

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended 31 December 2020
(Audited Financial Statements)

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THANACHART CAPITAL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

Management's Discussion and Analysis (Audited Financial Statements)

Economics Outlook and Competition in Banking Industry

The Thai economy in 2020 contracted sharply by 6.1 percent from the previous year growth of 2.4 percent, mainly due to the global COVID-19 pandemic. The government has issued strict measures to control the pandemic in the first and second quarter of the year, resulting in a temporary halt in almost all the economic activities. All sectors of the economy contracted: especially the tourism sector which has been affected by the denial of permission to entry into Thailand and the international travel limitation; export sector has been affected by the declining demand in trading partners countries due to the lockdown measures and the economic slowdown of trading partners; private consumption has been weakened by the epidemic control measures and the reduction of employment although there have been relaxation of disease control measures and government's handout measures; and private investment declined from a slowdown of investments. However, government spending increased from the expenditures associated with the outbreak control measures of COVID-19 and economic stimulus measures.

In 2020, the Bank of Thailand and financial institutions have jointly issued various measures to mitigate the effects of the COVID-19 pandemic Phase 1 and Phase 2 of the moratorium to the public and private sectors. These included lowering the minimum repayments, offering a grace period for principal and interest repayments, debt restructuring, soft loan measures for the SMEs debtors for working capital and liquidity of the businesses, liquidity enhancement to stabilize the private bond market, and reducing the remittance rate to the Financial Institutions Development Fund (FIDF), etc. At the same time, the Monetary Policy Committee of the Bank of Thailand issued resolutions to reduce the policy rate by three times, 0.25 percent per annum per time during the first and second quarter of the year, resulting in a reduction of the policy rate to be at 0.50 percent per annum. The reason was to prevent the impact of the COVID-19 and to be in line with the overall economy.

Commercial bank loans in 2020 expanded at a higher rate than the previous year, mainly due to the expansion of both commercial and retail loans. On the other hand, deposits increased in line with loan growth. Non-performing loans increased following the weak economic conditions.

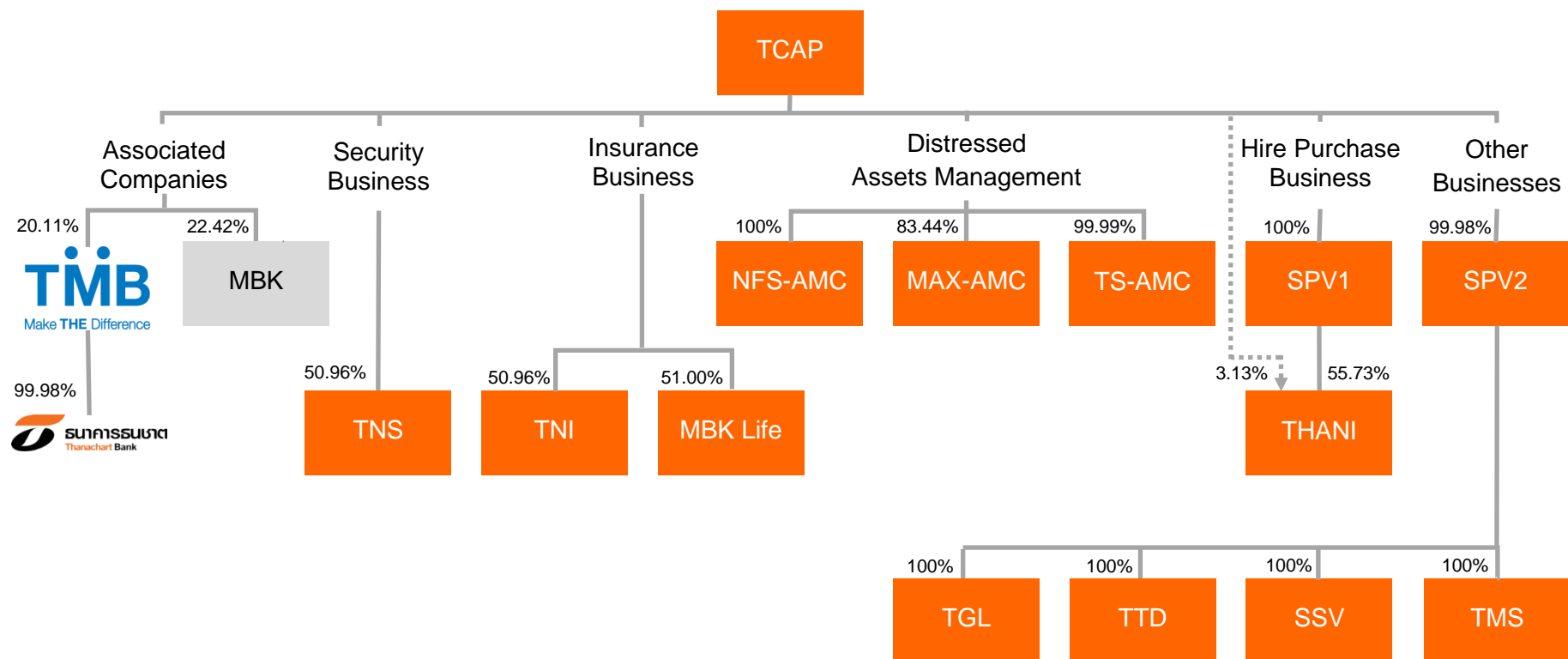
For 2021, the Thai economy is likely to recover and expected to expand by 2.5 - 3.5 percent as predicted by the Office of the National Economic and Social Development Council. The main supporting factor is the recovery of the world economy and global trade volume from the progress of COVID-19 vaccines distribution and further economic easing measures. As well, the government spending and the gradual rebound of domestic demand are other key contributors for this year economic growth.

