

Thanachart Capital Public Company Limited
Management Discussion and Analysis as of the end of the 1st quarter of 2006
(Financial Statement Unreviewed)

Economy and the Finance and Banking Sector Outlooks in the 1st quarter of 2006

The indicators of Thai economy in the 1st quarter of 2006 reflected the effect of the high level of the inflation rate and the instability of politics. These translated into the slowdown in the consumption and investment in private sector and the decrease in the Consumer Confidence Index and the Business Sentiment Index.

In term of international trade, due to the increase at the decreasing rate of import and the expansion of export, the trade deficit tended to be reduced.

The headline inflation rate in the 1st quarter of 2006 was 5.7%, lower than 6.0% in last quarter while the average core inflation was 2.6%, slightly higher than that of last quarter. Such rising could be attributed as the transferring of price from the rising oil prices and, then, higher manufacturing costs. Given the high level of the inflation rate, the Bank of Thailand had raised the R/P 14 rate by 0.5% and the rate was 4.50% per annum during the period. As a result, commercial banks had also raised their deposit rates as a strategy to maintain market share.

Major events in the 1st quarter of 2006

For the 1st quarter of 2006, there were considerable events affected to the performance of the Company and its subsidiaries as follows:

1. After the Ministry of Finance gave its approval to the business restructuring plan of Thanachart Group in line with the One Presence Policy on April 22, 2005, the Company had transferred its business to Thanachart Bank, a subsidiary, during the year 2005. In March 2006, the Company transferred to the Bank additional rights in performing lending agreements or loans agreements, excluded hire purchase receivable, welfare loans and consumer loans, at the amount of the principal and outstanding interest, totaling of Baht 889 million.
2. National Finance Public Company Limited has become a Financial Holding Company and returned its Finance Business License on March 31, 2006. In addition, the Company has changed its name to "Thanachart Capital Public Company Limited" on April 3, 2006 and also its securities name and symbol in trading system to "TCAP" on April 10, 2006.

3. Thanachart Bank, a subsidiary company, experienced a higher growth rate than expected of hire purchase business. It resulted the Bank to have a high level of expenses on provisioning of new hire purchase lending. The Bank, thus, recognized immediately 1% provisioning of a total new hire purchase loan as expense. Furthermore, taking into consideration the expense and income recognition in line with the applied accounting principles, the Bank recognized the commission fees and the expenses on hire purchase loans immediately on the date which the transaction was executed while the hire purchase loans were amortized loans. As a result, during the initial period, the realized gains of the Bank would be affected.
4. Thanachart Bank, a subsidiary company, opened 10 new branches in the 1st quarter of 2006. As a result, as of the end of the 1st quarter of 2006, Thanachart Bank had 76 branches (excluding the head office) in total. Of all branches, 44 are in Bangkok and its surroundings while the remaining 32 are in the regions. In addition, the Bank had 120 ATMs in total and opened 1 more exchange booth that was the 6th exchange booth.

The Company Overview

The net earnings of the Company and its subsidiaries for the 1st quarter of 2006 were Baht 748 million, representing an increase of 8.9% or Baht 61 million from the same quarter last year. The earning per share was Baht 0.56. The main contributing factor that generated significant growth in net profit was the 42.0% expansion of the Company's automobile hire purchase loans, which resulted in a 40.2% growth in hire purchase income. In addition, the net earnings of Thanachart Bank declined because the automobile hire purchase business just started operating at the Bank, which had to note the commission fees and the expenses on hire purchase loans immediately while the hire purchase loans were amortized loans, using the Sum-of-the-year-digits method. Moreover, Thanachart Bank had to provide more on provision to cover hire purchase loans that made Thanachart Bank, during the initial period, have a high level of operating expenses and a low level of recognized gains. Thanachart Insurance experienced high growth as insurance premium income increased year on year by 94.8%, however due to high levels of insurance reserves, the net income for Thanachart Insurance was slightly positive. As a result of the decrease in the amount of initial public offerings, caused Thanachart Securities' income to slightly increase compare with the same period last year.

The Group's consolidated financial statement as of the end of the 1st quarter of 2006 shows total assets of Baht 261,086 million, representing an increase of 14.5% or Baht 33,013 million from the end of last year. Most of this increase was a result of the outstanding hire purchase loans expansion, which increased by 11.4% or Baht 13,877 million, while the total net investment amount increased by 12.4%. The public deposits amounted to Baht 191,261 million, a 19.4% increase or Baht 31,124 million from the end of 2005.

