

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended 31 December 2021
(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

Overall, the Thai economy in 2021 grew by 1.6 percent, compared with the prior year 2020 in which the economy suffered a sharp contraction of 6.2 percent as a result of the COVID-19 pandemic. Although there were multiple waves of COVID-19 in 2021, particularly the spread of the new variant Delta from the second quarter to the fourth quarter of the year, during which there were tens of thousands of daily coronavirus infections. As a result, the economic recovery was delayed. However, thanks to the relaxation of the containment measures to halt the spread of the virus and the state's spending stimulus measures, which were launched gradually in the last quarter of the year, the decline in the number of infections due to accelerated vaccinations, as well as the increase in exports in line with the demand recovery in the trading counterpart countries, the Thai economy expanded from the prior year. In view of the COVID-19 pandemic which had severe impacts on the country's economic system, the BOT together with financial institutions launched various appropriate measures to mitigate the adverse impacts from the COVID-19 pandemic on the general public and each business group. Meanwhile, the BOT's Monetary Policy Committee maintained the policy rate at 0.50 percent per annum throughout the year since the committee considered that the maintenance of the financial policy relaxation would help support the overall expansion of the economy.

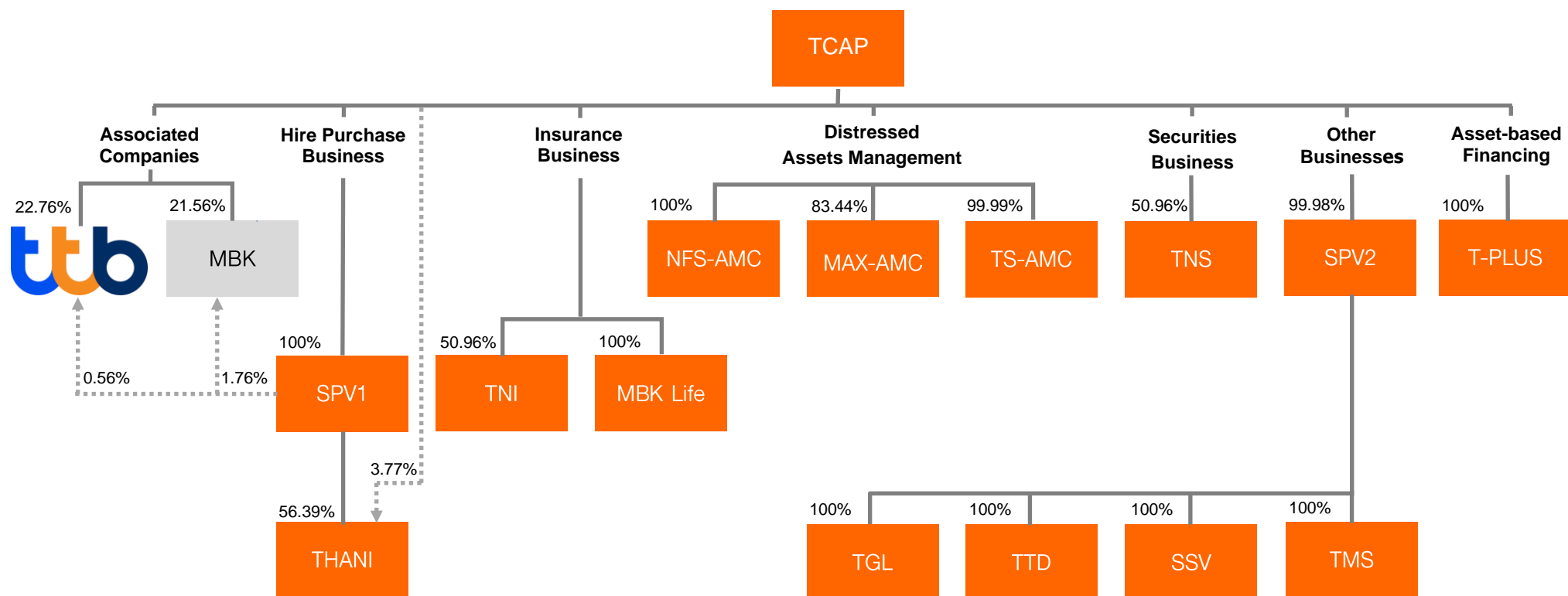
Total lending of Thai commercial banks in 2021 increased from the prior year, mainly due to the expansion of corporate loans and loans to small and medium-sized enterprises (SMEs). Meanwhile, household loans increased, mainly due to the increase in mortgage loans; however, hire purchase loans decreased. On the other hand, deposits increased in line with loan expansion. As regards NPLs, non-performing loans increased continuously in line with the economic slowdown.

