kluay Nam Thai	0-2712-4048-51	0-2712-4048
96. Ko Chang Subbranch	0-3955-1040-1	0-3955-1040-1
97. Ko Samui	0-7742-0360-2, 0-7742-1143	0-7742-1143
98. Kra Buri	0-7789-1027-8	0-7789-1028
99. Kra Thum Baen	0-3484-8968, 0-3484-8971	0-3484-8968
100. Krabi	0-7561-2718-20	0-7561-2719

## BRANCH OFFICES

Branch Names	Tel.	Fax
101. Krung Kasem	0-2222-5158-9, 0-2222-7801	0-2222-5667
102. Krung Thon Bridge	0-2424-2577, 0-2434-3536	0-2424-5939
103. Lak Song Subbranch	0-2801-4291-5	0-2801-4291
104. Lampang	0-5422-4154, 0-5422-6223	0-5422-4153
105. Lamphun	0-5356-1460-1	0-5351-0460
106. Landmark Plaza Subbranch	0-2255-8430-4	0-2255-8430-4
107. Lang Suan	0-7754-1233, 0-7754-1244	0-7754-1333
108. Lat Krabang Subbranch	0-2739-1820-5	0-2739-1820-5
109. Lat Phrao 42	0-2938-3260-3	0-2938-3260-3
110. Lat Phrao 103 Subbranch	0-2370-3165-70	0-2370-3170
111. Lat Phrao 124	0-2514-0802, 0-2539-7220	0-2514-0562
112. Lat Ya	0-2437-1147, 0-2437-1078	0-2439-1064
113. Loei	0-4281-2122, 0-4281-2133	0-4281-2133
114. Lom Sak	0-5670-1044, 0-5670-1579	0-5670-1708
115. Lop Buri	0-3641-1596, 0-3641-1945	0-3641-2093
116. Lum Thap	0-7564-3595-7	0-7564-3599
117. Mae Hong Son	0-5362-0120-4	0-5362-0125
118. Mae Sai	0-5373-3145-6	0-5373-3146
119. Mae Sot	0-5553-3038-40	0-5553-3383
120. Mah Boonkrong Center	0-2215-2137, 0-2217-9233-4	0-2215-2136
121. Maha Sarakham	0-4372-2111-3	0-4372-2113
122. Maha Sarakham University Subbranch	0-4375-4141-3	0-4375-4141-3
123. Mahaprutharam	0-2238-5029-31	0-2233-6999
124. Mai Kaen	0-7348-1078-80	0-7348-1080
125. Metro Shopping Center	0-2252-9009-10	0-2252-9009
126. Min Buri	0-2517-1221-2	0-2517-3779
127. Ministry of Defence	0-2221-7736, 0-2222-1215	0-2224-7406
128. Montri Road-Phuket	0-7622-5177, 0-7622-5486	0-7623-0104
129. Muak Lek	0-3634-1017, 0-3634-1990	0-3634-1024
130. Muang Khong	0-4445-9234-5	0-4445-9235
131. Muang Mai Bang Phli	0-2312-8268-9	0-2312-8270
132. Muang Phon	0-4341-4060-1	0-4341-4762
133. Muang Thong Thani Subbranch	0-2504-5141-3	0-2504-5141-3
134. Mukdahan	0-4261-1520, 0-4261-1855	0-4261-1892
135. Na San	0-7734-1037-8	0-7734-1538
136. Nakhon Chai Si	0-3422-8338-42	0-3422-8338
137. Nakhon Nayok	0-3731-2346, 0-3731-2350	0-3731-2588
138. Nakhon Pathom	0-3425-1537, 0-3425-2608	0-3425-3792
139. Nakhon Phanom	0-4251-1023, 0-4251-1322	0-4251-2614
140. Nakhon Ratchasima	0-4425-7680-1, 0-4425-5552	0-4424-5916
141. Nakhon Sawan	0-5622-7006-7	0-5622-7414
142. Nakhon Si Thammarat	0-7534-2893, 0-7535-6801	0-7535-6979
143. Nan	0-5471-0455, 0-5471-0477	0-5477-2818
144. Nang Rong	0-4463-1456-7	0-4463-1457
145. Narathiwat	0-7351-2273-5	0-7351-2274
146. Ngam Wong Wan	0-2588-0021, 0-2588-0023	0-2588-3148
147. Ngao	0-5426-1193-4	0-5426-1007
148. Noen Kao Din	0-3866-9498-500	0-3866-9499
149. Nong Chok	0-2543-1308, 0-2543-1344	0-2543-1346
150. Nong Khae Subbranch	0-3637-1020-2	0-3637-0095
151. Nong Khaem	0-2420-4543, 0-2420-3680	0-2420-4543
152. Nong Khai	0-4242-0562-3	0-4242-0562
153. Nong Khla	0-3939-5471-3	0-3939-5474
154. Nong Ki	0-4464-1111-2	0-4464-1112
155. Nong Mon	0-3839-2065-7	0-3839-2065

