

## Thanachart Capital Public Company Limited

### Management Discussion and Analysis (Reviewed Financial Statements)

#### Key Events

1. On 15 January 2010, Thanachart Capital's Board of Directors Meeting no. 1/2010 had a resolution to issue and offer the Company's debentures in the amount of THB3,000 million at face value of THB1,000 each. The interest rate was fixed at 3.35% per annum with 3 years tenure. The issue date was on 22 January 2010, and they will be matured in 2013.
2. On 11 March 2010, the Company's Board of Directors Meeting no. 4/2010 had a resolution to propose to the Company's Annual General Meeting of Shareholders of 2010 on 7 April 2010 the approval for Thanachart Bank, a subsidiary company, to buy common shares of Siam City Bank from the Financial Institutions Development Fund. The approval was also made for tender offers all common shares of Siam City Bank and Ratchthani Leasing from every shareholder as well as the transfer all business of Siam City Bank to Thanachart Bank. In this regard, Thanachart Bank has to do the tender offer for delisting Siam City Bank from the listed company on the Stock Exchange of Thailand after the shareholders of Siam City Bank approve to delist from the Stock Exchange of Thailand.

On 7 April 2010, the Company's Annual General Shareholders Meeting adopted a resolution to approve such matter and allowed the Bank to process under the proposed plan. Moreover, Thanachart Bank has completed the purchase of 47.58% of total Siam City Bank shares held by the Financial Institutions Development Fund under the Share Purchase Agreement on 9 April 2010.

3. On 7 April 2010, the Annual General Shareholders Meeting for the year 2010 had a resolution to approve the dividend payment to the holders of both ordinary and preferred shares at the rate of THB0.60 per share or THB 767 million in total for the operating results of the second half of the year 2009 from 1 July 2009 to 31 December 2009. Taking into account this round of the dividend payment and the interim dividend payment worth THB0.35 or THB447 million in total which was made for the operating results of the first half of the year 2009, the total dividend payment for the full year operating results amounted to THB0.95 or THB1,214 million in total. The Company prepared a list of shareholders eligible for the dividend payment on 21 April 2010 and gathered their names in pursuance to Section 225 of the Securities and Exchange Act B.E. 2535 (Additional Amendment to the Act B.E. 2551), by closing the register book for suspension of the share transfer on 22 April 2010, with the dividend payment to be made on 6 May 2010.

## Operating results for the first quarter of 2010

### Performance Overview of Thanachart Capital Public Company Limited and its Subsidiaries

Being a conglomerate which offers full financial services, synergy among the group, and having a suitable strategic direction resulted in an outstanding 1Q10 performance as shown below:

- 1Q10 net profit from normal operation amounted to THB1,343 million, **an increase** from the same quarter last year of THB1,055 million or 366.3%.
- If including the extra gain from selling TBANK to Scotiabank amounting to THB1,902 million (net income tax) in the 1<sup>st</sup> quarter last year, net profit in this quarter **decreased** by THB847 million.
- A significant growth and a continuous improvement of Thanachart Group resulted in better performance of all businesses under the Group especially Banking business which was able to build up its net profit to efficiently drive the Group's business operation.
- Interest spread was 3.6%, **increased** from 3.1% and was higher than expected.
- Bad debt and doubtful accounts expenses significantly **decreased** by THB1,018 million from the same period last year.
- Cost to income ratio after net insurance/life insurance expenses (excluding the one-off gain from the sale of Thanchart Bank shares to Scotiabank) was 46.1%, **decreased** from 56.4%.
- Return on Average Assets (ROAA) and Return on Average Equity (ROAE) were 1.2% and 15.7% respectively.

