

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended 31 March 2018
(Reviewed Financial Statements)

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THANACHART CAPITAL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

Management's Discussion and Analysis (Reviewed Financial Statements)

Economics Outlook and Competition in Banking Industry

The Thai economy in the first quarter of 2018 showed a tendency to grow from the previous quarter with export and tourism factors being the key drivers following the recovering global economy. Furthermore, the government continued to be the core engine driving the Thai economy, while private consumption should expand, as the domestic demand gradually recovered amidst persisting high household debt. Private investment is expected to expand as the overall economy showed a tendency for consistent growth. Consequently, the Monetary Policy Committee of the Bank of Thailand issued a resolution to maintain the policy rate at 1.50 percent per annum regardless of the continuous economic growth and inclining inflation.

In the first quarter of 2018, the loan volume in the commercial bank industry grew from the previous quarter, following the improving domestic and international demand. Deposit volume also grew in line with loan volume.

Key Events

On 25 April 2018, the Annual General Meeting of Shareholders for the year 2018 of Thanachart Capital Public Company Limited ("the Company") had a resolution to pay dividend to shareholders at the rate of 1.30 baht per share, amounting to 1,515 million baht. Taking into account this round of dividend payment and the interim dividend payment worth 0.90 baht per share or 1,048 million baht, total dividend payment in 2017 amounted to 2.20 baht per share or 2,563 million baht. The dividend payment was scheduled to be made on 17 May 2018.

For clarification of information disclosure, Thanachart Group has submitted Management's Discussion and Analysis of Thanachart Bank and its subsidiaries separately from this report.

For the 3 months ended

Reviewed Financial Statements	31-Mar-18	31-Dec-17	31-Mar-17
Operating Performance (Million Baht)			
Interest Income	11,330	11,255	10,849
Interest Expenses	3,874	3,916	3,762
Net Interest Income	7,456	7,339	7,087
Non-interest Income	3,520	3,908	2,865
Net Operating Income ⁽¹⁾	10,976	11,247	9,952
Other Operating Expenses	5,445	4,650	5,466
Pre-Provision Operating Profit (PPOP)	5,531	6,597	4,486
Impairment Loss of Loans and Debt Securities	1,431	2,319	852
Profit before Tax	4,100	4,278	3,634
Income Tax	187	305	317
Profit for the Period	3,913	3,973	3,317
Net Profit Attributable to the Company	1,899	1,936	1,602
Operating Performance Ratios (Percent)			
ROAA	1.53	1.58	1.37
ROAE ⁽²⁾	12.06	12.66	11.09
Interest Spread ⁽³⁾	2.85	2.87	2.89
Loan Spread ⁽⁴⁾	3.84	3.84	3.76
Credit Cost	0.71	1.17	0.48
Non-interest Income Ratio ⁽⁵⁾	32.07	34.74	28.80
Cost to Income Ratio ⁽⁶⁾	49.60	41.35	54.92
	31-Mar-18	31-Dec-17	31-Mar-17
Financial Position (Million Baht)			
Loans	713,693	712,761	683,210
Total Assets	1,026,120	1,025,525	972,981
Deposits	701,028	716,091	675,909
Total Liabilities	892,225	895,455	849,538
Total Equity	133,895	130,070	123,443
Financial Position Quality			
Loans to Deposits (%)	101.81	99.53	101.08
Non-performing Loans (Million Baht)	19,959	18,894	16,441
NPL Ratio (%)	2.48	2.40	2.32
Coverage Ratio ⁽⁷⁾ (%)	127.47	131.06	152.12
Reserve to Required Reserve ⁽⁸⁾ (%)	167.15	170.48	194.43

(8) Reserve to Required Reserve = Total Allowance / Reserve Required by the BOT

Operating Results for the First Quarter of 2018

Performance Overview

Thanachart Capital Public Company Limited (“the Company”) operates as the holding company and thus is the parent company of Thanachart Financial Business Conglomerate. The Company’s performance is mainly from the performance of Thanachart Bank and its subsidiaries. The Company holds shares in Thanachart Bank 50.96 percent. As a result, profit attributable to the Company is calculated from the proportion shareholding of the Company in each subsidiary company. In order to compare its operating results with other companies’ in the industry, the financial information presented in this report is based on consolidated financial statements.