The Thai economy in 2022 tends to recover and it is expected to grow by 3.5-4.5 percent, based on the forecast made by the Office of the National Economic and Social Development Council (NESDC). Key supporting factors include domestic demand recovery as well as tourism recovery as the COVID-19 situation improves. Other factors include expansion of exports and the government's investment.

Key Events in 2021

1. On 26 April 2021, the Company established Thanachart Plus Company Limited to offer asset-based financing services in which Thanachart Group has expertise. The purpose was to help generate future returns for the Company.
2. On 19 May 2021, the Company made the interim dividend payments to the Company's shareholders at the rate of 1.80 baht per share or 1,888 million baht in total. Later, on 28 September 2021, the Company made the interim dividend payments to the Company's shareholders at the rate of 1.20 baht per share or 1,258 million baht in total.
3. On 4 August 2021, the Company purchased MBK Life Assurance Public Company Limited ("MBK Life"), TM Broker Company Limited ("TM"), and MT Service 2016 Company Limited ("MTS") from MBK Public Company Limited ("MBK") in the total amount owned by MBK. As a result, the proportion of shares held by the Company in those 3 companies equals 100 percent.
4. During 2021, the Company and its subsidiary have been purchasing additional shares of Ratchthani Leasing Public Company Limited, resulting in the increase in total shareholding to 60.16 percent. Meanwhile, the Company and its subsidiary have been purchasing additional shares of TMBThanachart Bank Public Company Limited, resulting in the increase in total shareholding to 23.32 percent. In addition, a subsidiary company has purchased additional shares of MBK Public Company Limited, resulting in the increase in total shareholding of the Company and its subsidiary to 23.32 percent

Thanachart Group's Shareholding Structure As of 31 December 2021



Remark : TCAP = Thanachart Capital PCL., ttb = TMBThanachart Bank PCL., MBK = MBK PCL., SPV 1 = Thanachart Special Purpose Vehicle 1 Co., Ltd., THANI = Ratchthani Leasing PCL., TNI = Thanachart Insurance PCL., MBK Life = MBK Life Assurance PCL., NFS-AMC = NFS Asset Management Co., Ltd., MAX-AMC = MAX Asset management Co., Ltd., TS-AMC = TS Asset management Co., Ltd., TNS = Thanachart Securities PCL., SPV2 = Thanachart Special Purpose Vehicle 2 Co., Ltd., 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., T-PLUS = Thanachart Plus Co., Ltd.

Operating Results of the Year 2021

Performance Overview

In 2021, the Company and its subsidiaries' net profit according to the consolidated financial statements amounted to **6,722 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 1,709 million baht
- Thanachart Insurance Public Company Limited had a net profit of 768 million baht
- Thanachart Securities Public Company Limited had a net profit of 661 million baht
- Share of profit from investments accounted for under equity method – associated companies and joint venture was 1,986 million baht
- Asset Management Companies and other subsidiaries had net profits of 265 million baht

As a result, **net profit attributable to the Company in 2021 amounted to 5,287 million baht, a decrease of 1,382 million baht or 20.72 percent** from the previous year. This was mainly due to the fact that, in the first quarter of 2020, the Company recognized a gain on sale of its investment in Ajinomoto Company (Thailand) Limited ("AJT") which was a one-time special gain. Excluding such special gain, the Company's net profit increased by 1,608 million baht or 43.71 percent. The increase was from the growing performance of the Company and its important subsidiaries.

Earnings per share (EPS) of the Company in 2021 were 5.04 baht. ROAA and ROAE were at 4.73 and 8.31 percent, respectively.

Financial Highlights

Financial Highlights

Audited Financial Statements	For the year ended	
	31-Dec-21	31-Dec-20
Operating Performance (Million Baht)		
Interest Income	4,026	4,213
Interest Expenses	1,355	1,620
Net Interest Income	2,671	2,593
Non-interest Income	8,513	10,317
Net Operating Income ⁽¹⁾	11,184	12,910
Other Operating Expenses	3,143	2,899
Expected Credit Losses	483	606
Profit before Tax	7,558	9,405
Income Tax	836	1,557
Profit for the Year	6,722	7,848
Net Profit Attributable to the Company	5,287	6,669
Basic Earnings per Share (Baht)	5.04	6.26

	31-Dec-21	31-Dec-20
Financial Position (Million Baht)		
Net Loans to Customers and Accrued Interest Receivables	55,221	50,251
Investments in Associated Companies and Joint Venture	52,955	48,007
Total Assets	142,735	140,756
Debts Issued and Borrowings	34,308	33,887
Total Liabilities	68,594	67,987
Company's Shareholders' Equity	65,114	63,311
Non-controlling Interests	9,027	9,458
Total Shareholders' Equity	74,141	72,769