Key Events in 2020

1. On 21 January 2020, the Board of Directors of Thanachart Capital Public Company Limited ("the Company") had a resolution to approve Share Repurchase Project for Financial Management in the amount of not exceeding 6,000 million baht or the total shares to be repurchased of not exceeding 97,045,970 shares. Later, on 27 April 2020, the Company announced the end of the Project and repurchased its shares in the total amount of 4,863 million baht, which equals the total repurchased shares of 97,045,970 shares.

2. On 31 January 2020, the Company entered into a Sale and Purchase Agreement to sell shares of Ajinomoto Co., (Thailand) Limited ("AJT") that the Company held indirectly through Thanachart SPV2 Company Limited, representing 6 percent of AJT's total outstanding shares, to AJINOMOTO Co., INC ("AJICO") in Japan. The total transaction value was approximately 7,167 million baht and the shares were transferred in February 2020.
3. On 30 March, 2020, the Board of Directors of the Company had a resolution to approve the interim dividend payments based on the Company's net profit for the year ended 31 December 2019 at the rate of 1.80 baht per share to the Company's shareholders. In this connection, the name of shareholders eligible for the interim dividend payments was set on 14 April 2020 and the interim dividend payments was made on 28 April 2020. Considering this round of dividend payment and combining with the first half of 2019 interim dividend payment of 1.20 baht per share which was made on 18 October 2019 and the special interim dividend payment of 4.00 baht per share which was made on 16 January 2020, the total dividend payments made for the year 2019 equaled 7.00 baht per share or amounted to 7,845 million baht.
4. On 29 July 2020, the Board of Directors of the Company had a resolution to approve the interim dividend payment at a rate of 1.20 baht per share to the shareholders of the Company. The list of shareholders entitled to receive the interim dividend was set on 13 August 2020 and the payment of the interim dividend was made on 27 August 2020.

Thanachart Group's Shareholding Structure As of 31 December 2020



Remark : TCAP = Thanachart Capital PCL, NFS-AMC = NFS Asset Management Co., Ltd., MAX-AMC = MAX Asset management Co., Ltd., MBK = MBK PCL, TNS = Thanachart Security PCL, TNI = Thanachart Insurance PCL, TS-AMC = TS Asset management Co., Ltd., SPV 1 = Thanachart Special Purpose Vehicle 1 Co., Ltd., SPV2 = Thanachart Special Purpose Vehicle 2 Co., Ltd., THANI = Ratchthani Leasing PCL, TGL = Thanachart Group leasing Co., Ltd., TTD = Thanachart Training & Development Co., Ltd., SSV = Security Scib Services Co., Ltd., TMS = Thanachart Management and Service Co., Ltd.