### Operating Results

Unit: THB MN

Income Statements	1Q10	1Q09	Change	
			Amount	%
Interest and Dividend Income	5,711	5,531	180	3.3
Interest Expenses	1,567	2,275	(708)	(31.1)
Net Interest and Dividend Income	4,144	3,256	888	27.3
Non-Interest Income	4,331	6,218	(1,887)	(30.3)
<b>Total Income</b>	<b>8,475</b>	<b>9,474</b>	<b>(999)</b>	<b>(10.5)</b>
Operating Expenses	5,025	4,611	414	9.0
Bad Debts and Doubtful Accounts	239	1,257	(1,018)	(81.0)
Loss on Debt Restructuring	36	1	35	3,500.0
Corporate Income Tax	942	1,203	(261)	(21.7)
Minority Interest	890	212	678	319.8
<b>Net Profit</b>	<b>1,343</b>	<b>2,190</b>	<b>(847)</b>	<b>(38.7)</b>

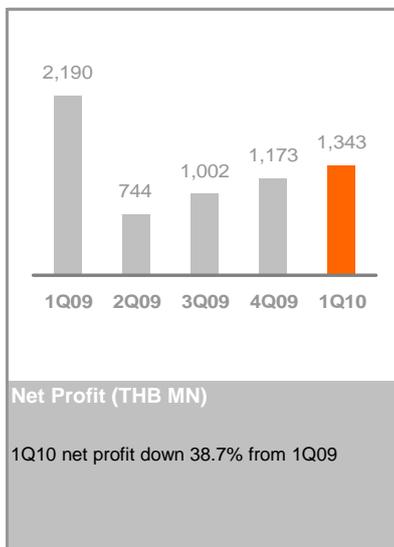
Net profit of the Company and its subsidiaries in the 1<sup>st</sup> quarter 2010 amounted to THB1,343 million. According to the normal operation (excluding the one-off gain from selling ordinary shares of

Thanachart Bank to Scotiabank amounted to THB1,902 million net income tax), net profit of the Company and its subsidiaries increased from THB288 million over the 1<sup>st</sup> quarter last year, representing an increase of THB1,055 million or 366.3%.

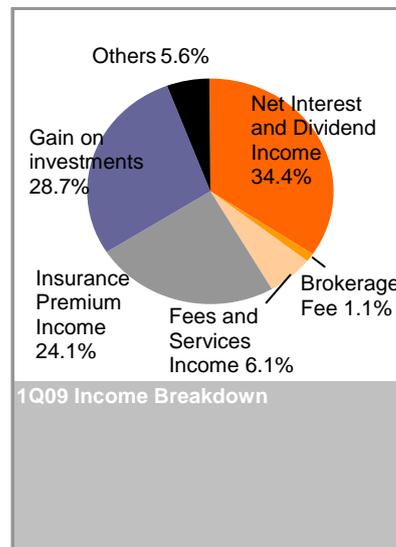
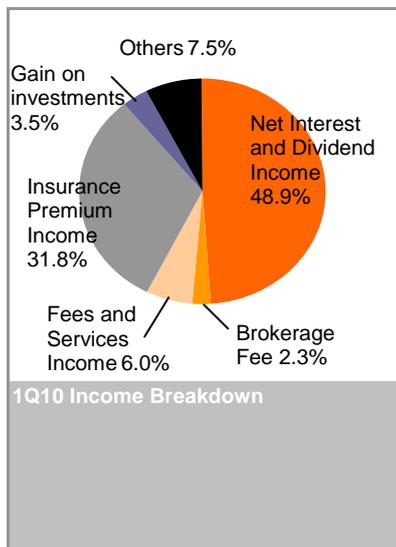
However, net profit of the Company and its subsidiaries including the extra gain decreased from THB2,190 million, a decrease of THB847 million or 38.7%.