	31-Dec-21	31-Dec-20
Operating Performance Ratios (Percent)		
ROAA	4.73	5.24
ROAE ⁽²⁾	8.31	10.47
D/E Ratio (times)	0.93	0.93

(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)

	2021	2020	Change	
			+ / (-)	%
Interest Income	4,026	4,213	(187)	(4.44)
Interbank and Money Market Items – Deposits				
at Financial Institutions	81	150	(69)	(46.00)
Financial Assets Measured at Fair Value through Profit or Loss	27	83	(56)	(67.47)
Investments in Debt Securities Measured at Amortized Cost	1	2	(1)	(50.00)
Investments in Debt Securities Measured at Fair Value through Other Comprehensive Income	115	234	(119)	(50.85)
Loans to Customers	372	228	144	63.16
Hire Purchase and Financial Lease	3,430	3,516	(86)	(2.45)
Interest Expenses	1,355	1,620	(265)	(16.36)
Interbank and Money Market Items - Borrowings				
from Financial Institutions	255	216	39	18.06
Debts Issued and Borrowings	1,071	1,373	(302)	(22.00)
Borrowing Cost	16	19	(3)	(15.79)
Others	13	12	1	8.33
Net Interest Income	2,671	2,593	78	3.01

In 2021, the Company and its subsidiaries had 2,671 million baht in net interest income, an increase of 78 million baht or 3.01 percent from the previous year.

- Interest income was 4,026 million baht, a decrease of 187 million baht or 4.44 percent. This was mainly due to the decrease in interest income on deposits at financial institutions and interest income on investments in debt securities from the reduction of the rate of return which was in line with the market condition and the reduction of investment portfolio. Meanwhile, interest income on margin loans and asset-financing loans increased.
- Interest expenses were 1,355 million baht, a decrease of 265 million baht or 16.36 percent. This was a result of the proper cost of fund management to be in line with the declining market interest rate.

Non-interest Income

Non-interest Income (Million Baht)

	2021	2020	Change	
			+/(-)	%
Net Fees and Service Income	1,454	1,249	205	16.41
Gains (Losses) on Financial Instruments Measured at Fair Value through Profit or Loss	527	151	376	249.01
Gains (Losses) on Investments	(3)	3,757	(3,760)	(100.08)
Share of Profit from Investments Accounted for under Equity Method – Associated Companies and Joint Venture	1,986	2,154	(168)	(7.80)
Gains on Property Foreclosed and Other Assets	850	225	625	277.78
Net Insurance / Life Insurance Income	2,411	1,888	523	27.70
Dividend Income	145	308	(163)	(52.92)
Other Income	1,143	585	558	95.38
Total Operating Income	7,059	9,068	(2,009)	(22.15)
Total Non-interest Income	8,513	10,317	(1,804)	(17.49)

Non-interest income of the Company and its subsidiaries in 2021 amounted to 8,513 million baht, a decrease of 1,804 million baht or 17.49 percent from the previous year. This was mainly due to the following.

- Net fees and service income amounted to 1,454 million baht, an increase of 205 million baht or 16.41 percent. This was mainly due to the increase in brokerage fees from securities business which was in line with the SET's trading volume as well as the increase in fees received from unit trust trading and fees received from investment advisory (ZEAL).
- Other operating income amounted to 7,059 million baht, a decrease of 2,009 million baht or 22.15 percent. This was mainly due to the fact that in the first quarter of 2020, there was the gain on selling the investment in AJT. If such special gain was excluded, other operating income increased by 1,728 million baht or 32.41 percent. Gains on property foreclosed increased by 625 million baht, gains on debt repayment/assets transferred for debt repayment increased by 621 million baht, and net insurance/life insurance income increased by 523 million baht. However, share of profit from investments accounted for under equity method - associated companies and joint venture decreased by 168 million baht, due to the fact that associated companies were still directly and adversely impacted by the COVID-19 crisis.

Other Operating Expenses

Other Operating Expenses (Million Baht)

	2021	2020	Change	
			+/(-)	%
Personnel Expenses	2,052	1,887	165	8.74
Premises and Equipment Expenses	273	245	28	11.43
Taxes and Duties	40	21	19	90.48
Directors' Remuneration	87	83	4	4.82
Other Expenses	691	663	28	4.22
Total Other Operating Expenses	3,143	2,899	244	8.42

In 2021, other operating expenses of the Company and its subsidiaries amounted to 3,143 million baht, an increase of 244 million baht or 8.42 percent from the previous year. This was mainly due to incentive expenses paid to employees in line with the transaction volume.

