

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended 31 March 2019  
(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 2019 is expected to grow from the previous quarter mainly driven by domestic demand and private consumption, following increase in household income, as well as the consistent growth of private investment. On the other hand, export sector is expected to detract from the economic slowdown in counterparty countries and from the trade war between the US and China. Consequently, the Monetary Policy Committee of the Bank of Thailand issued a resolution to maintain the policy rate at 1.75 percent per annum to support the current economic condition and in response to the stable inflation rate.

In the first quarter of 2019, the loan volume in the commercial bank industry is expected to expand from the previous quarter especially the retail loans or more specifically mortgage loans, as the Macroprudential Regulation to tighten the policy of the mortgage loans was coming in effect on 1 April 2019. Deposit volume is also expected to increase in line with the loan volume.

#### Key Events

1. On 26 February 2019, Thanachart Capital Public Company Limited ("the Company") as a major shareholder of Thanachart Bank Public Company Limited ("TBANK") entered the Non-binding Memorandums of Understanding in relation to a merger between TBANK and TMB Bank Public Company Limited ("TMB"), divided into (i) a 5-party Memorandum of Understanding among 1) ING Groep N.V. ("ING") 2) TCAP 3) The Bank of Nova Scotia ("BNS") 4) TBANK and 5) TMB and (ii) a 2-party Memorandum of Understanding between TCAP and BNS, to set out the non-binding agreements and form the basis for further discussion in relation to series of transactions to be entered into by the parties with the objective of merging TBANK and TMB, creating a larger and stronger bank.
2. On 24 April 2019, the Annual General Meeting of Shareholders for the year 2019 of the Company had a resolution to pay dividend to shareholders at the rate of 1.60 baht per share, amounting to 1,833 million baht. Taking into account this round of dividend payment and the interim dividend payment worth 1.00 baht per share or 1,165 million baht, total dividend payment in 2018 amounted to 2.60 baht per share or 2,998 million baht. The dividend payment was scheduled to be made on 17 May 2019.

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

## Financial Highlights

### Financial Highlights

Reviewed Financial Statements	For the 3 months ended		
	31-Mar-19	31-Dec-18	31-Mar-18
<b>Operating Performance (Million Baht)</b>			
Interest Income	12,064	11,945	11,330
Interest Expenses	4,142	4,026	3,874
Net Interest Income	7,922	7,919	7,456
Non-interest Income	3,233	3,247	3,520
Net Operating Income <sup>(1)</sup>	11,155	11,166	10,976
Other Operating Expenses	5,057	5,654	5,445
<b>Pre-Provision Operating Profit (PPOP)</b>	<b>6,098</b>	<b>5,512</b>	<b>5,531</b>
Impairment Loss of Loans and Debt Securities	991	673	1,431
Profit before Tax	5,107	4,839	4,100
Income Tax	1,046	878	187
<b>Profit for the Period</b>	<b>4,061</b>	<b>3,961</b>	<b>3,913</b>
<b>Net Profit Attributable to the Company</b>	<b>2,016</b>	<b>2,019</b>	<b>1,899</b>
<b>Operating Performance Ratios (Percent)</b>			
ROAA	1.53	1.53	1.53
ROAE <sup>(2)</sup>	12.08	12.39	12.06
Interest Spread <sup>(3)</sup>	2.92	2.98	2.85
Loan Spread <sup>(4)</sup>	3.83	3.89	3.85
Credit Cost	0.46	0.32	0.71
Non-interest Income Ratio <sup>(5)</sup>	28.99	29.08	32.07
Cost to Income Ratio <sup>(6)</sup>	45.33	50.63	49.60
<b>Financial Position (Million Baht)</b>			
Loans	763,776	754,613	713,693
Total Assets	1,061,701	1,060,929	1,026,120
Deposits	743,559	751,917	701,028
Total Liabilities	919,445	923,011	892,225
Total Equity	142,256	137,918	133,895
<b>Financial Position Quality</b>			
Loans to Deposits (%)	102.72	100.36	101.81
Non-performing Loans (Million Baht)	19,591	20,172	19,959
NPL Ratio (%)	2.28	2.40	2.48
Coverage Ratio <sup>(7)</sup> (%)	120.85	120.49	127.47
Reserve to Required Reserve <sup>(8)</sup> (%)	151.59	153.56	167.15