As of the end of the 1st quarter of 2006, the non-performing loans (NPLs) of the Company and its subsidiaries amounted to Baht 9,757 million, representing a decrease of Baht 372 million or 3.7% from the end of last year. Thus, the percentage of Group's NPLs to total Group's lending decreased from 6.2% at the end of 2005 to 5.5% at the end of the 1st quarter of 2006.

The Company and its subsidiaries had the allowance for doubtful accounts amounting to Baht 7,012 million which divided into the specific reserve of Baht 5,064 million and the allowance for future risk of Baht 1,948 million.

As of the end of the 1st quarter of 2006, the BIS ratio of the Company was 15.0%, which was higher than the minimum of 8.0% requirement of the BOT.

Operating Results of the Company and its subsidiaries

Operating Results

Statements of Earnings of the Company and its subsidiaries

	(Unit: Baht million)		
	1 st quarter of 2006	1 st quarter of 2005	% Change
Interest and Dividend Income	3,406	2,366	44.0
Expenses on Borrowings	1,670	913	82.9
Net Interest and Dividend Income	1,736	1,453	19.5
Bad Debts and Doubtful Accounts	(49)	(184)	(73.4)
Loss on Debt Restructuring	(23)	(70)	(67.1)
Net Interest and Dividend Income after Bad Debts and Doubtful Accounts and Loss on Debt Restructuring	1,664	1,199	38.8
Non-Interest Income	2,112	1,167	81.0
Operating Expenses	2,618	1,551	68.8
Earnings before Income Tax and Minority Interest	1,158	815	42.1
Corporate Income Tax	(391)	(128)	205.5
Earnings before Minority Interest	767	687	11.6
Minority Interest in Net Earnings in Subsidiary Companies	(19)	-	100.0
Net Earnings for the Year	748	687	8.9

The operations of the Company and its subsidiaries resulted in net earnings as of the end of the 1st quarter of 2006 were Baht 748 million, representing an increase of 8.9% or Baht 61 million from last year. The increases were attributable to the following factors:

- **Interest and Dividend Income**

For the 1st quarter of 2006, the interest and dividend income of the Company and its subsidiaries amounted to Baht 3,406 million, representing an increase of 44.0% or Baht 1,040 million from the same quarter last year. The related three main factors were:

- The loans and deposits income of the Company and its subsidiaries for the 1st quarter of 2006 increased by 67.3% from Baht 523 million at the end of the 1st quarter last year to Baht 875 million, mostly from the increase of the interest income from securities purchased under resale agreements and the interest payment from customers.

- The automobile hire purchase income amounted to Baht 2,206 million, representing an increase of 40.2% or Baht 633 million from the 1st quarter last year. This was due to the Company's growth in the automobile hire purchase business for both new and used cars.

- As of the end of the 1st quarter of 2006, interest and dividend income from investment was Baht 325 million, representing an increase of 20.4% or Baht 55 million from the same quarter last year.

- **Expenses on Borrowings and Deposits**

The expenses on borrowings and deposits were Baht 1,670 million, an increase of 82.9% or Baht 757 million from Baht 913 million of the 1st quarter last year, due to the increase of total borrowings and deposits, and the rise on the interest rate. While the total borrowings and deposits of the Company and its subsidiaries as of the end of the 1st quarter of 2006 was Baht 223,717 million, increased by Baht 56,230 million from Baht 167,487 million of the 1st quarter last year, representing an increase of 33.6%.

- **Bad debts and doubtful accounts**

For the 1st quarter of 2006, the Company and its subsidiaries had the bad debts and doubtful accounts amounted to Baht 49 million, representing a decrease of 73.4% or Baht 135 million from the 1st quarter last year. This was due to debt restructuring and closures of some lending accounts of the company and its subsidiaries and the transfer of the automobile hire purchase business to Thanachart Bank.

- **Non-interest income**

For the 1st quarter of 2006, the non-interest income of the Company and its subsidiaries amounted to Baht 2,112 million, an increase of 81.0% or Baht 945 million from the same quarter last year. The most important determinants were:

- 1) Insurance premium / Life Insurance premium income was Baht 579 million, an increase of 130.7% or Baht 328 million.
- 2) Gains on property foreclosed amounted to Baht 323 million, an increase of 1,304.3% or Baht 300 million.
- 3) Brokerage fee was Baht 205 million, an increase of 34.9% or Baht 53 million.
- 4) Gains on investment amounted to Baht 171 million, an increase of 29.5% or Baht 39 million
- 5) Discounted income on insurance premium amounted to Baht 170 million, an increase of 47.8% or Baht 55 million.
- 6) Fees and charges amounted to Baht 106 million, an increased of 51.4% or Baht 36 million.