Expected Credit Loss (Reversal)

Expected Credit Loss (Reversal) (Million Baht)

	2021	2020	Change	
			+/(-)	%
Interbank and Money Market Items	-	(1)	1	100.00
Investments in Debt Securities Measured at Amortized Cost	(30)	271	(301)	(111.07)
Loans to Customers and Accrued Interest Receivables	667	337	330	97.92
Other Assets	(154)	(1)	(153)	(15,300.00)
Expected Credit Loss	483	606	(123)	(20.30)

In 2021, the Company and its subsidiaries had expected credit loss in the amount of 483 million baht, a decrease of 123 million baht or 20.30 percent. This was mainly due to the reversal of provision on investments in debt securities while provision provided for debtors increased as the multiple waves of COVID-19 epidemic impacted the ability to repay of debtors.

Financial Position

Consolidated Statements of Financial Position (Million Baht)

	31 December 2021		31 December 2020		Change	
	Amount	%	Amount	%	+/(−)	%
Cash	4	0.00	2	0.00	2	100.00
Interbank and Money Market Items - net						
- Deposits at Financial Institutions	8,947	6.27	7,812	5.55	1,135	14.53
Financial Assets Measured at Fair Value through Profit or Loss	2,781	1.95	3,357	2.38	(576)	(17.16)
Investments - net	13,124	9.19	21,650	15.38	(8,526)	(39.38)
Investments in Associated Companies and Joint venture	52,955	37.10	48,007	34.11	4,948	10.31
Net Loans to Customers and Accrued Interest Receivables	55,221	38.69	50,251	35.70	4,970	9.89
Property Foreclosed - net	3,679	2.58	3,054	2.17	625	20.46
Land, Premises, Equipment and Right-of-use Assets - net	756	0.53	678	0.48	78	11.50
Other Assets	5,268	3.69	5,945	4.23	(677)	(11.39)
Total Assets	142,735	100.00	140,756	100.00	1,979	1.41
Interbank and Money Market Items						
- Borrowings from Financial Institutions	15,984	11.20	13,312	9.46	2,672	20.07
Debts Issued and Borrowings	34,308	24.04	33,887	24.07	421	1.24
Insurance Contracts Liabilities	11,414	8.00	12,231	8.69	(817)	(6.68)
Other Liabilities	6,888	4.82	8,557	6.08	(1,669)	(19.50)
Total Liabilities	68,594	48.06	67,987	48.30	607	0.89
Company's Shareholders' Equity	65,114	45.62	63,311	44.98	1,803	2.85
Non-controlling Interests	9,027	6.32	9,458	6.72	(431)	(4.56)
Total Shareholders' Equity	74,141	51.94	72,769	51.70	1,372	1.89
Total Liabilities and Shareholders' Equity	142,735	100.00	140,756	100.00	1,979	1.41
Book Value per Share (Baht)	62.10		60.38			

Assets

As of 31 December 2021, Thanachart Group's total assets amounted to 142,735 million baht, an increase of 1,979 million baht or 1.41 percent from the end of 2020. Key factors were as follows:

- Net interbank and money market items – deposits at financial institutions amounted to 8,947 million baht, an increase of 1,135 million baht or 14.53 percent. This was due to liquidity management.

- Net investments amounted to 13,124 million baht, a decrease of 8,526 million baht or 39.38 percent. This was mainly due to the maturity of government bonds.
- Investment in associated companies and joint venture amounted to 52,955 million baht, an increase of 4,948 million baht or 10.31 percent from the end of last year. This was mainly due to the additional investments in TTB and MBK.
- Net loans to customers and accrued interest receivables amounted to 55,221 million baht, an increase of 4,970 million baht or 9.89 percent. This was mainly due to the loan expansion of the subsidiaries including Ratchthani Leasing, Thanachart Plus, and Thanachart Securities.

Liabilities

Total liabilities of Thanachart Group as of 31 December 2021 **were 68,594 million baht, an increase of 607 million baht or 0.89 percent** from the end of 2020. Interbank and money market items - borrowings from financial Institutions and debts issued and borrowings totaled 50,292 million baht, an increase of 3,093 million baht or 6.55 percent from liquidity management.