## BRANCH OFFICES

Branch Names	Tel.	Fax
156. Nonthaburi	0-2526-5594, 0-2526-5999	0-2526-5594
157. On Nut Subbranch	0-2333-0395-9	0-2333-0395-9
158. Pak Chong	0-4431-2734, 0-4431-4690	0-4431-2734
159. Pak Khlong Talad	0-2222-5826, 0-2222-5828	0-2222-5809
160. Pak Kret	0-2583-7153, 0-2583-8220	0-2583-4435
161. Pak Thong Chai	0-4444-1019, 0-4444-1641	0-4444-1100
162. Pathum Thani	0-2581-1740-2, 0-2581-2156	0-2581-2155
163. Patong Beach	0-7634-0545-7	0-7634-0547
164. Pattani	0-7333-2677-9	0-7333-1038
165. Pattaya	0-3842-0816, 0-3842-2966	0-3842-9501
166. Pattaya Klang	0-3841-1935-7	0-3841-1935
167. Phahurat Plaza	0-2224-9866, 0-2223-1664	0-2224-9867
168. Phanat Nikhom	0-3847-3168-9	0-3847-3169
169. Phangnga	0-7641-1627, 0-7641-1555	0-7641-1626
170. Phanom Sarakham	0-3883-6516-9	0-3883-6516
171. Phatthalung	0-7461-3305, 0-7461-3313	0-7461-1965
172. Phaya Thai	0-2246-0020	0-2245-8898
173. Phayao	0-5448-1720-1, 0-5448-2329	0-5448-2330
174. Phayuha Khiri	0-5634-1497-8	0-5634-1497
175. Phetchabun	0-5671-1386, 0-5672-1250	0-5672-1290
176. Phetchaburi	0-3242-6005, 0-3242-6115	0-3242-7165
177. Phichit	0-5661-2219, 0-5665-1330-1	0-5661-2216
178. Phimai	0-4447-1334-5	0-4447-1335
179. Phitsanulok	0-5524-5770-2, 0-5524-5543	0-5524-1911
180. Phon Phisai	0-4247-1266-7	0-4247-1266
181. Photharam	0-3223-1062, 0-3223-1637	0-3223-1062
182. Phra Khanong	0-2381-1117-8	0-2381-1117
183. Phra Pathomchedi	0-3425-0750-1	0-3425-0751
184. Phra Phutthabat	0-3626-6744-5	0-3626-6745
185. Phra Pradaeng	0-2463-3872-4, 0-2463-3725	0-2463-3909
186. Phrae	0-5451-1655, 0-5451-1659	0-5451-1646
187. Phran Nok	0-2412-3040, 0-2412-2764	0-2412-3527
188. Phrapratone-Nakhon Pathom	0-3421-2006, 0-3421-2010	0-3421-2006
189. Phuket	0-7621-2123, 0-7621-3488	0-7621-3487
190. Phutthamonthon	0-2441-9392, 0-2441-0120	0-2441-9392
191. Plaeng Yao	0-3858-9132-3	0-3858-9133
192. Plai Phraya	0-7568-7018-9	0-7568-7019
193. Pom Pharchulachomkiao	0-2425-8204-5	0-2425-8499
194. Poo Chao Saming Prai	0-2394-6317, 0-2394-4412	0-2384-1673
195. Poo Chao Saming Prai Shopping Center	0-2384-5282, 0-2384-6333-4	0-2384-4697
196. Pra Tu Nam Phra In	0-3521-9784-8	0-3521-9789
197. Pracha Niwet 1	0-2953-8160-2	0-2953-8163
198. Prachantakham	0-3729-1252, 0-3729-1509	0-3729-1251
199. Prachin Buri	0-3721-1356, 0-3721-1655	0-3721-1355
200. Prachuap Khiri Khan	0-3260-1547-8, 0-3261-1919	0-3261-1918
201. Pradipat	0-2279-0633-4, 0-2278-2535	0-2279-5233
202. Pramongkutkiao Hospital	0-2354-7880-4	0-2354-7879
203. Pran Buri	0-3262-1989-90	0-3262-1991
204. Prathai	0-4447-9128	0-4447-9511
205. Provincial Electricity Authority Subbranch	0-2591-1424-6	0-2591-1424-6
206. Rajabhat Institute Chandrakasem Subbranch	0-2513-1700, 0-2513-7264	0-2513-1700
207. Rajabhat Institute Dhonburi Subbranch	0-2465-5690, 0-2465-5744	0-2465-5690
208. Rajabhat Institute Nakhon Si Thammarat Subbranch	0-7539-2116-8	0-7539-2116-8
209. Rajabhat Institute Phetchaburi Subbranch	0-3249-3000-2	0-3249-3000-2
210. Rajabhat Institute Phranakhon Subbranch	0-2522-6187-9	0-2522-6187-9