- **Operating Expenses**

For the 1st quarter of 2006, the operating expenses of the Company and its subsidiaries amounted to Baht 2,618 million, representing an increase of 68.8% or Baht 1,067 million from the 1st quarter last year. Premises and equipment expenses and personnel expenses increased by 44.2% and 28.6%, respectively. This was the result of the expansion of banking branches of Thanachart Bank. As of the end of the 1st quarter of 2006, Thanachart Bank had 76 branches, compare with only 17 branches at the end of the 1st quarter last year. In addition, as of the end of the 1st quarter of 2006, the Company and its subsidiaries had 5,848 staff members, representing an increase of 35.6% or 1,536 staff members from 4,312 staff members as of the end of the 1st quarter last year. This was due to the expansion of the Company and its subsidiaries for supporting the future business growth. While commission charged on hire purchase and other operating expenses for hire purchase increased by 94.2%, as a result of the immense growth of the Company's hire purchase portfolio as previously explained. Insurance / Life Insurance expenses increased by 161.2% or Baht 316 million from the same quarter last year.

Financial Status

Total Assets

(Unit: Baht million)

	Changes from 2005			
	Mar 31, 06	Dec 31, 05	Increase(Decrease)	% Change
Securities Purchased under Resale Agreements	34,500	19,700	14,800	75.1%
Investments-net	37,332	33,203	4,129	12.4%
Loans	176,781	162,941	13,840	8.5%
Total Earnings Assets	248,613	215,844	32,769	15.2%
Other Assets	12,473	12,229	244	2.0%
Total Assets	261,086	228,073	33,013	14.5%

● Assets

The Group's assets grew from Baht 228,073 million at the end of 2005 to Baht 261,086 million at the end of the 1st quarter of 2006, representing an increase of 14.5%. The majority of this increase was a result of the combination of loans and accrued interest receivable which amounted to Baht 169,498 million or accounted for 64.9% of the total assets, while the net investment accounted for Baht 37,332 million or 14.3% of all assets, with details as follows:

□ As of the end of the 1st quarter of 2006, the total outstanding hire purchase loans were Baht 135,128 million, accounting for 76.5% of all total loans, representing an increase of 42.0% from Baht 95,172 million from the same quarter last year. The total outstanding hire purchase loans at the end of the 1st quarter of 2006 were Baht 25,299 million compared to Baht 14,704 million from the 1st quarter last year, representing an increase of 72.1%. The total contracts of hire purchase as of the end of the 1st quarter of 2006 amounted to 472,617 units, an increase of 46,552 units from the end of 2005 or 147,627 units from the 1st quarter of 2005, which resulted in a considerable increase in hire purchase income of the 1st quarter of 2006.

□ Securities purchased under resale agreements amounted to Baht 34,500 million, representing an increase of 75.1% or Baht 14,800 million from the end of 2005. Taking into consideration the expansion of hire purchase loans and the increase in the interest rates, the Company needed to set a high level of the excess liquidity.

□ The net investment as of the end of the 1st quarter of 2006 was Baht 37,332 million, representing a decrease of 12.4% or Baht 4,129 million from the end of year 2005. This was due to an increase of 26.6% in debt securities investment to Baht 28,975 million from Baht 22,883 million as of the end of year 2005. The details of investments were as follows:

(Unit: Baht million)

	Mar 31, 06	%	Dec 31, 05	%
1) Debt* (Bonds and Debentures)	28,975	77.6%	22,883	68.9%
2) Equity	6,765	18.1%	8,551	25.8%
3) Investment in Receivables Purchased	1,592	4.3%	1,769	5.3%
Total Investment	33,203	100.0%	33,203	100.0%
Note:* Debt on March 31, 2006 composes of Treasury Bill and BOT Bonds 31.2%, Government Bonds (less than 5 years) 26.4%, Government Bonds (over 5 years) 33.6% and Debentures 8.8% of total investment in debt securities.				