Shareholders' Equity

Total shareholders' equity as of 31 December 2021 **was 74,141 million baht, an increase of 1,372 million baht or 1.89 percent** from the end of 2020. The total shareholders' equity comprised of the following:

- Equity attributable to the owners of the Company was 65,114 million baht, an increase of 1,803 million baht or 2.85 percent. This was mainly due to the operating net profit of the Company and its subsidiaries in 2021 in the amount of 5,287 million baht and the dividend payment of 3,146 million baht.
- Equity attributable to non-controlling interest amounted to 9,027 million baht, a decrease of 431 million baht or 4.56 percent. This was mainly from the change in shareholding proportion of 3 subsidiary companies to be held 100 percent by the Company

Operating Results of Subsidiaries

Operating Results of Subsidiaries (Million Baht)

Subsidiaries	% Shareholding	Net Profit (Loss)	
		2021	2020
Ratchthani Leasing Public Company Limited (Consol.)	60.16%	1,709	1,860
Thanachart Insurance Public Company Limited	50.96%	768	745
Thanachart Securities Public Company Limited	50.96%	661	479
TS AMC Company Limited	99.99%	43	24
MAX AMC Company Limited	83.44%	34	7
NFS AMC Company Limited	100.00%	88	(25)
MBK Life Assurance Public Company Limited	100.00%	111	(383)

Ratchthani Leasing Public Company Limited (Consolidated)

As of 31 December 2021, Ratchthani Leasing Public Company Limited and its subsidiary had total assets of 49,223 million baht, an increase of 705 million baht or 1.45 percent from the end of 2020. The company had **loans in the form of hire purchase and financial leases in the amount of 47,911 million baht, an increase of 1,163 million baht or 2.49 percent**. Hire purchase receivables represented 96.24 percent of total assets, which was mainly from truck hire purchase lending. Total liabilities amounted to 37,657 million baht while shareholders' equity was 11,566 million baht.

Net profit for the year 2021 amounted to 1,709 million baht, a decrease of 151 million baht or 8.12 percent from the previous year. Total income amounted to 4,226 million baht, decreased by 37 million baht or 0.87 percent. Interest expenses amounted to 913 million baht, decreased by 150 million baht or 14.11 percent as a result of acquiring lower cost of borrowing to support lending. Expected credit loss of the company amounted to 586 million baht, increased by 248 million baht or 73.37 percent, due to the severe impact of COVID-19 outbreak, affecting the government to use lockdown measure across the country again which impacted the economy from the disruption of economic activities.

Thanachart Insurance Public Company Limited

In 2021, Thanachart Insurance Public Company Limited had **total insurance premium of 8,334 million baht, a decrease of 348 million baht or 4.01 percent** from the previous year. The decrease was mainly due to the decrease in sales through the bank channels. Auto insurance premium amounted to 7,146 million baht, a decrease of 273 million baht or 3.69 percent from the previous year.

For operating results, **the net profit of the company in 2021 was 768 million baht, an increase of 23 million baht or 3.09 percent** from the previous year. This was mainly due to the increase in total income of 322 million baht which consisted of the increase in net earned reinsurance premium of 504 million baht as from the reversal of unearned premium reserve and the decreased reinsurance and the increase in gains on financial instrument of 31 million baht while investment income decreased by 115 million baht as interest income and dividend income declined. The total expenses by 294 million baht which consisted of the increase in net claims and loss adjustment expenses of 296 million baht; the increase in other underwriting expenses of 119 million baht; and the increase in operating expenses of 63 million baht while wages and commission decreased by 61 million baht. Expected credit loss decreased by 122 million baht due to the fact that the impairment allowance on debt instruments in the previous year was higher than that in this year.

Thanachart Securities Public Company Limited

Average daily securities trading volume of the Stock Exchange of Thailand in 2021 was 93,846 million baht, an increase of 36.79 percent from the previous year. The company's market share of securities trading was at 2.06 percent. The trading volume could be divided into 78.29 percent of retails, 20.76 percent of institutions, and 0.95 percent of foreign investors.

Net profit for the year ended 31 December 2021 amounted to 661 million baht, an increase of 182 million baht or 38.00 percent from the previous year. Total income was 1,904 million baht, an increase of 25.51 percent, divided into the increase in brokerage fees of 14.95 percent in line with the trading volume of the stock market and the company's trading volume during the year; fees and service income of 246 million baht, increased by 63 million baht or 34.43 percent, due to the increases in unit trust trading, investment advisory fees (ZEAL); and gains and returns on financial instruments of 169 million baht, increased by 27 million baht. Total expenses were 1,077 million baht, an increase of 17.07 percent, which was in line with higher revenues of the company.

As of 31 December 2021, the company maintained its liquidity ratio (Net Liquid Capital Rules: NCR) at 61.97 percent, higher than the minimum requirement by the Securities and Exchange Commissions (SEC) of 7.00 percent of general indebtedness and securities pledged.

Disclaimer

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