## BRANCH OFFICES

Branch Names	Tel.	Fax
211. Rajabhat Institute Sakon Nakhon Subbranch	0-4271-6824, 0-4271-6876	0-4271-6824
212. Rajabhat Institute Suratthani Subbranch	0-7735-5162, 0-7735-5483	0-7735-5162
213. Rajabhat Institute Udon thani Subbranch	0-4224-8238, 0-4224-8680	0-4224-8238
214. Rajdamnern	0-2222-3131-40	0-2224-3216
215. Rajprasong	0-2252-6689-91	0-2252-6967
216. Ramkamhaeng-Huamak Subbranch	0-2369-1820-2	0-2369-1820-2
217. Ramkhamhaeng University-Bangna Campus Subbranch	0-2316-9376-8	0-2316-9376-8
218. Rang Sit	0-2959-2090-3	0-2959-2090-3
219. Rangsit-Khlong 3	0-2990-9130-5	0-2990-9130-5
220. Ranong	0-7782-3028-30	0-7782-3030
221. Ranot	0-7439-1030, 0-7439-2555	0-7439-1031
222. Rarm Intra K.M.4	0-2973-0741-4	0-2973-0741
223. Rarm Intra K.M.8	0-2519-3579-80	0-2519-3581
224. Ratchaburi	0-3232-1808	0-3232-2047
225. Ratchadaphisek-Huai Khwang	0-2246-9702-5	0-2246-9704
226. Rayong	0-3861-7048-9	0-3861-6091
227. Roi Et	0-4351-1369, 0-4351-1612	0-4351-2449
228. Royal Thai Air Force Headquarters	0-2531-8560-2	0-2531-8561
229. Royal Thai Army Headquarters	0-2280-1537, 0-2280-1799	0-2280-1537
230. Royal Thai Navy Headquarters Subbranch	0-2891-0051-5	0-2891-0052
231. Sa Kaeo	0-3724-2688-91	0-3724-2692
232. Sak Lek	0-5669-9266-7	0-5669-9367
233. Sakon Nakhon	0-4271-1393, 0-4271-1993	0-4271-3403
234. Sam Ngam	0-5669-1210-1	0-5669-1210
235. Sam Phran	0-3431-1282-3	0-3432-4915
236. Sam Yak Fai Chay Subbranch	0-2866-6956-60	0-2866-6956
237. Samrong	0-2384-0352-3, 0-2384-4661	0-2384-4653
238. Samut Prakan	0-2389-5917-8, 0-2389-5896	0-2389-5896
239. Samut Sakhon	0-3441-2333, 0-3442-2245	0-3442-5993
240. Samut Songkhram	0-3471-5454-5	0-3471-5456
241. Sanam Pao	0-2278-5240-1, 0-2270-0252	0-2270-0252
242. Sanam Suapa	0-2281-6181, 0-2282-3269	0-2282-6099
243. Sanpakhoy-Chiang Mai	0-5324-9858-9, 0-5324-9595	0-5324-9861
244. Sapanmai-Donmuang	0-2521-3007-8	0-2521-5377
245. Saphan Luang	0-2216-9650-2, 0-2216-2526	0-2216-2527
246. Saphan Nonthaburi	0-2976-5500-5	0-2976-5500-5
247. Sapphraiwan	0-5524-5001-3	0-5524-5001
248. Saraburi	0-3622-2430-1, 0-3622-1229	0-3622-1229
249. Sathu Pradit	0-2295-4217-8, 0-2294-5510	0-2294-4021
250. Sattahip	0-3843-7123, 0-3843-7678	0-3843-7678
251. Satun	0-7472-1220-2	0-7472-1221
252. Sawankhalok	0-5564-2317, 0-5564-1124	0-5564-1124
253. Senanikom	0-2570-1386-7	0-2570-1710
254. Si Racha	0-3831-1824, 0-3831-3239	0-3831-3240
255. Si Sa Ket	0-4561-2518-20	0-4561-3279
256. Si Yak Kuang Sing-Chiang Mai	0-5341-0980-2	0-5341-0983
257. Siam University Subbranch	0-2868-5338, 0-2868-5375	0-2868-5338
258. Silom	0-2236-4432, 0-2236-9500	0-2236-4410
259. Sing Buri	0-3651-1326, 0-3651-2276	0-3651-2276
260. Sirinthorn Road Subbranch	0-2433-3505	0-2433-3505
261. Siriraj	0-2411-3548, 0-2411-3552	0-2411-3552
262. Soi Thong Lo	0-2391-7286, 0-2392-3359	0-2391-9106
263. Somdej Prapinklao Hospital	0-2460-0269-70	0-2476-3061
264. Songkhla	0-7431-1333, 0-7431-2001	0-7431-4803
265. Srinakharinwirot University-Prasarnmit Subbranch	0-2260-5734-6	0-2260-5734-6