□ Property foreclosed as of the end of the 1st quarter of 2006 was valued at Baht 8,015 million, a decrease of Baht 130 million from the end of year 2005. This was due to debt restructuring and acquiring from the auction. For the end of the 1st quarter of 2006, the Company and its subsidiaries registered gains of Baht 323 million on property foreclosed and appropriated a reserve of Baht 810 million, an increase of Baht 85 million from the end of 2005, for covering the related risks.

● Liabilities and shareholders' equity

(Unit: Baht million)

	Changes from 2005			
	Mar 31, 06	Dec 31, 05	Increase(Decrease)	% Change
From Public	191,261	160,137	31,124	19.4%
From Financial Institutions	24,909	24,978	(69)	(0.3)%
From Foreign Countries	25	-	25	100.0%
From Debentures	7,522	7,522	-	-
Total Borrowings and Deposits	223,717	192,637	31,080	16.1%
Other Liabilities	13,182	12,050	1,132	9.4%
Total Liabilities	236,899	204,687	32,212	15.7%
Total Shareholders' Equity	24,187	23,386	801	3.4%
Total Liabilities and Shareholders' Equity	261,086	228,073	33,013	14.5%

Borrowings and public deposits serve as major sources of funds of the Company and its subsidiaries, which are considered normal in the financial sector. The funds have grown consistently each year. As of the end of the 1st quarter of 2006, the borrowings and public deposits of the Company and its subsidiaries which are the major sources of funds to support the substantial growth of the hire purchase loans amounted to Baht 223,717 million, representing a 16.1% increase from the end of year 2005.

As of the end of the 1st quarter of 2006, the Company and its subsidiaries had shareholders' equity of Baht 24,187 million, a 3.4% increase from Baht 23,386 million at the end of year 2005. This increase was a result of the performance of the Company and its subsidiaries. The BIS ratio of the Company as of the end of the 1st quarter of 2006 was 15.0%, which was higher than the minimum of 8.0% requirement of the BOT.

Quality of Assets

The loans, receivables and accrued interest receivables of the Company and its subsidiaries increased by 8.4% from Baht 162,961 million at the end of year 2005 to Baht 176,649 million at the end of the 1st quarter of 2006.

- The total outstanding loans, receivables and accrued interest receivables

Breakdowns by type of business were as follows:

(Unit: Baht million)

	Mar 31, 06	%	Dec 31, 05	%
1) Manufacturing & Commerce	7,292	4.1%	7,082	4.4%
2) Real Estate & Construction	4,989	2.8%	5,113	3.1%
3) Public Utilities & Services	9,487	5.4%	10,281	6.3%
4) Retail				
4.1 Hire Purchase	135,128	76.5%	121,251	74.4%
4.2 Housing loans	10,857	6.2%	11,120	6.8%
5) Others	9,398	5.3%	8,616	5.3%
<u>Less</u> Inter-company profits from loans receivables transferred	(502)	(0.3)%	(502)	(0.3)%
Total	176,649	100.0%	162,961	100.0%

- Non-performing Loans (NPLs)

As of the end of the 1st quarter of 2006, the NPLs of the Company and its subsidiaries amounted to Baht 9,757 million, which accounted for 5.5% of all total loans and receivables.

Breakdowns of the Group's NPLs by type of loans were as follows:

(Unit: Baht million)

	Mar 31, 06	% Group loan	Dec 31, 05	% Group loan
Hire Purchase	1,581	0.9%	1,425	0.9%
Others *	8,176	4.6%	8,704	5.3%
Total	9,757	5.5%	10,129	6.2%

Note: * the major portion of these NPLs belongs to the AMC.

Breakdowns of the Group's NPLs by company were as follows:

(Unit: Baht million)

	Mar 31, 06	% Group loan	Dec 31, 05	% Group loan
National Finance Plc.	1,542	0.8%	1,498	0.9%
Thanachart Bank Plc.	3,150	1.8%	3,582	2.2%
Thanachart Securities Plc.	308	0.2%	319	0.2%
NFS-AMC	4,109	2.3%	4,244	2.6%
MAX-AMC	535	0.3%	398	0.2%
Others	113	0.1%	88	0.1%
Total	9,757	5.5%	10,129	6.2%

Allowance for Doubtful Accounts

As of the end of the 1st quarter of 2006, the Company's total allowance for doubtful accounts amounted to Baht 3,050 million, which was the specific reserve of Baht 1,738 million, and higher than the BOT requirement of Baht 1,312 million. It is the Company's conservative policy to build up the level of reserves to protect against all types of risk in order to prevent a serious impact on the operating results. This will, in turn, lead to stability in the Company's long-term performance.