(1) Net Operating Income = Net Interest Income + Non-interest Income

(2) ROAE is calculated from equity attributable to the Company's shareholders

(3) Interest Spread = Yield – Cost of Fund

Yield = Interest Income / Average Earning Assets

Cost of Fund = Interest Expenses / Average Paying Liabilities

(4) Loan Spread = Loan Yield – Cost of Fund

(5) Non-interest Income Ratio = Non-interest Income / Net Operating Income

(6) Cost to Income Ratio = Other Operating Expenses / Net Operating Income

(7) Coverage Ratio = Total Allowance / Non-performing Loans

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

## Operating Results for the First Quarter of 2019

### 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 2019, **the Company and its subsidiaries’ net profit according to the consolidated financial statements amounted to 4,061 million baht, an increase of 148 million baht or 3.78 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.**

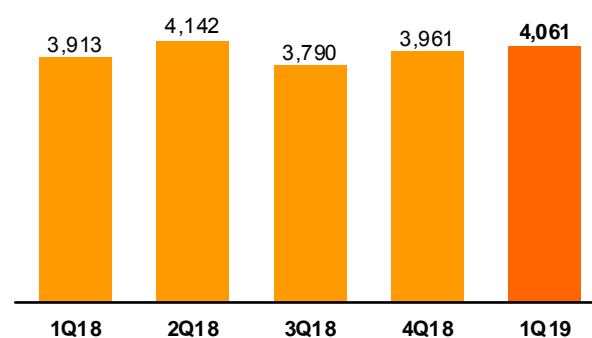
Total income base of the Company and its subsidiaries increased. Net interest income increased by 6.25 percent from loan expansion and widened spread while non-interest income decreased by 8.15 percent from decreases in net fees and service income and gains on investments. Operating expenses decreased by 7.13 percent from effective cost management. As a result, pre-provision operating profit (PPOP) increased by 10.25 percent. Impairment loss of loans and debt securities decreased by 30.75 percent.

Total assets of Thanachart Group slightly increased from the end of the previous year. Loans expanded by 1.21 percent from the growth of retail loans especially hire purchase loans which continued to grow. At the same time, deposits decreased by 1.11 percent; however, CASA increased to 49.29 percent.

**NPLs of Thanachart Group decreased by 2.88 percent** from the end of 2018. **NPL ratio was at 2.28 percent. Coverage ratio stayed at 120.85 percent. On capital**

**fund, TBANK had capital adequacy ratio of 19.18 percent, a decrease from 19.45 percent at the end of 2018.**

Net Profit of Thanachart Group (Million Baht)



In the first quarter of 2019, **net profit attributable to the Company was 2,016 million baht, an increase of 117 million baht or 6.16 percent** from the same quarter last year. Earning per share (EPS) was 1.76 baht, an increase from 1.63 baht. Return on average assets (ROAA) and return on average equity (ROAE) of the Company’s shareholders were at 1.53 percent and 12.08 percent, respectively.

## Summary of Key Operating Results

Summary of key operating results in the first quarter of 2019 comparing with the first quarter of 2018 is as follows:

- Net profit of Thanachart Group amounted to 4,061 million baht, an increase of 3.78 percent.
- Net profit of the Company amounted to 2,016 million baht, an increase of 6.16 percent.
- Net interest income increased by 6.25 percent from loan growth and widened spread.
- Non-interest income decreased by 8.15 percent, mainly from decreases in net fees and service income and gains on investments.
- Operating expenses decreased by 7.13 percent, due to an effective cost management.
- Pre-provision operating profit (PPOP) amounted to 6,098 million baht, an increase of 10.25 percent.
- Impairment loss of loans and debt securities expenses decreased by 30.75 percent.

## Net Profit (Million Baht)

Reviewed Financial Statements	For the 3 months ended		
	31-Mar-19	31-Dec-18	31-Mar-18
<b>Net Profit (Million Baht)</b>			
Profit for the Period	4,061	3,961	3,913
Net Profit Attributable to the Company	2,016	2,019	1,899
Net Profit Attributable to Non-controlling Interest	2,045	1,942	2,014
Basic Earning per Share (Baht)	1.76	1.74	1.63