## BRANCH OFFICES

Branch Names	Tel.	Fax
266. Sripatum University Subbranch	0-2579-8473, 0-2579-2268	0-2579-8473
267. Sriyan	0-2241-3865-6, 0-2243-1446-7	0-2243-0664
268. Suan Chatuchak	0-2272-4415-6, 0-2272-4233	0-2271-4499
269. Sukhothai	0-5561-1147, 0-5561-1590	0-5561-1995
270. Sukhumwit 11	0-2254-1330-2, 0-2651-0243	0-2651-0242
271. Sung Men	0-5454-1231, 0-5454-1360	0-5454-1360
272. Sung Noen	0-4441-9241, 0-4441-9865	0-4441-9588
273. Sungai Kolok	0-7361-1555-6	0-7361-1587
274. Suphan Buri	0-3552-2356, 0-3552-2358	0-3552-2360
275. Supreme Command Headquarters-Chaeng Watthana Subbranch	0-2575-6425-7	0-2575-6427
276. Suranaree Camp-Nakhonratchasima Subbranch	0-4434-1872-5	0-4434-1875
277. Surat Thani	0-7727-2753-4	0-7728-1010
278. Surawong	0-2266-5230-3	0-2236-3651
279. Surin	0-4451-4250-2	0-4451-4252
280. Tak	0-5551-2093-4	0-5551-2890
281. Tak Bai	0-7358-1049, 0-7358-1181	0-7358-1052
282. Takhli	0-5626-1537-8	0-5626-2155
283. Talad Hua It-Nakhon Si Thammarat	0-7531-6164-8	0-7531-6168
284. Talad Noi	0-2235-3437, 0-2236-1004	0-2235-3436
285. Talad Nong Hoi-Chiang Mai	0-5327-5280-2	0-5327-8091
286. Talad Phlu Subbranch	0-2465-9949, 0-2465-9955-6	0-2465-9949
287. Talad Santisuk	0-7423-0575-6	0-7423-0575
288. Talad Si Mum Muang-Rangsit	0-2536-4173-7	0-2536-4173-7
289. Talad Varorot-Chiang Mai	0-5323-3117-8, 0-5325-2877	0-5325-2882
290. Taling Chan Subbranch	0-2880-8070-3	0-2880-8070-3
291. Tao Poon	0-2585-1123, 0-2587-8990-1	0-2585-1233
292. Taphan Hin	0-5662-1325, 0-5662-1194	0-5662-1477
293. Tha Phra Subbranch	0-2869-0910-6	0-2869-0915
294. Tha Rua	0-3456-1822, 0-3456-2046	0-3456-1745