Operating Results for the Year 2020

Performance Overview

In 2020, the Company and its subsidiaries' net profit according to the consolidated financial statements amounted to **7,848 million baht**. This was mainly due to the operating results of the important subsidiary and associated companies as follows:

- Ratchthani Leasing Public Company Limited had a consolidated net profit of 1,860 million baht
- Thanachart Insurance Public Company Limited had a net profit of 745 million baht
- Thanachart Securities Public Company Limited had a net profit of 479 million baht
- Thanachart SPV2 Company Limited had a net profit of 2,878 million baht.
- Share of profit from investments accounted for under equity method was 2,154 million baht

As a result, **net profit attributable to the Company amounted to 6,669 million baht, a decrease of 4,138 million baht or 38.29 percent** from the previous year. The decrease was mainly due to the impact from the spread of COVID-19 virus, and there was a non-recurring gain from business restructuring in 2019. However, the main subsidiaries including Ratchthani Leasing, Thanachart Insurance as well as Thanachart Securities have performed well.

Earnings per share (EPS) of the Company in 2020 were 6.26 baht, decreased from 9.43 baht last year. Return on Average Assets (ROAA) and Return on Average Equity (ROAE) were at 5.24 and 10.47 percent, respectively.

Financial Highlights

Financial Highlights

Audited Financial Statements	For the year ended	
	31-Dec-20	31-Dec-19
Operating Performance (Million Baht)		
Interest Income	4,213	4,339
Interest Expenses	1,620	1,599
Net Interest Income	2,593	2,740
Non-interest Income	10,317	4,744
Net Operating Income ⁽¹⁾	12,910	7,484
Other Operating Expenses	2,910	3,034
Expected Credit Losses / Impairment Loss of Loans and Debt Securities (Reversal)	595	(316)
Profit before Tax	9,405	4,766
Income Tax	1,557	1,367
Profit for the Year from Continuing Operations	7,848	3,399
Profit for the Year from Discontinued Operations	-	13,361
Profit for the Year	7,848	16,760
Net Profit Attributable to the Company	6,669	10,807
Basic Earnings per Share (Baht)	6.26	9.43
Financial Position (Million Baht)		
Net Loans to Customers and Accrued Interest Receivables	50,251	53,159
Investments in Associated Companies-net	48,007	45,421
Total Assets	140,756	160,927
Debts Issued and Borrowings	33,887	44,780
Total Liabilities	67,987	86,868
Company's Shareholders' Equity	63,311	65,833
Non-controlling Interests	9,458	8,226
Total Shareholders' Equity	72,769	74,059
Operating Performance Ratios (Percent)		
ROAA	5.24	1.67
ROAE ⁽²⁾	10.47	15.70
D/E Ratio (times)	0.93	1.17

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

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

Net Interest Income

Net Interest Income (Million Baht)

	2020	2019	Change	
			+/(−)	%
Interest Income	4,213	4,339	(126)	(2.90)
Interbank and Money Market Items -				
Deposits at Financial Institutions	150	148	2	1.35
Financial Assets Measured at Fair Value through				
Profit or Loss	83	-	83	100.00
Investments and Trading Transactions	-	121	(121)	(100.00)
Investments in Debt Securities Measured at				
Amortized Cost	2	-	2	100.00
Investments in Debt Securities Measured at Fair Value				
through Other Comprehensive Income	234	-	234	100.00
Investments in Debt Securities	-	281	(281)	(100.00)
Loans to Customers	228	250	(22)	(8.80)
Hire Purchase and Financial Lease	3,516	3,539	(23)	(0.65)
Interest Expenses	1,620	1,599	21	1.31
Interbank and Money Market Items -				
Borrowings from Financial Institutions	216	363	(147)	(40.50)
Debts Issued and Borrowings	1,373	1,222	151	12.36
Borrowing Cost	19	14	5	35.71
Others	12	-	12	100.00
Net Interest Income	2,593	2,740	(147)	(5.36)

In 2020, the Company and its subsidiaries had 2,593 million baht in net interest income, a decrease of 147 million baht or 5.36 percent from the previous year. This was mainly from the decrease in interest income from investments, due to the decline in interest rates following market conditions. In addition, interest income on loans declined following the slowdown in lending. Interest expenses slightly increased due to the adjustment of the subsidiary's funding structure to be more appropriate.