## ROAA (Percent)



1Q18      2Q18      3Q18      4Q18      1Q19

## ROAE\* (Percent)



1Q18      2Q18      3Q18      4Q18      1Q19

\*Equity attributable to the Company's shareholders

## Net Interest Income

### Net Interest Income (Million Baht)

	1Q19	1Q18	Change	
			+ / (-)	%
<b>Interest Income</b>	<b>12,064</b>	<b>11,330</b>	<b>734</b>	<b>6.48</b>
Interbank and Money Market Items	476	483	(7)	(1.45)
Investments for Tradings	72	63	9	14.29
Investments for Debts Securities	668	641	27	4.21
Loans	4,229	4,314	(85)	(1.97)
Hire Purchase and Financial Leases	6,619	5,829	790	13.55
<b>Interest Expenses</b>	<b>4,142</b>	<b>3,874</b>	<b>268</b>	<b>6.92</b>
Deposits	2,402	2,258	144	6.38
Interbank and Money Market Items	283	200	83	41.50
Fund Contributed to FIDF and DPA	904	862	42	4.87
Debts Issued	549	552	(3)	(0.54)
Borrowing Fee	4	2	2	100.00
<b>Net Interest Income</b>	<b>7,922</b>	<b>7,456</b>	<b>466</b>	<b>6.25</b>

In the first quarter of 2019, the Company and its subsidiaries had 7,922 million baht in net interest income, an increase of 466 million baht or 6.25 percent from the same quarter last year. Interest Spread was at 2.92 percent, an increase from 2.85 percent.

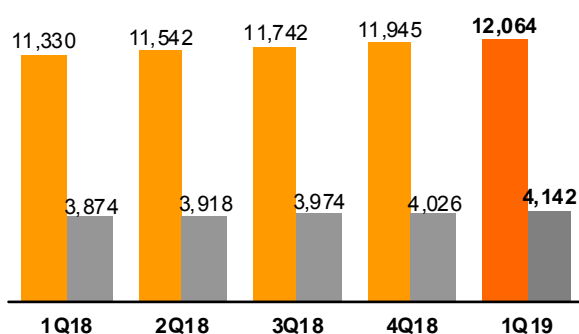
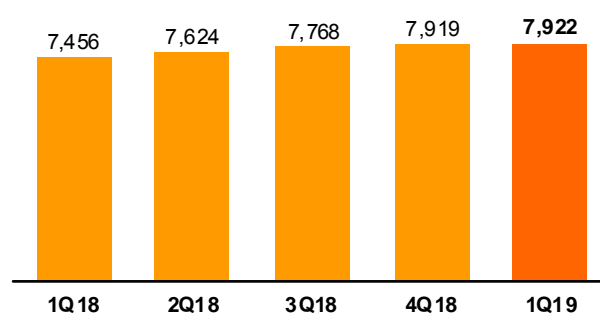
- Interest income amounted to 12,064 million baht, an increase of 734 million baht or 6.48 percent from the expansion of loans and an increase of yield on earning assets.
- Interest expenses amounted to 4,142 million baht, an increase of 268 million baht or 6.92 percent. This was mainly due to an increase in deposits and an increase in cost of fund in line with the market interest rate.

### Yield, Cost of Fund, and Interest Spread (Percent)

	1Q19	4Q18	3Q18	2Q18	1Q18
Average Policy Interest Rate	1.75	1.54	1.50	1.50	1.50
Yield	4.84	4.86	4.84	4.81	4.74
Cost of Fund	1.92	1.88	1.87	1.88	1.89
Interest Spread	2.92	2.98	2.97	2.93	2.85

**Interest Income and Interest Expenses (Million Baht)**

Interest Income Interest Expenses

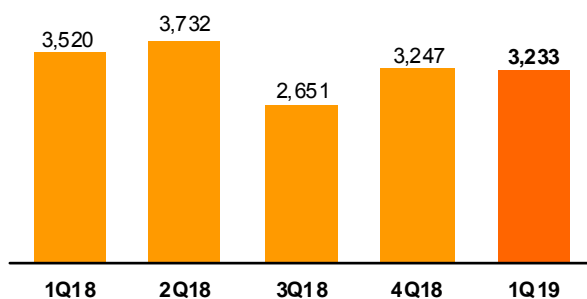
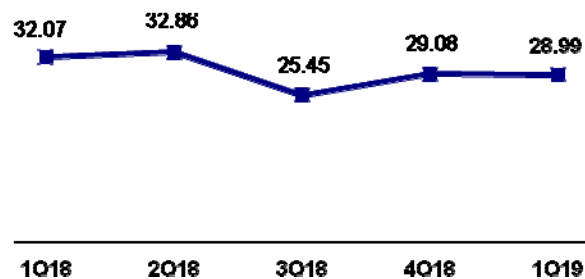
**Net Interest Income (Million Baht)****Non-interest Income****Non-interest Income (Million Baht)**