In the first quarter of 2018, **the Company and its subsidiaries’ net profit according to the consolidated financial statements amounted to 3,913 million baht, an increase of 596 million baht or 17.97 percent** from the same quarter last year. This was a result of **the success in implementing Customer Centric strategy by focusing on being the Main Bank. As a result, Thanachart Bank and its subsidiaries showed a continuous growth in their performances.**

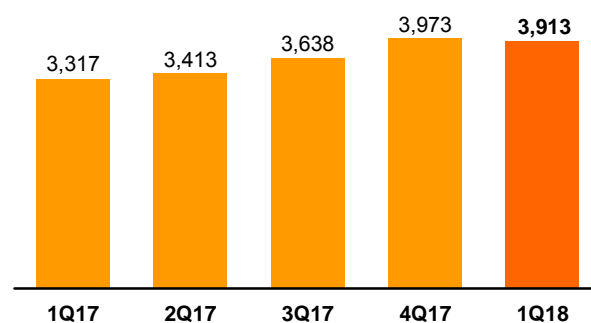
Total income base of the Company and its subsidiaries increased in both net interest income and non-interest income. Net interest income increased by 5.21 percent from loan expansion while non-interest income increased by 22.86 percent from gains on investments and net fees and service income. Operating expenses slightly decreased. As a result, pre-provision operating profit (PPOP) increased by 23.29 percent. However, impairment loss of loans and debt securities increased by 67.96 percent from the expansion of loans.

Total assets of Thanachart Group slightly increased from the end of the previous year in line with the loan growth. In this connection, retails and SME loans increased especially hire purchase loans which continued to grow.

NPLs of Thanachart Group increased by 5.64 percent from the end of 2017. **NPL ratio was at 2.48 percent.** **Coverage ratio stayed at 127.47 percent. On capital**

fund, TBANK had capital adequacy ratio of 18.80 percent, a slight decrease from 18.94 percent at the end of 2017.

Net Profit of Thanachart Group (Million Baht)



In the first quarter of 2018, **net profit attributable to the Company was 1,899 million baht, an increase of 297 million baht or 18.54 percent** from the same quarter last year. Earning per share (EPS) was 1.63 baht, an increase from 1.38 baht. Return on average assets (ROAA) and return on average equity (ROAE) of the Company’s shareholders were at 1.53 percent and 12.06 percent, respectively.

Summary of Key Operating Results

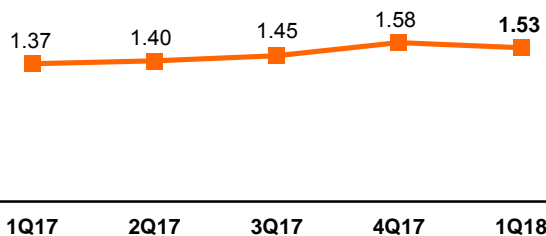
Summary of key operating results in the first quarter of 2018 comparing with the first quarter of 2017 is as follows:

- Net profit of Thanachart Group amounted to 3,913 million baht, an increase of 17.97 percent.
- Net profit of the Company amounted to 1,899 million baht, an increase of 18.54 percent.
- Net interest income increased by 5.21 percent from loan growth.
- Non-interest income increased by 22.86 percent, mainly from gains on investments, net fees and service income, and net insurance / life insurance income.
- Pre-provision operating profit (PPOP) amounted to 5,531 million baht, an increase of 23.29 percent.
- Impairment loss of loans and debt securities expenses increased by 67.96 percent from the expansion of loans.