Non-interest Income

Non-interest Income (Million Baht)

	2020	2019	Change	
			+/(-)	%
Net Fees and Service Income	1,249	1,084	165	15.22
Gains on Financial Instruments Measured at Fair Value through Profit or Loss / Gains on Trading and FX Transactions	151	146	5	3.42
Gains on Investments	3,757	514	3,243	630.93
Share of Profit from Investments Accounted for under Equity Method	2,154	367	1,787	486.92
Gains on Property Foreclosed and Other Assets	225	222	3	1.35
Net Insurance / Life Insurance Income	1,888	1,408	480	34.09
Dividend Income	308	181	127	70.17
Other Income	585	822	(237)	(28.83)
Total Operating Income	9,068	3,660	5,408	147.76
Total Non-interest Income	10,317	4,744	5,573	117.47

Non-interest income of the Company and its subsidiaries for 2020 amounted to 10,317 million baht, an increase of 5,573 million baht or 117.47 percent from last year. This was mainly due to the following.

- Net fees and service income amounted to 1,249 million baht, an increase of 165 million baht or 15.22 percent. This was mainly due to the increase in brokerage fees of Thanachart Securities which was in line with the SET's trading volume.
- Other operating income amounted to 9,068 million baht, an increase 5,408 million baht or 147.76 percent. This was mainly from the increase in gains on investments of 3,243 million baht. Most of which were from gain on selling of Ajinomoto's shares. Also, share of profit from investments accounted for under equity method increased by 1,787 million baht from recognizing share of profit from TMB Bank Public Company Limited.

Other Operating Expenses

Other Operating Expenses (Million Baht)

	2020	2019	Change	
			+/(-)	%
Employee's Expenses	1,887	1,895	(8)	(0.42)
Directors' Remuneration	83	70	13	18.57
Premises and Equipment Expenses	245	245	-	-
Taxes and Duties	21	35	(14)	(40.00)
Other Expenses	674	789	(115)	(14.58)
Total Other Operating Expenses	2,910	3,034	(124)	(4.09)

In 2020, other operating expenses of the Company and its subsidiaries amounted to 2,910 million baht, a decrease of 124 million baht or 4.09 percent from last year. This was due to the effective cost control amidst the economic slowdown.

Expected Credit Losses / Impairment Loss of Loans and Debt Securities

Expected Credit Losses / Impairment Loss of Loans and Debt Securities (Million Baht)

	2020	2019	Change	
			+/(-)	%
Investments in Debt Securities Measured at Fair Value				
through Other Comprehensive Income	279	-	279	100.00
Loans to Debtors and Accrued Interest	316	(316)	632	200.00
Total Expected Credit Losses / Impairment Loss of Loans and Debt Securities (Reversal)	595	(316)	911	288.29

In 2020, the Company and its subsidiaries had expected credit losses in the amount of 595 million baht, to accommodate the potential impact of the COVID-19 outbreak on overall asset quality.

Financial Position

Consolidated Statements of Financial Position (Million Baht)