The increase in normal operation net profit was due to the significant development of Thanachart Bank and its subsidiaries' businesses which consisted of securities business, fund management business, and life and non-life insurance businesses. Net profit of Thanachart Bank and its subsidiaries increased to THB1,775 million from THB389 million, an increase of 356.3%. The key factors that drove the Company and its subsidiaries' net profit were the increase in the interest spread from 3.1% in the first quarter last year to 3.6% in the first quarter of this year; accompanied by the decrease of the bad debts and doubtful accounts of THB1,018 million from the same period last year. As a result, cost to income ratio net insurance/life insurance expenses decreased from 56.4% over the same period last year to 46.1% in the first quarter this year.

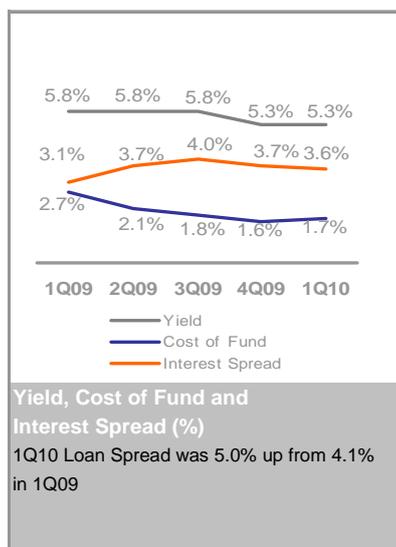
Basic earning per share for the first quarter 2010 was THB1.05 compared to THB1.70 during the same period last year. ROAE of the first quarter 2010 was 15.7% while the ROAA was 1.2%.



### Income Breakdown



## Net Interest and Dividend Income



In the first quarter 2010, net interest and dividend income amounted to THB4,144 million, an increase of THB888 million or 27.3% compared to the first quarter of 2009. Interest and dividend income was THB5,711 million, an increase of THB180 million or 3.3% while interest expenses were THB1,567 million, decreased by THB708 million or 31.1%, resulting in an increase in the interest spread from 3.1% of the same quarter last year to 3.6% in this quarter.

## Non-interest Income

Unit: THB MN

Non-Interest Income	1Q10	1Q09	Change	
			Amount	%
Brokerage Fee	195	110	85	77.3
Gain on Investment	295	2,718	(2,423)	(89.1)
Share of Income from Investments in				
Associated Company	56	80	(24)	(30.0)
Fees and Services Income	505	580	(75)	(12.9)
Gain on Exchange and Financial Derivatives	37	47	(10)	(21.3)
Gain on Property Foreclosed	224	171	53	31.0
Gain on Debt Settlements	49	15	34	226.7
Insurance/Life Insurance Premium Income	2,696	2,281	415	18.2
Other Income	274	216	58	26.9
<b>Total</b>	<b>4,331</b>	<b>6,218</b>	<b>(1,887)</b>	<b>(30.3)</b>

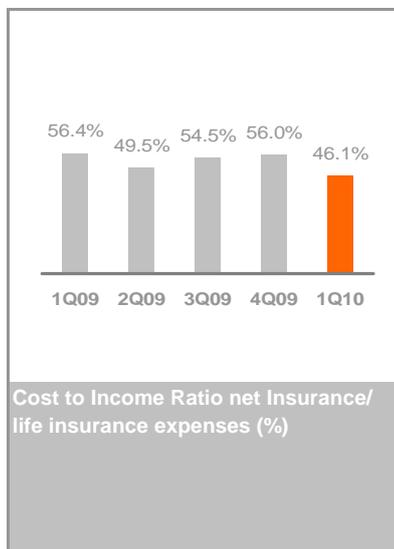
In the first quarter 2010, Thanachart Group's non-interest income amounted to THB4,331 million, a decrease of THB1,887 million or 30.3% from the same period last year, due to the one-off gain from the sale of Thanachart Bank's common shares to Scotiabank in the amount of THB2,805 million. If

excluding such extra gain, the non-interest income increased by THB918 million or 26.9% compared to the same period last year.