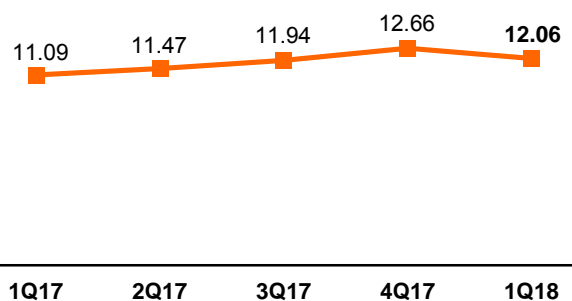
Net Profit (Million Baht)

Reviewed Financial Statements	For the 3 months ended		
	31-Mar-18	31-Dec-17	31-Mar-17
Net Profit (Million Baht)			
Profit for the Period	3,913	3,973	3,317
Net Profit Attributable to the Company	1,899	1,936	1,602
Net Profit Attributable to Non-controlling Interest	2,014	2,037	1,715
Basic Earning per Share (Baht)	1.63	1.66	1.38

ROAA (Percent)



ROAE* (Percent)



*Equity attributable to the Company's shareholders

Net Interest Income

Net Interest Income (Million Baht)				
	1Q18	1Q17	Change	
			+ / (-)	%
Interest Income	11,330	10,849	481	4.43
Interbank and Money Market Items	483	270	213	78.89
Investments for Tradings	63	58	5	8.62
Investments for Debts Securities	641	830	(189)	(22.77)
Loans	4,314	4,362	(48)	(1.10)
Hire Purchase and Financial Leases	5,829	5,329	500	9.38
Interest Expenses	3,874	3,762	112	2.98
Deposits	2,258	2,054	204	9.93
Interbank and Money Market Items	200	185	15	8.11
Fund Contributed to FIDF and DPA	862	807	55	6.82
Debts Issued	552	714	(162)	(22.69)
Borrowing Fee	2	2	-	-
Net Interest Income	7,456	7,087	369	5.21

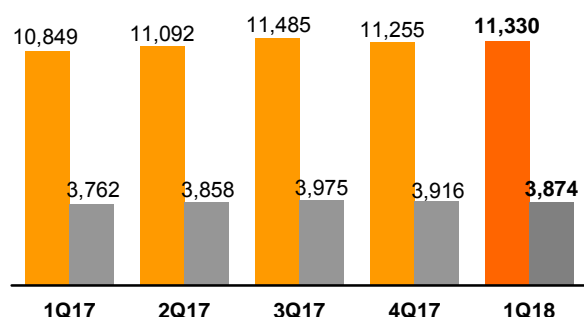
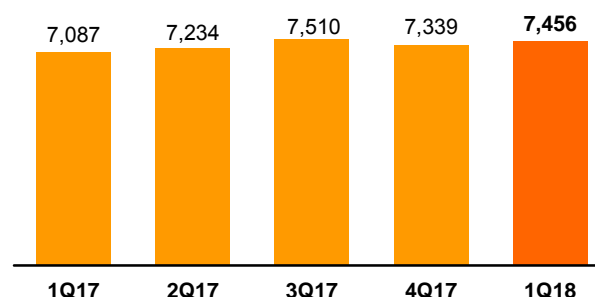
In the first quarter of 2018, the Company and its subsidiaries had 7,456 million baht in net interest income, an increase of 369 million baht or 5.21 percent from the same quarter last year. Interest Spread was at 2.85 percent, a decrease from 2.89 percent.

- Interest income amounted to 11,330 million baht, an increase of 481 million baht or 4.43 percent from the expansion of loans when compared with the same quarter last year.
- Interest expenses amounted to 3,874 million baht, an increase of 112 million baht or 2.98 percent. This was mainly due to an increase in deposits when compared with the same quarter last year.