295. Thalang	0-7631-1366-7	0-7631-1501
296. Thammasat-Rungsit	0-2516-9970-3, 0-2516-9968	0-2516-9973
297. Thammasat-Thaphrachan Subbranch	0-2225-8186-8	0-2225-8186-8
298. Thanon Asia-Nakhon Sawan	0-5622-8223-5	0-5622-8224
299. Thanon Borommaratchonni	0-2434-9791-3, 0-2886-5433-4	0-2434-9791-3
300. Thanon Chan	0-2213-1308-9, 0-2213-2540	0-2213-2541
301. Thanon Charoen Nakhon Subbranch	0-2862-4910-4	0-2862-4914
302. Thanon Chom Thong	0-2476-5965, 0-2476-4203	0-2476-3886
303. Thanon Ekkachai	0-2893-2040-5	0-2893-2040-5
304. Thanon Jetjamnong	0-3827-8780-2	0-3827-8781
305. Thanon New Phetchaburi Subbranch	0-2319-1520-4	0-2319-1522
306. Thanon Phahon Yothin-Chiang Rai	0-5371-4886-7	0-5371-4890
307. Thanon Phahon Yothin- Sapanmai Subbranch	0-2972-5583-7	0-2972-5587
308. Thanon Phahon Yothin-Saraburi	0-3631-8270-3, 0-3621-2023	0-3631-8270
309. Thanon Phatthanakan Subbranch	0-2722-6845-9	0-2722-6849
310. Thanon Phet Kasem-Hat Yai	0-7423-6403-4, 0-7423-9830	0-7423-6405
311. Thanon Phibun Songkram	0-2526-2020-2	0-2526-2022
312. Thanon Phibunla-lat-Nakhon Ratchasima	0-4427-5200-2	0-4427-5203
313. Thanon Phosi-Udon Thani	0-4224-9551-3	0-4224-9554
314. Thanon Phrommarat-Ubon Ratchathani	0-4524-0214-8	0-4524-0215
315. Thanon Prachauthit Subbranch	0-2870-9124-8	0-2870-9125
316. Thanon Prajak-Nakon Ratchasima	0-4426-7675, 0-4426-7760	0-4426-7798
317. Thanon Rama IX	0-2643-0383-4, 0-2643-0398	0-2643-0212
318. Thanon Rama IX-Thanon Seri 7 Subbranch	0-2718-2743-8	0-2718-2743-8
319. Thanon Rathakhan-Hat Yai	0-7423-8801-2, 0-7423-7575	0-7423-8800
320. Thanon Rattana Thibet	0-2921-8740-4	0-2921-8740-4