## Operating Expenses

Unit: THB MN

Operating Expenses	1Q10	1Q09	Change	
			Amount	%
Personnel Expenses	1,185	1,043	142	13.6
Premises and Equipment Expenses	450	416	34	8.2
Taxes and Duties	52	63	(11)	(17.5)
Fees and Services Expenses	191	60	131	218.3
Directors' Remuneration	7	5	2	40.0
Fund contributed to Deposit Protection Agency	270	254	16	6.3
Insurance/Life Insurance Expenses	2,074	1,950	124	6.4
Other Expenses	796	820	(24)	(2.9)
<b>Total</b>	<b>5,025</b>	<b>4,611</b>	<b>414</b>	<b>9.0</b>



In the first quarter 2010, the Company and its subsidiaries' operating expenses were THB5,025 million, an increase of THB414 million or 9.0% from the same period last year. This was mainly due to life and non-life insurance underwriting expenses which increased by 6.4%. Personnel expenses, premises, and equipment expenses increased by 13.6% and 8.2% respectively. This was mainly due to the bank's branch network expansion as well as the investment in the Information and Technology systems for building up the efficiency in business expansion and management. However, the company and its subsidiaries were able to efficiently control operating expenses.

Although the business continued to grow consistently, the cost to income ratio net insurance/life insurance expenses (excluding the one-off gain from the sale of Thanachart Bank's common shares to Scotiabank) decreased from 56.4% in the first quarter last year to 46.1% in this quarter.

## Bad Debts and Doubtful Accounts

In the first quarter 2010, the improvement in working process enhanced efficiency in debt collection and management resulted in the decrease of the bad debt and doubtful accounts expenses in this quarter in the amount THB1,018 million or 81.0% from the same period last year.

## Financial Position

Unit: THB MN

Consolidated Balance Sheets	31 March 2010		31 December 2009		Change (%)
	Amount	%	Amount	%	
Interbank and Money Market Item-net	31,625	7.1	64,867	14.1	(51.2)
Investment-net	101,993	23.0	97,113	21.1	5.0
Loans and Accrued Interest Receivables	297,264	66.9	289,423	62.9	2.7
Allowance for Doubtful Accounts and Revaluation allowance for Debt Restructuring	(10,704)	(2.4)	(10,534)	(2.3)	1.6
Other Assets	23,825	5.4	19,096	4.2	24.8
<b>Total Assets</b>	<b>444,003</b>	<b>100.0</b>	<b>459,965</b>	<b>100.0</b>	<b>(3.5)</b>
Deposits and Short Term Borrowings	310,217	69.9	340,799	74.1	(9.0)
Interbank and Money Market Item	27,236	6.1	20,939	4.5	30.1
Long term Borrowings	25,453	5.7	22,377	4.9	13.7
Other Liabilities	31,082	7.0	28,443	6.2	9.3
<b>Total Liabilities</b>	<b>393,988</b>	<b>88.7</b>	<b>412,558</b>	<b>89.7</b>	<b>(4.5)</b>
Company's Shareholders' Equity	35,023	7.9	33,323	7.2	5.1
Minority Interest	14,992	3.4	14,084	3.1	6.4
<b>Total Shareholders' Equity</b>	<b>50,015</b>	<b>11.3</b>	<b>47,407</b>	<b>10.3</b>	<b>5.5</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>444,003</b>	<b>100.0</b>	<b>459,965</b>	<b>100.0</b>	<b>(3.5)</b>

### Assets

At the end of the first quarter 2010, the Company and its subsidiaries' total assets amounted to THB444,003 million, a decrease of THB15,962 million or 3.5% from the end of 2009. The key contributing factors were:

- Net Interbank and money market items amounted to THB31,625 million, a decrease of THB33,242 million or 51.2% from the end of last year.
- Loans amounted to THB296,945 million, an increase of THB7,833 million or 2.7% from the end of last year, which mainly due to the increase in hire purchase loans.
- Net investments amounted to THB101,993 million, an increase of THB4,880 million or 5.0% from the end of last year.