Yield, Cost of Fund, and Interest Spread (Percent)					
	1Q18	4Q17	3Q17	2Q17	1Q17
Average Policy Interest Rate	1.50	1.50	1.50	1.50	1.50
Yield	4.71	4.76	4.89	4.83	4.77
Cost of Fund	1.86	1.89	1.93	1.92	1.88
Interest Spread	2.85	2.87	2.96	2.91	2.89

Interest Income and Interest Expenses (Million Baht)

Interest Income Interest Expenses

**Net Interest Income (Million Baht)****Non-interest Income****Non-interest Income (Million Baht)**

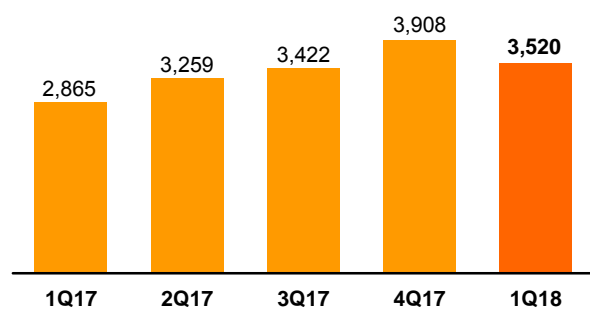
	1Q18	1Q17	Change	
			+ / (-)	%
Net Fees and Service Income	1,706	1,440	266	18.47
Gains on Trading and F/X Transactions	152	185	(33)	(17.84)
Gains on Investments	467	191	276	144.50
Share of Profit from Investments Accounted for under Equity Method	78	75	3	4.00
Net Insurance / Life Insurance Income	668	567	101	17.81
Dividend Income	94	89	5	5.62
Other Income	355	318	37	11.64
Total Other Operating Income	1,814	1,425	389	27.30
Total Non-interest Income	3,520	2,865	655	22.86

Non-interest income of the Company and its subsidiaries in the first quarter of 2018 amounted to 3,520 million baht, an increase of 655 million baht or 22.86 percent from the same quarter last year. This was mainly due to the following.

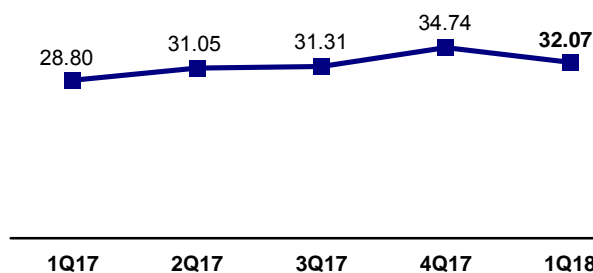
- Net fees and service income amounted to 1,706 million baht, an increase of 266 million baht or 18.47 percent. This was due mainly to increases in fund management fees, brokerage fees, and commission received from selling insurance / life insurance.
- Other operating income amounted to 1,814 million baht, an increase of 389 million baht or 27.30 percent. This was mainly due to an increase of 276 million baht in gains on investments, an increase of 101 million baht in net insurance / life insurance income, and an increase in other income from income related to hire purchase business.

As a result, non-interest income ratio in the first quarter of 2018 was at 32.07 percent, an increase from 28.80 percent in the same quarter previous year.

Non-interest Income (Million Baht)



Non-interest Income Ratio (Percent)



Other Operating Expenses

Other Operating Expenses (Million Baht)

	1Q18	1Q17	Change	
			+ / (-)	%
Employee's Expenses	2,944	3,074	(130)	(4.23)
Premises and Equipment Expenses	649	711	(62)	(8.72)
Taxes and Duties	180	187	(7)	(3.74)
Directors' Remuneration	12	10	2	20.00
Other Expenses	1,660	1,484	176	11.86
Total Other Operating Expenses	5,445	5,466	(21)	(0.38)

In the first quarter of 2018, other operating expenses of the Company and its subsidiaries amounted to 5,445 million baht, a decrease of 21 million baht or 0.38 percent from the same quarter previous year. As a result, cost to income ratio in the first quarter of 2018 was 49.60 percent, a decrease from 54.92 percent in the same quarter last year.