## BRANCH OFFICES

Branch Names	Tel.	Fax
321. Thanon Sai Luat	0-2388-0919-20	0-2388-0920
322. Thanon Samakkhi	0-2574-6291, 0-2980-0401	0-2574-6221
323. Thanon Setthakit 1-Samut Sakhon	0-3481-5609-13	0-3481-5608
324. Thanon Song Prapha Subbranch	0-2929-7100-1	0-2929-7100-1
325. Thanon Srichan-Khon Kaen	0-4324-6490-2	0-4324-6492
326. Thanon Srinakarintara	0-2320-0098, 0-2322-0691	0-2320-0099
327. Thanon Srinakarintara-La Salle Subbranch	0-2748-7484-6	0-2748-7483
328. Thanon Sukhaphiban 2 Subbranch	0-2704-8156-8	0-2704-8159
329. Thanon Sukhaphiban 3	0-2735-2581-4	0-2735-2585
330. Thanon Sukhumwit-Chonburi Subbranch	0-3826-0960-3	0-3826-0960-3
331. Thanon Sukhumwit K.M.28- Samutprakan Subbranch	0-2702-3418-21	0-2702-3426
332. Thanon Sukprayun-Chachoengsao Subbranch	0-3882-3795-7	0-3882-3796
333. Thanon Suratthani-Phunphin	0-7728-3459-61	0-7728-3460
334. Thanon Thepharak	0-2383-5618-20	0-2383-5620
335. Thanon Thepharak K.M.3 Subbranch	0-2753-2860-6	0-2753-2864
336. Thanon Thepharak K.M.22	0-2706-0992-8	0-2706-0992-8
337. Thanon Tiwanon	0-2950-0251-5	0-2591-0390
338. Thanon Wat King Kaeo	0-2750-1920-3, 0-2312-4703	0-2750-1923
339. Thap Than	0-5659-1220-2	0-5659-1221
340. That Phanom	0-4254-1008-9	0-4254-1009
341. Thatthong	0-2391-3146, 0-2392-3495	0-2392-3495
342. Thoeng	0-5379-5001-3	0-5379-5002
343. Thung Song	0-7541-2446-8	0-7541-2447
344. Thung Tako	0-7753-6007	0-7753-6122
345. Trakan Phutphon	0-4548-1111	0-4548-1015
346. Trang	0-7521-0811, 0-7521-4025-6	0-7521-8344
347. Trat	0-3952-0637-8	0-3952-0637
348. Tri Phet	0-2221-1371, 0-2221-2908	0-2221-8706
349. U Thong	0-3555-2009, 0-3555-2020	0-3555-2007
350. Ubon Ratchathani	0-4524-1313, 0-4524-1978	0-4524-2572
351. Udom Suk	0-2383-9223-7	0-2383-9227
352. Udon Thani	0-4224-1130, 0-4224-4776-8	0-4224-4391
353. Uthai Thani	0-5651-1122, 0-5651-1187	0-5651-1613
354. Uthai-Ayutthaya	0-3533-5417, 0-3533-5043	0-3533-5418
355. Uttaradit	0-5541-1655, 0-5541-1800	0-5541-2380
356. Vajira Hospital-Phuket	0-7623-7237-40	0-7623-7241
357. Vibhavadi Rangsit Road Subbranch	0-2644-4100-4	0-2644-4103
358. Victory Monument Subbranch	0-2625-3570-1	0-2625-3572
359. Vientiane	(007856) 21-216486, 21-217174	(007856) 21-216486
360. Wang Muang	0-3635-9211-3	0-3635-9213
361. Wang Noi	0-3521-5649-53	0-3521-5649
362. Wararat Shopping Center	0-2287-0962, 0-2287-3683-5	0-2287-0961
363. Wihan Daeng	0-3637-7258-9	0-3637-7725
364. Wong Wien Yai	0-2472-1432, 0-2890-0361-2	0-2890-0361-2
365. Wongwien Sra Kaew-Lop Buri	0-3641-3369, 0-3642-2670	0-3642-2915
366. Worachak	0-2222-7722, 0-2224-5122	0-2222-7714
367. Yala	0-7321-4029, 0-7321-4231	0-7321-4384
368. Yasothon	0-4571-2301-3	0-4571-2303
369. Yawaraj	0-2225-9453, 0-2225-7290	0-2225-8254