### Liabilities

Total liabilities of the Company and its subsidiaries as of 31 March 2010 amounted to THB393,988 million, a decrease of THB18,570 million or 4.5% from the end of 2009, mainly due to the followings:

- Deposits and short-term borrowings were THB310,217 million, a decrease of THB30,582 million or 9.0% from THB340,799 million at year-end 2009.
- Net Interbank and money market items amounted to THB27,236 million, an increase of THB6,297 million or 30.1% from the end of last year.
- Long-term borrowings were THB25,453 million, an increase of THB3,076 million or 13.7% from the year-end 2009. This was due to the Company's issuance of unsubordinated unsecured debentures in the first quarter 2010 in the amount of THB3,000 million which would be due in the year 2013.

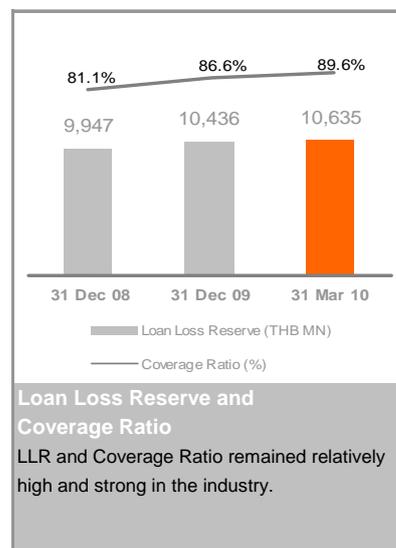
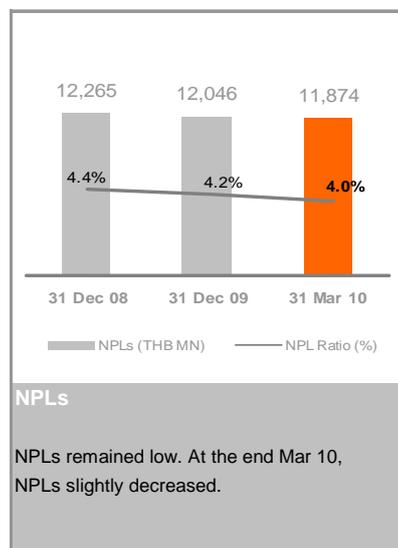
### Shareholders' Equity

Total shareholders' equity amounted to THB50,015 million, an increase of THB2,608 million or 5.5% from the year-end 2009, which was mainly due to the net profit from the performance of the Company and its subsidiaries as well as the increase in the equity attributable to minority shareholders.

### Non-performing Loans (NPLs)

In the first quarter 2010, NPLs amounted to THB11,874 million, with NPL ratio at 4.0%, a decrease from 4.2% at year-end 2009. NPL-net was THB2,918 million with NPL-net to total loans ratio ending at 1.0%.

Provisions for bad debt and doubtful accounts amounted to THB10,635 million, an increase of THB199 million or 1.9% from the end of last year. Coverage ratio (loan loss reserve to NPLs) accounted for 89.6%.