Impairment Loss of Loans and Debt Securities

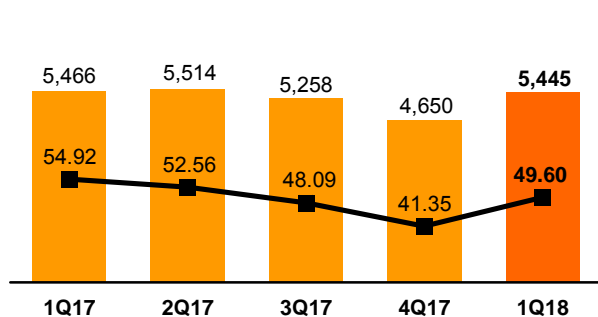
Impairment Loss of Loans and Debt Securities (Million Baht)

	1Q18	1Q17	Change	
			+ / (-)	%
Impairment Loss of Loans and Debt Securities	1,431	852	579	67.96
Credit Cost (%)	0.71	0.48	0.23	47.92

In the first quarter of 2018, the Company and its subsidiaries had impairment loss of loans and debt securities in the amount of 1,431 million baht, an increase of 579 million baht or 67.96 percent from the same quarter last year. Credit cost was at 0.71 percent, an increase from 0.48 percent.

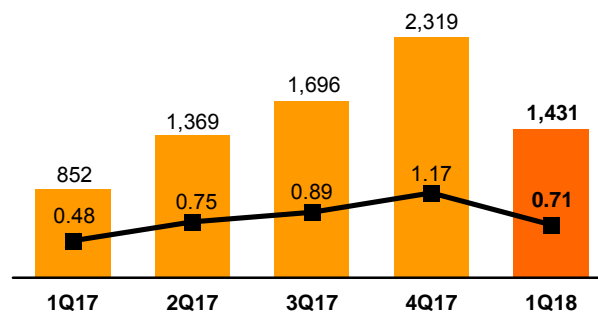
Other Operating Expenses (Million Baht) and Cost to Income Ratio (Percent)

Other Operating Expenses
Cost to Income Ratio



Impairment Loss of Loans and Debt Securities (Million Baht) and Credit Cost (Percent)

Impairment Loss of Loans and Debt Securities
Credit Cost



Financial Position

Consolidated Statements of Financial Position (Million Baht)

	31 March 2018		31 December 2017		Change	
	Amount	%	Amount	%	+/(−)	%
Cash	9,272	0.90	11,453	1.12	(2,181)	(19.04)
Interbank and Money Market Items-net	112,746	10.99	95,918	9.35	16,828	17.54
Investment-net	159,298	15.52	178,703	17.42	(19,405)	(10.86)
Investment in Associated Company-net	2,784	0.27	2,827	0.28	(43)	(1.52)
Loans	713,693	69.55	712,761	69.50	932	0.13
Accrued Interest Receivables	579	0.06	601	0.06	(22)	(3.66)
Allowance for Doubtful Accounts and Revaluation Allowance for Debt Restructuring	(25,232)	(2.46)	(24,518)	(2.39)	(714)	2.91
Property foreclosed-net	4,772	0.47	4,747	0.46	25	0.53
Intangible Assets Acquired in a Business Combination-net	598	0.06	677	0.07	(79)	(11.67)
Goodwill	17,677	1.72	17,637	1.72	40	0.23
Other Assets	29,933	2.92	24,719	2.41	5,214	21.09
Total Assets	1,026,120	100.00	1,025,525	100.00	595	0.06
Deposits	701,028	68.32	716,091	69.83	(15,063)	(2.10)
Interbank and Money Market Items	81,184	7.91	82,343	8.03	(1,159)	(1.41)
Debt Issued and Borrowings	53,629	5.23	51,596	5.03	2,033	3.94
Other Liabilities	56,384	5.49	45,425	4.43	10,959	24.13
Total Liabilities	892,225	86.95	895,455	87.32	(3,230)	(0.36)
Company's Shareholders' Equity	63,894	6.23	62,020	6.05	1,874	3.02
Non-controlling Interests	70,001	6.82	68,050	6.63	1,951	2.87
Total Shareholders' Equity	133,895	13.05	130,070	12.68	3,825	2.94
Total Liabilities and Shareholders' Equity	1,026,120	100.00	1,025,525	100.00	595	0.06
Book Value per Share (Baht)	54.84		53.23			

Assets

As of 31 March 2018, Thanachart Group's total assets amounted to 1,026,120 million baht, an increase of 595 million baht or 0.06 percent from the end of 2017. Key factors are as follows:

- Net interbank and money market amounted to 112,746 million baht, an increase of 16,828 million baht or 17.54 percent from the end of last year due to liquidity management.
- Net investment amounted to 159,298 million baht, a decrease of 19,405 million baht or 10.86 percent from the end of last year. This was mainly due to an appropriate management of investment yield.