The Company's loans, receivables and accrued interest receivables as of March 31, 2006 were as follows:

(Unit: Baht million)

	Outstanding		Total Company's Reserve		
	Amount	Percent	Required by BOT	Addition	Total
Normal	63,699	86.9%	624	1,246	1,870
Special Mention	8,055	11.0%	161	-	161
Substandard	461	0.6%	89	-	89
Doubtful	374	0.5%	174	-	174
Doubtful of Loss	707	1.0%	690	-	690
Total Outstanding	73,296	100.0%			
Total Specific Reserve			1,738	1,246	2,984
General Reserve			-	66	66
Total Company's Reserve			1,738	1,312	3,050

Note: The Company's outstanding balances and receivables of the normal loans and special mention loans did not include accrued interest receivables

The consolidated allowance for doubtful accounts of the Company and its subsidiaries as of the end of the 1st quarter of 2006 amounted to Baht 7,012 million, an increase of Baht 55 million or 0.8% from the end of year 2005. They consisted of a specific reserve of Baht 5,064 million and a reserve of Baht 1,948 million for future potential risks.

The following table shows a breakdown of the Group's allowance for doubtful accounts by type of loans

	(Unit: Baht million)			
	Mar 31, 06	% : NPL	Dec 31, 05	% : NPL
Hire Purchase	2,400	151.8%	2,150	150.9%
Others	2,664	32.6%	2,671	30.7%
Reserve for Potential Risks in the Future	1,948	-	2,136	-
Total	7,012	71.9%	6,957	68.7%

The total allowance of the doubtful accounts of the Groups was Baht 7,012 million, or 71.9% of the Group's NPLs. It can be broken down by company as follows:

	(Unit: Baht million)			
	Mar 31, 06	% : NPL	Dec 31, 05	% : NPL
National Finance Plc.	3,050	197.8%	3,245	216.6%
Thanachart Bank Plc.	1,829	58.1%	1,591	44.4%
Thanachart Securities Plc.	308	100.0%	320	100.3%
NFS-AMC	1,538	37.4%	1,533	36.1%
MAX-AMC	182	34.0%	184	46.2%
Others	105	92.9%	84	95.5%
Total	7,012	71.9%	6,957	68.7%

The allowance of doubtful debts for Thanachart Bank Plc. amounted to 1,829 million with its specific reserve amounting to Baht 1,706 million and its general reserve amounting to Baht 123 million.

Operating Results of the Subsidiary Companies

(Unit: Baht million)

	% of direct holding	1 st quarter of 2006	1 st quarter of 2005
Thanachart Bank Plc.	99.4%	50.4	157.8
Thanachart Securities Plc.	100.0%	22.9	21.2
Thanachart Fund Management	75.0%	15.3	0.8
Thanachart Insurance	70.0%	(32.7)	0.7
Thanachart Life Assurance	100.0%	31.6	(0.7)
NFS-AMC	100.0%	388.4	14.7
MAX-AMC	58.5%	60.1	(0.5)

Risk Management

The Company's risk policy and guidelines were approved by the Board of Directors. The Company has established a department responsible for regularly controlling and monitoring the implementation of the risk policy and guidelines. Having appropriate monitoring tools, the Company conducts analyses of risks in different areas including, among others, credit risk, market risk, interest rate risk, and operation risk, for the purpose of measuring the risks. Risk limits and warning signals have also been established in order to prevent the staff concerned from exceeding the established risk limits. The Executive Board and the Board of Directors will monitor the performance of the implementation of the risk management policy monthly.

For the 1st quarter of 2006, the automobile hire purchase business considerably expanded while excess liquidity decreased. However, liquidity risk at the end of this period was still at the satisfactory level because the Company had long-term source of funds. Moreover, the rising trend of interest rates will create interest rate volatility in the money market. Thus it will create higher risk in bond and debenture investments. The Company, therefore, decided to adjust its investment portfolios to be in line with the rising trend of the interest rate.

Although each type of risk will be increased as a result of the rapid growth of the Company's business, the overall risk of the Company will remain under the risk limit. Taking into account the risk measures mentioned above, the Company's shareholders' equity is still adequate to accommodate the established future plan of expansion.