As at March 31, 2004



## CURRENCY EXCHANGE SERVICE OFFICES

Names of Currency Exchange Service Offices	Tel.
BanThai	0-7634-0618
Chaiyaphum Road	0-5323-3158
Chaweng Beach	0-7742-2492
Chaweng Beach 2	0-7741-3346
Chiang Inn Plaza	0-5327-0375
Chiang Rai	0-5371-5657
Chitlom	0-2655-2762
Donmuang Airport	
International Passenger Terminal 1	
Departure Hall (DP)	0-2535-2461-2
Departure Lounge (TR)	0-2535-2460, 0-2535-2463
Arrival Hall (North) (AN)	0-2535-2465, 0-2535-4689
Arrival Hall (South) (AS)	0-2535-2646
International Passenger Terminal 2	
Departure Hall (DE)	0-2535-4964-5
Departure Lounge (TS)	0-2535-4966-7
Departure Lounge (TN)	0-2535-5376
Departure Lounge (DT)	0-2535-3359
Arrival Hall (AV)	0-2535-4572, 0-2535-4968
Visa	0-2535-2544
Domestic Passenger Terminal	
Departure Hall (DD)	0-2535-3172
Arrival Hall (North) (DN)	0-2535-2374
Arrival Hall (South) (DS)	0-2535-3171
Hua Hin	0-3253-2372
Indra-Pratunam	0-2208-0982-3
Jomtien	0-3823-2079, 0-3823-2973
Jomtien Beach	0-3823-2074
Karon Beach	0-7639-6978
Kata Beach	0-7633-0088
Ko Chang	0-3958-6242
Ko Samui	0-7742-0360-2, 0-7742-1143
Lamai Beach 2	0-7742-4097
Landmark Plaza	0-2252-6032, 0-2252-6092
Loi Khro Road	0-5320-6541
Mae Sai	0-5373-3145-6
Mah Boonkrong Center	0-2215-2136-7, 0-2217-9234
Mun Muang Road	0-5327-0376
Nana	0-2253-0968
National Stadium	0-2612-3132
Patong Beach	0-7634-0092
Pattaya	0-3842-9501-2, 0-3842-6107
Pattaya Road 2 (Alcazar)	0-3841-5302
Phat Phong Road	0-2235-2319
Promptpong	0-2663-7485
Ratuthit	0-7634-1624
Sukhumwit 15	0-2651-0011
Thanon Khao San	0-2281-9509
Thanon Khao San 2	0-2629-1225
Thanon Phahon Yothin-Chiang Rai	0-5371-4886-7
Thaveewong-Patong Beach	0-7634-0839
U-tapao Airport	0-3824-5595