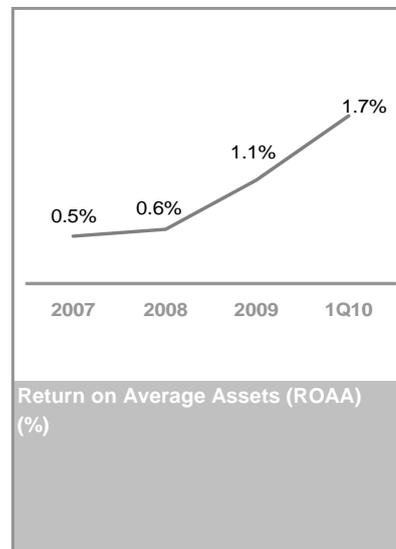
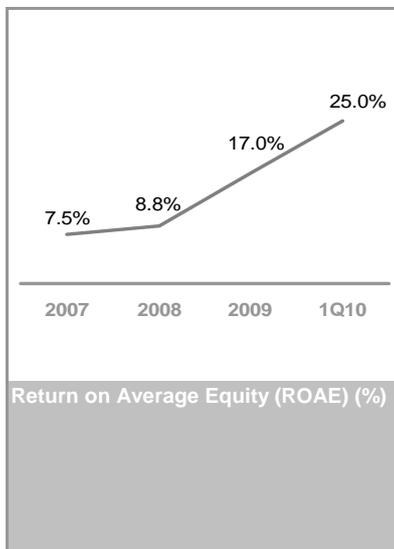
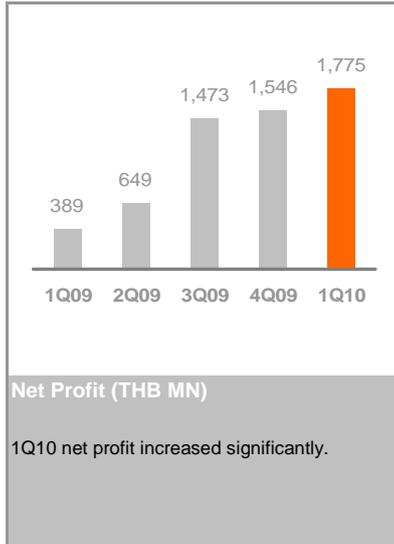


## Operating Results of Subsidiary Companies

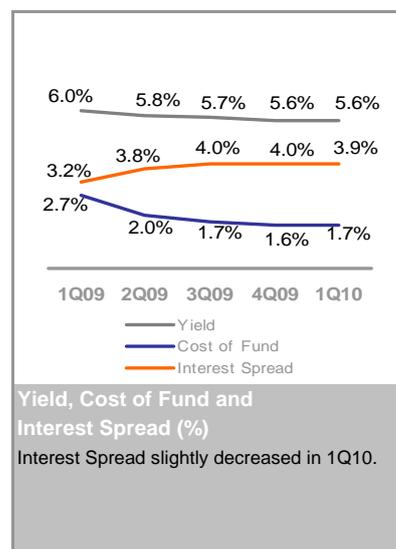
Unit: THB MN

Subsidiaries	% of direct and indirect holding	Net profit (loss)	
		1Q10	1Q09
<b>Thanachart Bank Plc.</b>			
<b>Consolidated Financial Statements</b>		1,775	389
<b>Separate Financial Statements</b>	50.9%	1,397	339
<b>Thanachart Securities Plc.</b>	50.9%	44	(31)
<b>Thanachart Fund Management</b>	38.2%	33	22
<b>Thanachart Insurance</b>	50.9%	77	(16)
<b>Thanachart Life Assurance</b>	50.9%	137	68
<b>NFS-AMC</b>	100.0%	158	2
<b>MAX-AMC</b>	83.4%	50	40