	31 December 2020		31 December 2019		Change	
	Amount	%	Amount	%	+/(−)	%
Cash	2	0.00	3	0.00	(1)	(33.33)
Interbank and Money Market Items - net						
- Deposits at Financial Institutions	7,812	5.55	7,404	4.60	408	5.51
Financial Assets Measured at Fair Value through Profit or Loss	3,357	2.38	-	-	3,357	100.00
Investments - net	21,650	15.38	41,551	25.82	(19,901)	(47.90)
Investments in Associated Companies and Joint venture - net	48,007	34.11	45,421	28.22	2,586	5.69
Net Loans to Customers and Accrued Interest Receivables	50,251	35.70	53,159	33.03	(2,908)	(5.47)
Property Foreclosed - net	3,054	2.17	3,128	1.94	(74)	(2.37)
Land, Premises, Equipment and Right-of-use Assets - net	678	0.48	301	0.19	377	125.25
Assets Classified as Held for Sale	-	-	3,423	2.13	(3,423)	(100.00)
Other Assets	5,945	4.23	6,537	4.07	(592)	(9.06)
Total Assets	140,756	100.00	160,927	100.00	(20,171)	(12.53)
Interbank and Money Market Items						
- Borrowings from Financial Institutions	13,312	9.46	15,660	9.73	(2,348)	(14.99)
Debts Issued and Borrowings	33,887	24.07	44,780	27.83	(10,893)	(24.33)
Insurance Contracts Liabilities	12,231	8.69	13,096	8.14	(865)	(6.61)
Other Liabilities	8,557	6.08	13,332	8.28	(4,775)	(35.82)
Total Liabilities	67,987	48.30	86,868	53.98	(18,881)	(21.74)
Company's Shareholders' Equity	63,311	44.98	65,833	40.91	(2,522)	(3.83)
Non-controlling Interests	9,458	6.72	8,226	5.11	1,232	14.98
Total Shareholders' Equity	72,769	51.70	74,059	46.02	(1,290)	(1.74)
Total Liabilities and Shareholders' Equity	140,756	100.00	160,927	100.00	(20,171)	(12.53)
Book Value per Share (Baht)	60.38		57.46			

Assets

As of 31 December 2020, Thanachart Group's total assets amounted to 140,756 million baht, a decrease of 20,171 million baht or 12.53 percent from the end of 2019. Key factors are as follows:

- Net interbank and money market items – deposits at financial institutions amounted to 7,812 million baht, an increase of 408 million baht from the end of last year, due to the liquidity management.

- Financial assets measured at fair value through profit or loss amounted to 3,357 million baht.
- Net investment amounted to 21,650 million baht, a decrease of 19,901 million baht or 47.90 percent from the end of last year. This was mainly due to the decrease of bonds and private debt instruments.
- Net investment in associated companies amounted to 48,007 million baht, an increase of 2,586 million baht or 5.69 percent from the end of last year.
- Net loans to customers and accrued interest receivables amounted to 50,251 million baht, a decrease of 2,908 million baht or 5.47 percent from the end of last year. This was mainly due to the decrease in new lending of Ratchathani Leasing, which was a result of a slowdown in its lending in line with the economic slowdown by increasing caution on lending.

Liabilities

Total liabilities of Thanachart Group as of 31 December 2020 **were 67,987 million baht, a decrease of 18,881 million baht or 21.74 percent** from the end of 2019. The key items were as follows:

- Interbank and money market items – borrowings from financial institutions amounted to 13,312 million baht, a decrease of 2,348 million baht or 14.99 percent from the end of last year. This was mainly from liquidity management.
- Debt issued and borrowings amounted to 33,887 million baht, a decrease of 10,893 million baht or 24.33 percent from the end of last year. This was due to the maturity of debt securities.

Shareholders' Equity

Total shareholders' equity as of 31 December 2020 **was 72,769 million baht, a decrease of 1,290 million baht or 1.74 percent** from the end of 2019. The total shareholders' equity comprised of the following:

- Equity attributable to the owners of the Company was 63,311 million baht, a decrease of 2,522 million baht or 3.83 percent. This was mainly due to the share repurchased of 4,863 million baht and the dividend payments of 3,146 million baht while the operating net profit of the Company in 2020 was in the amount of 6,669 million baht.
- Equity attributable to non-controlling interest amounted to 9,458 million baht, an increase of 1,232 million baht or 14.98 percent. This was mainly due to the operating results of the subsidiaries.