	1Q19	1Q18	Change	
			+ / (-)	%
<b>Net Fees and Service Income</b>	<b>1,387</b>	<b>1,706</b>	<b>(319)</b>	<b>(18.70)</b>
Gains on Trading and F/X Transactions	162	152	10	6.58
Gains on Investments	325	467	(142)	(30.41)
Share of Profit from Investments Accounted for under Equity Method	59	78	(19)	(24.36)
Net Insurance / Life Insurance Income	633	668	(35)	(5.24)
Dividend Income	119	94	25	26.60
Other Income	548	355	193	54.37
<b>Total Other Operating Income</b>	<b>1,846</b>	<b>1,814</b>	<b>32</b>	<b>1.76</b>
<b>Total Non-interest Income</b>	<b>3,233</b>	<b>3,520</b>	<b>(287)</b>	<b>(8.15)</b>

**Non-interest income of the Company and its subsidiaries in the first quarter of 2019 amounted to 3,233 million baht, a decrease of 287 million baht or 8.15 percent** from the same quarter last year. This was mainly due to the following.

- Net fees and service income amounted to 1,387 million baht, a decrease of 319 million baht or 18.70 percent. This was due mainly to a decrease in brokerage fees.
- Other operating income amounted to 1,846 million baht, an increase of 32 million baht or 1.76 percent. This was mainly due to an increase in other income from gains on debt settlement while gains on investment decreased by 142 million baht.

As a result, non-interest income ratio in the first quarter of 2019 was at 28.99 percent, a decrease from 32.07 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)**

	1Q19	1Q18	Change	
			+/( - )	%
Employee's Expenses	2,997	2,944	53	1.80
Premises and Equipment Expenses	626	649	(23)	(3.54)
Taxes and Duties	182	180	2	1.11
Directors' Remuneration	16	12	4	33.33
Other Expenses	1,236	1,660	(424)	(25.54)
<b>Total Other Operating Expenses</b>	<b>5,057</b>	<b>5,445</b>	<b>(388)</b>	<b>(7.13)</b>

In the first quarter of 2019, other operating expenses of the Company and its subsidiaries amounted to 5,057 million baht, a decrease of 388 million baht or 7.13 percent from the same quarter previous year. As a result, cost to income ratio in the first quarter of 2019 was 45.33 percent, a decrease from 49.60 percent in the same quarter last year.

**Impairment Loss of Loans and Debt Securities****Impairment Loss of Loans and Debt Securities (Million Baht)**

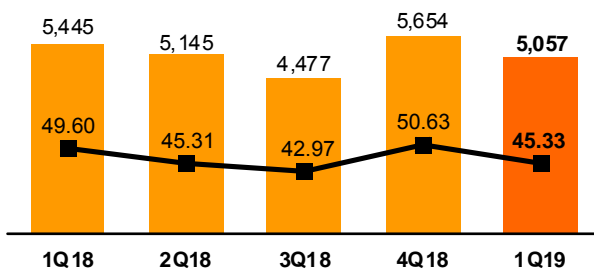
	1Q19	1Q18	Change	
			+/( - )	%
Impairment Loss of Loans and Debt Securities	991	1,431	(440)	(30.75)
Credit Cost (%)	0.46	0.71	(0.25)	(35.21)



In the first quarter of 2019, the Company and its subsidiaries had impairment loss of loans and debt securities in the amount of 991 million baht, a decrease of 440 million baht or 30.75 percent from the same quarter last year. Credit cost was at 0.46 percent, a decrease from 0.71 percent in the same quarter last year.

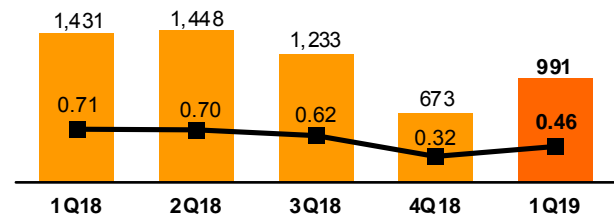
#### Other Operating Expenses (Million Baht) and Cost to Income Ratio (Percent)