- Loans amounted to 713,693 million baht, an increase of 932 million baht or 0.13 percent from the end of last year. The growth was from retail and SME loans especially hire purchase loans which continued increasing. Portion of retail loans to corporate and SME loans was 72 percent to 28 percent.

Liabilities

Total liabilities of Thanachart Group as of 31 March 2018 **were 892,225 million baht, a decrease of 3,230 million baht or 0.36 percent** from the end of 2017. The key items were as follows:

Deposits (Million Baht)

	31 March 2018		31 December 2017		Change	
	Amount	%	Amount	%	+/(−)	%
Current	11,258	1.61	11,953	1.67	(695)	(5.81)
Savings	310,842	44.34	295,390	41.25	15,452	5.23
Fixed Deposits						
Less than 6 Months	34,928	4.98	36,529	5.10	(1,601)	(4.38)
6 Months and up to 1 Year	46,819	6.68	63,772	8.91	(16,953)	(26.58)
Over 1 Year	175,111	24.98	165,942	23.17	9,169	5.53
Certificate of Deposits	122,070	17.41	142,505	19.90	(20,435)	(14.34)
Total Deposits	701,028	100.00	716,091	100.00	(15,063)	(2.10)

- Deposits were 701,028 million baht, a decrease of 15,063 million baht or 2.10 percent from the end of the previous year. This was mainly from a decrease in fixed deposits while savings increased. As a result, the ratio of current and savings accounts to total deposits (CASA) was 45.95 percent, an increase from 42.92 percent at the end of the previous year.
- Interbank and money market items were 81,184 million baht, a decrease of 1,159 million baht or 1.41 percent from the end of the previous year. This was due to liquidity management.
- Debt issued and borrowings amounted to 53,629 million baht, an increase of 2,033 million baht or 3.94 percent from the end of the previous year.

Shareholders' Equity

Total shareholders' equity as of 31 March 2018 **was 133,895 million baht, an increase of 3,825 million baht or 2.94 percent** from the end of 2017. The total shareholders' equity comprised of the following:

- Equity attributable to the owners of the Company was 63,894 million baht, an increase of 1,874 million baht or 3.02 percent. This was mainly from an increase in operating profit attributable to the Company in the first quarter of 2018 amounting to 1,899 million baht.
- Equity attributable to non-controlling interest amounted to 70,001 million baht, an increase of 1,951 million baht or 2.87 percent, mainly from the operating results of subsidiary companies.

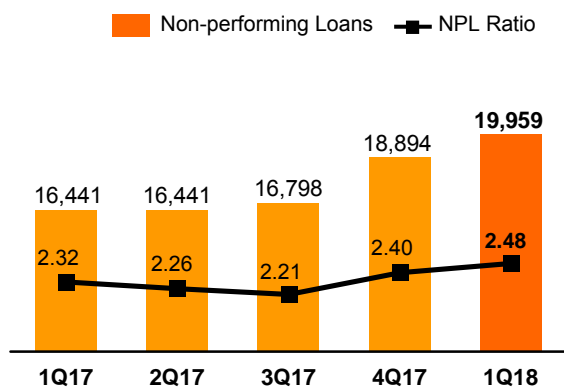
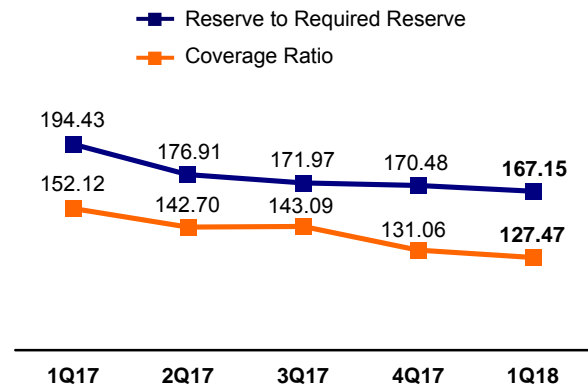
Non-performing Loans: NPLs**NPLs**