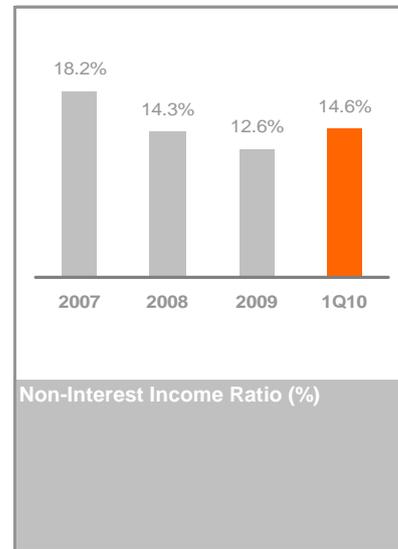
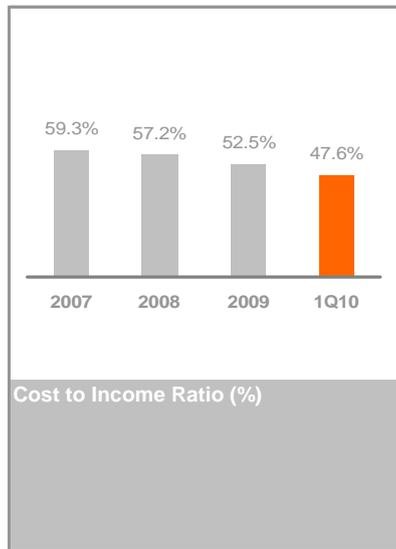
The operating results of Thanachart Group which consisted of Banking business, Securities business, Fund Management business, Life and Non-life Insurance business, and Supporting business improved significantly in 2009 and have been improving from the business synergy. As a result, the first quarter 2010 operating results of Thanachart Bank and its subsidiaries amounted to THB1,775 million, an increase from THB389 million in the same period last year. Return on Average Assets (ROAA) and Return on Average Equity (ROAE) were 1.73% and 24.98%, increased from 1.06% and 17.01% of those for the year 2009. The main factors that drove the business operating results in this quarter were the NPLs management, the increase in the interest and non-interest income through Cross-selling, and the efficiently control of the operating expenses.



### Banking Business



The operating results of Thanachart Bank in the first quarter 2010 improved significantly, resulted in the net profit of the Bank amounting to THB1,397 million, an increase from THB339 million in the same period last year. This was contributed by efficient management on the NPLs due to the adjustment in strategy and policy in debt collection. As a result, the bad debt and doubtful accounts expenses decreased by THB723 million. In addition, Loan Spread increased from 4.0% in the first quarter last year to 5.0% in the first quarter this year while Interest Spread also increased from 3.2% to 3.9%. Furthermore, the Bank could also continuously increase non-interest income which increased by 26.4% in line with the efficient management of the Bank's operating expenses. This led to the Cost to Income ratio decreased from 55.4% in the first quarter previous year to 47.6% in the first quarter this year.



- At the end of the first quarter 2010, the Bank's total assets amounted to THB396,039 million, a decrease of THB17,839 million or 4.3% from the end of 2009. This was mainly due to the decrease in deposits and short-term borrowings from the liquidity adjustment to be in line with the business operation. However, the Bank's loans could still increase by THB8,108 million or 2.9%. This was the result of the increase in hire purchase and corporate lending which was in accordance with the Bank's policy to diversify its loans portfolio.

- Total liabilities amounted to THB368,268 million, a decrease of THB19,255 million or 5.0%, mainly due to the deposits and short-term borrowings which decreased by THB25,851 million from the maturity of the Bills of Exchange.
- Shareholders' equity amounted to THB27,771 million, an increase of THB1,416 million or 5.4%, mainly due to profitable operating results of the Bank in the first quarter 2010.
- Capital fund of the Bank was strong and adequate for business expansion. As the end of the first quarter 2010, BIS ratio was at 13.62%. During March, the Bank redeemed its subordinated debentures in the amount of THB3,000 million which could be partly counted as

Tier 2 capital. However, allowing that the inclusive of the net profits of the second half 2009 and the first quarter 2010, the Bank BIS ratio would be at 15.01%.

During April 2010, Thanachart Bank mobilized funds to enter into the Siam City Bank shares purchasing as follows:

- From 8-19 April 2010, Thanachart Bank offered to sell its common shares for capital increase to the existing shareholders, following to their shares holding proportion. In addition, on 8 April 2010, the Bank registered its common shares for capital increase of its 2 major shareholders in the amount of THB35,737 million. As a result, its registered shares capital increased from THB19,346 million to THB55,083 million. This capital increase was for purchasing common shares of Siam City Bank from the Financial Institutions Development Fund on 9 April 2010.
- From 30 March to 1 April 2010, Thanachart Bank offered to sell to public its unsecured subordinated debentures in the amount of THB6,000 million which could be counted as Tier 2 capital.
- On 22 April 2010, Thanachart Bank would issue Hybrid Tier I which would be offered and sold to specific investors, i.e. Thanachart Capital and Scotiabank in the amount of THB7,130 million. This Hybrid Tier I could be counted as Tier I capital. Obviously, the Bank has already received the approval in principle from the Bank of Thailand to issue such debt instrument on 8 April 2010.