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 2019		31 December 2018		Change	
	Amount	%	Amount	%	+/(−)	%
Cash	9,373	0.88	11,022	1.04	(1,649)	(14.96)
Interbank and Money Market Items-net	107,217	10.10	99,117	9.34	8,100	8.17
Investment-net	152,307	14.35	170,437	16.07	(18,130)	(10.64)
Investment in Associated Company-net	2,925	0.28	3,027	0.29	(102)	(3.37)
Loans	763,776	71.94	754,613	71.13	9,163	1.21
Accrued Interest Receivables	686	0.06	657	0.06	29	4.41
Allowance for Doubtful Accounts and Revaluation Allowance for Debt Restructuring	(23,508)	(2.21)	(24,145)	(2.28)	637	(2.64)
Property foreclosed-net	5,673	0.53	4,822	0.45	851	17.65
Intangible Assets Acquired in a Business Combination-net	296	0.03	361	0.03	(65)	(18.01)
Goodwill	17,833	1.68	17,799	1.68	34	0.19
Other Assets	25,123	2.36	23,219	2.19	1,904	8.20
<b>Total Assets</b>	<b>1,061,701</b>	<b>100.00</b>	<b>1,060,929</b>	<b>100.00</b>	<b>772</b>	<b>0.07</b>
Deposits	743,559	70.03	751,917	70.87	(8,358)	(1.11)
Interbank and Money Market Items	75,550	7.12	71,923	6.78	3,627	5.04
Debt Issued and Borrowings	56,775	5.35	55,013	5.19	1,762	3.20
Other Liabilities	43,561	4.10	44,158	4.16	(597)	(1.35)
<b>Total Liabilities</b>	<b>919,445</b>	<b>86.60</b>	<b>923,011</b>	<b>87.00</b>	<b>(3,566)</b>	<b>(0.39)</b>
Company's Shareholders' Equity	67,809	6.39	65,735	6.20	2,074	3.16
Non-controlling Interests	74,447	7.01	72,183	6.80	2,264	3.14
<b>Total Shareholders' Equity</b>	<b>142,256</b>	<b>13.40</b>	<b>137,918</b>	<b>13.00</b>	<b>4,338</b>	<b>3.15</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>1,061,701</b>	<b>100.00</b>	<b>1,060,929</b>	<b>100.00</b>	<b>772</b>	<b>0.07</b>
Book Value per Share (Baht)	59.19		57.15			

## Assets

As of 31 March 2019, Thanachart Group's total assets amounted to 1,061,701 million baht, an increase of 772 million baht or 0.07 percent from the end of 2018. Key factors are as follows:

- Net interbank and money market amounted to 107,217 million baht, an increase of 8,100 million baht or 8.17 percent from the end of last year due to liquidity management.
- Net investment amounted to 152,307 million baht, a decrease of 18,130 million baht or 10.64 percent from the end of last year. This was mainly due to an appropriate management of investment yield.

- Loans amounted to 763,776 million baht, an increase of 9,163 million baht or 1.21 percent from the end of last year. The growth was from retail loans especially hire purchase loans which continued increasing. Portion of retail loans to corporate and SME loans was 75 percent to 25 percent.

## Liabilities

**Total liabilities of Thanachart Group** as of 31 March 2019 **amounted to 919,445 million baht, a decrease of 3,566 million baht or 0.39 percent** from the end of 2018. The key items were as follows:

### **Deposits (Million Baht)**

	31 March 2019		31 December 2018		Change	
	Amount	%	Amount	%	+/(−)	%
Current	12,291	1.65	12,759	1.70	(468)	(3.67)
Savings	354,215	47.64	351,939	46.80	2,276	0.65
Fixed Deposits						
Less than 6 Months	31,949	4.30	44,025	5.86	(12,076)	(27.43)
6 Months and up to 1 Year	44,231	5.95	41,832	5.56	2,399	5.73
Over 1 Year	220,463	29.65	215,902	28.71	4,561	2.11
Certificate of Deposits	80,410	10.81	85,460	11.37	(5,050)	(5.91)
<b>Total Deposits</b>	<b>743,559</b>	<b>100.00</b>	<b>751,917</b>	<b>100.00</b>	<b>(8,358)</b>	<b>(1.11)</b>

- Deposits were 743,559 million baht, a decrease of 8,358 million baht or 1.11 percent from the end of the previous year. This was mainly from a decrease in short-term fixed deposits while savings increased. As a result, the ratio of current and savings accounts to total deposits (CASA) was 49.29 percent, an increase from 48.50 percent at the end of the previous year.
- Interbank and money market items were 75,550 million baht, an increase of 3,627 million baht or 5.04 percent from the end of the previous year. This was due to liquidity management.
- Debt issued and borrowings amounted to 56,775 million baht, an increase of 1,762 million baht or 3.20 percent from the end of the previous year.