	TCAP (Consol.)				
	31-Mar-18	31-Dec-17	30-Sep-17	30-Jun-17	31-Mar-17
NPL-gross (Million Baht)	19,959	18,894	16,798	16,441	16,441
Total Allowance* (Million Baht)	25,443	24,762	24,037	23,461	25,011
NPL-gross to Total Loans (%)	2.48	2.40	2.21	2.26	2.32
NPL-net to Total Loans (%)	1.23	1.23	1.06	1.07	1.12
Reserve to Required Reserve (%)	167.15	170.48	171.97	176.91	194.43
Coverage Ratio (%)	127.47	131.06	143.09	142.70	152.12

* Including allowance for interbank and money market items and revaluation allowance for debt restructuring.

Under the market and economic conditions that continued to gradually recover, the Company and its subsidiaries still placed strong emphasis on managing NPLs through systematic and effective control. **NPLs** as of 31 March 2018 amounted to **19,959 million baht**, an increase of **1,065 million baht** or **5.64 percent** from the end of the previous year. **Non-performing loans to total loans to customers (NPL Ratio)** was at **2.48 percent**. Non-performing loans after deducting reserve (NPL-net) amounted to 9,775 million baht while the ratio of NPL-net to total loans was at 1.23 percent.

Coverage ratio at the end of March 2018 was at 127.47 percent while the ratio of reserve to required reserve under the BOT's regulation was at 167.15 percent. Excess reserve was 10,221 million baht.

**Non-performing Loans (Million Baht) and
NPL Ratio (Percent)**

**Coverage Ratio (Percent) and
Reserve to Required Reserve (Percent)**


Operating Results of Subsidiaries

Operating Results of Subsidiaries (Million Baht)

Subsidiaries	% holding Direct/Indirect	Net Profit (Loss)		
		1Q18	4Q17	1Q17
Thanachart Bank Public Company Limited Consolidated Financial Statements*		3,779	3,674	3,272
Thanachart Securities Public Company Limited	50.96%	249	215	168
Thanachart Fund Management Company Limited	38.22%	171	112	100
Thanachart Insurance Public Company Limited	50.96%	274	263	216
TS AMC Company Limited	50.96%	(4)	30	51
Ratchthani Leasing Public Company Limited	33.22%	364	320	246
NFS AMC Company Limited	100.00%	(6)	(19)	29
MAX AMC Company Limited	83.44%	46	(10)	1
MBK Life Assurance Public Company Limited	51.00%	(24)	104	(9)

* Only the profit attributable to the owners of Thanachart Bank.

Risk Management and Risk Factors

For risk management, the Company and its subsidiaries have put in place the process to manage risk systematically by having the Company's Board of Directors specify risk management policies of Thanachart Group to ensure complete policy alignment throughout the entire organization. There is a business unit that is dedicatedly responsible for risk management and consistently monitors and controls risks to be in accordance with the specified policies of the Company. The measurement and analysis of various risks are done by using an appropriate tools and methodology. Such various risks include strategic risk, credit risk, market risk, interest rate risk, liquidity risk, and operational risk. For risk measurement and monitoring discipline, the risk limit and warning signal are set to ensure that business operation would always be within such acceptable risk limit. Moreover, the Executive Committee and the Board of Directors of the Company closely govern and monitor risk status and the efficiency of risk management system on a monthly basis.

In overall view, the risks of the Company and subsidiaries are within the risk limit and have enough capital after risk allocation to support the business expansion in sustainable and secure man

Disclaimer

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