## INTERNATIONAL BUSINESS CENTERS

Names of International Business Centers	Tel.	Fax
Asok	0-2260-0895, 0-2260-3849	0-2260-3852
Chaeng Watthana	0-2982-9548-9	0-2982-9547
Chon Buri	0-3827-0794, 0-3828-3526	0-3828-3652
Hat Yai	0-7435-5314	0-7423-5300
Krung Kasem	0-2221-1085, 0-2226-1598	0-2221-1275
Phaya Thai	0-2245-8142, 0-2245-8951	0-2245-7902
Rayong	0-3861-7047	0-3886-1082
Samut Sakhon	0-3481-1419-20	0-3481-1418
Si Yak Kuang Sing-Chiang Mai	0-5341-0102-3	0-5341-0909
Surawong	0-2267-7807-8	0-2267-7806
Thanon Borommaratchonni	0-2886-5435-6	0-2434-1756
Theparak	0-2753-3600-1	0-2753-3602

## OVERSEAS BRANCHES

CAYMAN ISLANDS BRANCH	C/O 3000 Phahon Yothin Road, Chatuchak, Bangkok 10900, Thailand Tel. : (662) 0-2273-7167, 0-2299-1439 Fax : (662) 0-2273-7168
HONG KONG BRANCH	Room 1601, 16 <sup>th</sup> / Floor, New World Tower 1, 18 Queen's Road, Central, Hong Kong Tel. : 001 (852) 2845-6677 Fax : 001 (852) 2845-1182 E-mail : tmbhk@netvigator.com
VIENTIANE BRANCH	36/5-7 Samsenthai Road, Chanthabouli, Vientiane, Lao People's Democratic Republic Tel. : (007856) 21-216486, 21-217174 Fax : (007856) 21-216486 E-mail : tmbvte@laotel.com

## MAIN CORRESPONDENT BANKS

### ASIA

#### CHINA :

Bank of China

#### HONG KONG :

HSBC Bank Plc

Liu Chong Hing Bank Ltd.

Standard Chartered Bank

#### INDIA :

Union Bank of India

#### JAPAN :

Mizuho Corporate Bank Ltd.

UFJ Bank Ltd.

#### LAOS :

Banque Pour Le Commerce Exterieur Lao

Lao Development Bank

#### MALAYSIA :

Malayan Banking Berhad

#### SINGAPORE :

DBS Bank

United Overseas Bank Ltd.

#### VIETNAM :

Bank for Foreign Trade of Vietnam (Vietcombank) ABN AMRO Bank N.V.

Industrial and Commercial Bank of Vietnam (ICB) ING Bank N.V.

### AUSTRALIA AND NEW ZEALAND

#### AUSTRALIA :

Australia and New Zealand Banking Group Ltd.

Commonwealth Bank of Australia

National Australia Bank Ltd.

#### NEW ZEALAND :

Bank of New Zealand

### EUROPE

#### AUSTRIA :

Bank Austria Creditanstalt AG

Raiffeisen Zentralbank Osterreich AG

#### BELGIUM :

Fortis Bank

ING Belgium SA/NV

#### DENMARK :

Danske Bank

#### FINLAND :

Nordea Bank Finland Plc

#### FRANCE :

BNP Paribas

Natexis Banques Populaires

#### GERMANY :

Commerzbank AG

Deutsche Bank AG

Dresdner Bank AG

#### ITALY :

Banca Nazionale del Lavoro

#### NETHERLANDS :

ABN AMRO Bank N.V.

ING Bank N.V.

#### NORWAY :

Nordea Bank Norge ASA

#### SWEDEN :

Nordea Bank Sweden AB (publ)

Svenska Handelsbanken

#### SWITZERLAND :

Credit Suisse

UBS AG

#### UNITED KINGDOM :

Barclays Bank Plc.

HSBC Bank Plc.

Lloyds TSB Bank Plc.

National Westminster Bank Plc.

Standard Chartered Bank

### NORTH AMERICA

#### CANADA :

Bank of Nova Scotia

Toronto-Dominion Bank

#### U.S.A. :

American Express Bank Ltd.

Bank of America, N.A.

Bank of New York

Citibank N.A.

Deutsche Bank Trust

Company Americas

JPMorgan Chase Bank

Riggs Bank, N.A.

Union Bank of California, N.A.

Wachovia Bank, N.A.

and Other Correspondents  
Throughout the World