## Shareholders' Equity

**Total shareholders' equity** as of 31 March 2019 **was 142,256 million baht, an increase of 4,338 million baht or 3.15 percent** from the end of 2018. The total shareholders' equity comprised of the following:

- Equity attributable to the owners of the Company was 67,809 million baht, an increase of 2,074 million baht or 3.16 percent. This was mainly from an increase in operating profit attributable to the Company in the first quarter of 2019 amounting to 2,016 million baht.
- Equity attributable to non-controlling interest amounted to 74,447 million baht, an increase of 2,264 million baht or 3.14 percent, mainly from the operating results of subsidiary companies.

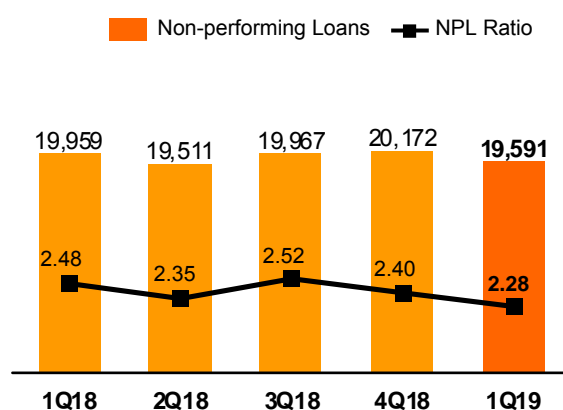
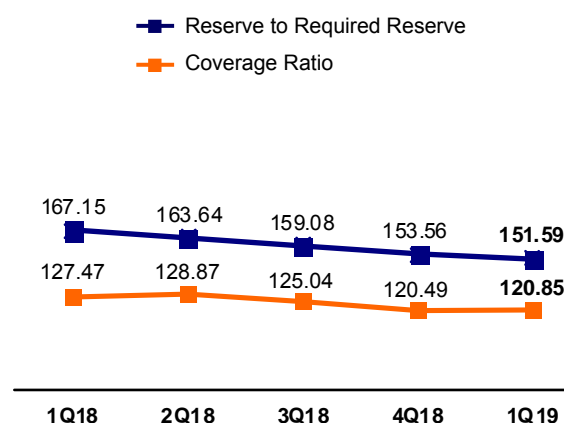
**Non-performing Loans: NPLs****NPLs**

	TCAP (Consol.)				
	31-Mar-19	31-Dec-18	30-Sep-18	30-Jun-18	31-Mar-18
NPL-gross (Million Baht)	19,591	20,172	19,967	19,511	19,959
Total Allowance* (Million Baht)	23,676	24,306	24,967	25,144	25,443
NPL-gross to Total Loans (%)	2.28	2.40	2.52	2.35	2.48
NPL-net to Total Loans – net (%)	1.21	1.26	1.36	1.23	1.23
Reserve to Required Reserve (%)	151.59	153.56	159.08	163.64	167.15
Coverage Ratio (%)	120.85	120.49	125.04	128.87	127.47

\* 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 2019 amounted to **19,591 million baht**, a decrease of **581 million baht or 2.88 percent** from the end of the previous year. **Non-performing loans to total loans (NPL Ratio)** was at **2.28 percent**. Non-performing loans after deducting reserve (NPL-net) amounted to 10,245 million baht while the ratio of NPL-net to total loans – net was at 1.21 percent.

**Coverage ratio at the end of March 2019 was at 120.85 percent** while the ratio of reserve to required reserve under the BOT's regulation at the end of March 2019 was at 151.59 percent. Excess reserve was 8,058 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)		
		1Q19	4Q18	1Q18
Thanachart Bank Public Company Limited Consolidated Financial Statements*		3,650	3,563	3,779
Thanachart Securities Public Company Limited	50.96%	99	95	249
Thanachart Fund Management Company Limited	38.22%	147	147	171
Thanachart Insurance Public Company Limited	50.96%	278	235	274
TS AMC Company Limited	50.96%	251	71	(4)
Ratchthani Leasing Public Company Limited	33.22%	477	455	364
NFS AMC Company Limited	100.00%	111	(5)	(6)
MAX AMC Company Limited	83.44%	139	32	46
MBK Life Assurance Public Company Limited	51.00%	(30)	(67)	(24)

\* 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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