## **Subsidiary Companies**

### **Securities Business**

In the first quarter 2010, SET index closed at 787.98 points, an increase from 431.50 points in the same period last year. Average daily trading volume of the SET was THB19,323.26 million, an increase from THB8,659.71 million in the same period last year.

As for average daily trading volume including the trading in MAI of Thanachart Securities in the first quarter 2010, the amount was THB1,549.44 million, an increase from THB758.88 million in the same period last year. The market share was 4.62% and ranked number 5 in the industry. The customers of Thanachart Securities could be divided into 72% retail, 15% foreign and 13% financial institutional customers.

In the first quarter 2010, Thanachart Securities had a net profit in the amount of THB44 million compared to a net loss of THB31 million from the same period last year. The key reason was a THB89 million increase in brokerage income which was in line with the better market condition compared to the first quarter last year. Return on Average Equity (ROAE) was at 7.5%.

### **Fund Management Business**

At the end of the first quarter 2010, Thanachart Fund Management had THB90,730 million in asset under management, a decrease of THB472 million or 0.5% from the same period last year. This was mainly due to the decrease in mutual funds while private funds experienced a growth of 225.8%. The asset under management could be divided into 86% mutual funds, 9% private funds and 5% provident funds.

For the first quarter 2010, Thanachart Fund's net profit amounted to THB33 million, an increase of THB11 million or 48.8% from the same period last year. This was mainly due to the increase in management fee which increased by THB19 million in line with the increase in the assets under management. Return on Average Equity (ROAE) was at 57.5%.

### **Life Insurance Business**

Thanachart Life Assurance had its net profit for the first quarter 2010 amounted to THB137 million, an increase of THB69 million or 101.6% from the same period last year. This was mainly due to the decrease in life policy reserve while the income on investments increased from selling its investments in securities compared to a loss in the same period last year.

Return on Average Equity (ROAE) was at 34.4%. The capital ratio was at 506.3%, higher than the minimum requirement of 150% by the Office of Insurance Commission (OIC).

### **Non-life Insurance Business**

Thanachart Insurance had its net profit for the first quarter 2010 amounted to THB77 million compared to its net loss of THB16 million of the first quarter last year. The main factors that affected its operating results were the decreased insurance claims as well as the increase in its income on investments from selling securities investment compared to a loss in the same period last year. Return on Average Equity (ROAE) was at 6.2%. The capital ratio was at 368%, higher than the minimum requirement of 150% by the Office of Insurance Commission (OIC).

### **Risk Management and Risk Factors**

The Company and its subsidiaries had put in place systematic risk management procedure. Risk management policy and guideline were approved by the Company's Board of Directors and were supervised and monitored by a specific unit consistently. Tools and analysis of various risks were conducted, such as, credit risk, market risk, interest rate risk, operational risk and etc, in order to calculate appropriate risk limit and warning signal which will allow officers to proceed under acceptable risk limit level. The Company's Executive Committee and Board of Directors are committed to monitor and supervise risk management performance every month.

In the first quarter 2010, the Company and its subsidiaries' loans portfolio has grown from the previous quarter especially the hire purchase loans resulted in the increase in credit risks. Operational risks also increased from the increase in business transactions. On the other hand, the Company and its subsidiaries decreased the investment in securities resulted in the decrease in the market risks.

Overall, the Company and its subsidiaries' risks are under the established risk limit. Consequently, the Company and its subsidiaries' capital after risk allocation was adequate to accommodate the established future plan of business expansion.