Operating Results of Subsidiaries

Operating Results of Subsidiaries (Million Baht)

Subsidiaries	% Shareholding	Net Profit (Loss)	
		2020	2019
Ratchthani Leasing Public Company Limited (Consol.)	58.85%	1,860	1,964
Thanachart Insurance Public Company Limited	50.96%	745	1,449
Thanachart Securities Public Company Limited	50.96%	479	1,674
TS AMC Company Limited	99.99%	24	135
MAX AMC Company Limited	83.44%	7	224
NFS AMC Company Limited	100.00%	(25)	135
MBK Life Insurance Public Company Limited	51.00%	(383)	(231)

Ratchthani Leasing Public Company Limited

Thai economy in 2020 contacted severely amidst COVID-19 outbreak throughout the year. The company still conducts its business with prudence under the circumstances of the uncertainties that arose during 2020 and the risk of a new wave of outbreaks occurring at the end of the year.

As of 31 December 2020, Ratchathani Leasing Public Company Limited and its subsidiary had total assets of 48,518 million baht, a decrease of 2,363 million baht or 4.64 percent from the end of last year. **The company had hire purchase loans and financial leases in the amount of 46,748 million baht, a decrease of 2,961 million baht or 5.96 percent.** Hire purchase loans accounted for 96.35 percent of total assets. Total liabilities and shareholders' equity of the company amounted to 37,699 million baht and 10,819 million baht, respectively.

Net profit according to the consolidated financial statements for the year 2020 amounted to 1,860 million baht, a decrease of 104 million baht or 5.30 percent from last year. Total income was 4,263 million baht, an increase of 25 million baht or 0.59 percent, while the interest expenses were 1,063 million baht, an increase of 52 million baht or 5.14 percent from the acquisition of borrowings to support lending. Expected credit losses amounted to 338 million baht, an increase of 144 million baht or 74.23 percent. This was due to the fact that there was a reversal of general provision of 90 million baht in the previous year to be in line with the provisioning of Thai Financial Reporting Standard 9 - Financial Instruments (TFRS9) and additional provision was provided to support the risks that may arise from the new wave of outbreaks occurring at the end of the year.

Thanachart Insurance Public Company Limited

In 2020, Thanachart Insurance Public Company Limited had **total insurance premium of 8,682 million baht, an increase of 314 million baht or 3.75 percent** from the previous year. This was due to higher sales volumes through non-bank channels and external brokers. Out of total premium, auto insurance premium was in the amount of 7,419 million baht, an increase of 372 million baht or 5.27 percent from previous year.

For the operating result, **the company had a net profit for the year 2020 of 745 million baht, a decrease of 704 million baht or 48.59 percent** from the previous year. This was due to the fact that, in 2019, there was a net gain on disposal of investments of 566 million baht and there was an expected credit loss of 147 million baht in this year which

was the impact from the spread of COVID-19. The company had a profit from underwriting operations of 812 million baht, an increase of 37 million baht or 4.71 percent from the previous year.

Thanachart Securities Public Company Limited

Average daily trading volume of Thanachart Securities Public Company Limited for the year of 2020 was 3,567 million baht, a significant increase from the previous year of 2,664 million baht. Market share of securities trading was at 2.91 percent. The trading volume could be divided into 73.23 percent of retails, 25.59 percent of institutions, and 1.18 percent of foreign investors.

Net profit for the year 2020 amounted to 479 million baht, a decrease of 1,195 million baht or 71.39 percent from the previous year. Total income decreased 1,559 million baht or 50.68 percent, mainly due to the fact that in last year, there was a net gain on disposal of investments of 1,267 million baht as per Thanachart Group's business restructuring plan. Interest income on margin loans decreased in line with the volume of margin loans and lower interest rates. However, brokerage fees increased by 120 million baht or 12.20 percent in line with the trading volume of the stock market. Fees and service income increased by 115 million baht from the underwriting fees and portfolio advisory service fees. Total expenses decreased by 70 million baht or 7.07 percent from lower interest expenses, due to the fact that the company utilized the capital funding for business operation in 2020 from its capital increase of 1,500 million baht during the third quarter of 2019. Other operating expenses decreased by 27 million baht or 12.86 percent from its cost control measures.

As of 31 December 2020, the company maintained its liquidity ratio (Net Liquid Capital Rules: NCR) at 118.52 percent, higher than the minimum requirement regulated by the Securities and Exchange Commissions (SEC) of 7.00 percent of general indebtedness and securities pledged.

Disclaimer

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