

Thanachart Capital Public Company Limited

Management Discussion and Analysis (Financial statements audited)

Major Events

1. On 3 February 2009, Thanachart Capital Public Company Limited, accordingly to agreement, sold 416,526,737 ordinary shares of Thanachart Bank at a price of THB18.38 per share to Scotiabank which totaled to THB7,656 million. Consequently, Scotiabank's shareholding in Thanachart Bank amounts to 48.99% while Thanachart Capital's amounts to 50.92%.
2. On 3 April 2009, Thanachart Bank (a subsidiary company) offered the unsecured subordinated debentures in the amount of 2,000,000 units at THB1,000 per unit. The total amount was not to exceed THB2,000 million with the tenure of 10 years counting from the issuance date which shall be due in 2019.
3. On 29 April 2009, the Annual General Meeting of Shareholders of Thanachart Capital had a resolution to pay dividends to ordinary shareholders and preferred shareholders from the operating results of the latter 6 months in 2008 at the amount of THB0.60 per share which totaled the dividend payout to THB767 million.
4. On 29 May 2009, Thanachart Bank Public Company Limited (a subsidiary company) has increased capital for existing shareholders in the amount of THB2,000 million, thus, totaled the Bank's paid-up capital to THB19,346 million.
5. On 15 June 2009, the period of treasury stock buy-back was ended, as approved by the Company's Board of Directors. The Company has bought back a total of 55,324,300 shares, equivalent to 4.1499% of paid-up capitals. The total value was THB388 million and thus concluded the end of treasury stock buy-back period.

Operating Results for the second quarter and the first half of the year 2009

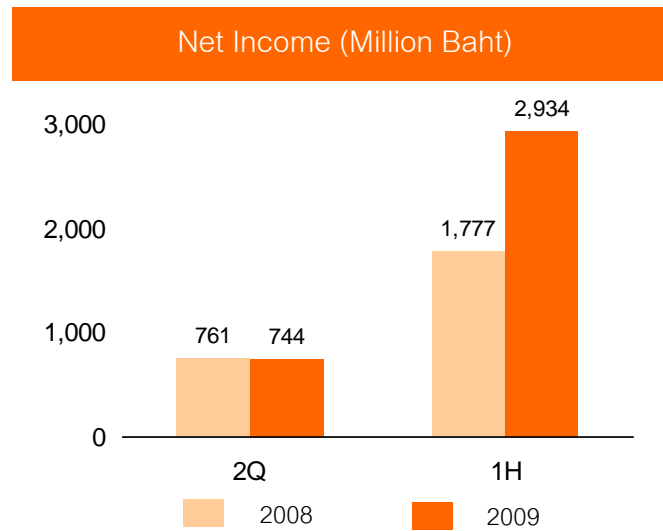
- **Overview of operating results of Thanachart Capital Public Company Limited and its subsidiaries**

In the 2nd quarter of 2009, Thanachart Capital Public Company Limited though has sold additional ordinary shares of Thanachart Bank to Scotiabank, making its shareholding decreased from 74.93% to 50.92%, the Company and subsidiary companies maintained their profit-generating performance in the 2nd quarter of 2009 to be close to that of the same period last year. The net profit in this quarter was THB744 million, a slightly decrease of THB17 million or 2.2% from the same quarter last year. Net interest and dividend income increased by THB783 million or 25.9%. The loan spread increased from 4.2% to 4.8% and non-interest income increased by THB868 million or 26.8%. Due to the economic downturn, NPLs increased once compared to the same period last year. However, the Company and subsidiary companies were able to maintain cost to income ratio net insurance premium income to be close to that in the same period last year. Cost to income ratio net insurance premium income amounted to 49.5%.

In the first 6 months of 2009, the Company and its subsidiaries' performance resulted in a net profit of THB2,934 million, an increase of THB1,157 million or 65.1% from the same period last year. This was due to the increase of interest and dividend income in the amount of THB1,114 million or 18.7%, following loan expansion and the increase of loan spread from 4.1% to 4.5%. Furthermore, non-interest income increased by THB3,886 million or 60.3%, which was contributed by the sale of

Thanachart Bank's ordinary shares to Scotiabank, insurance premium and life insurance premium income, while the brokerage fees decreased from the same period last year. Bad debt and doubtful account expense in the first 6 months of 2009 was higher than the same period last year, mainly due to provisions and economic slowdown.

In the 2nd quarter and the 1st half of 2009, basic earning per share was THB0.58 and THB2.29 respectively, while basic earning per share in the 2nd quarter and the 1st half of 2008 was THB0.57 and THB1.33 respectively. In the 2nd quarter and 1st half of 2009, the return on equity was averagely 10.3% and 21.0% respectively.



Financial Highlights

As at and for the second quarter and the first half ended 30 June and 31 December

	2Q09	2Q08	Change		1H09	1H08	Change	
			Amount	%			Amount	%
Operating results (Million Baht)								
Interest and dividend income	5,468	5,162	306	5.9%	11,000	10,259	741	7.2%
Interest expenses	1,666	2,143	(477)	-22.3%	3,942	4,315	(373)	-8.6%
Net interest and dividend income	3,802	3,019	783	25.9%	7,058	5,944	1,114	18.7%
Non-interest income	4,109	3,241	868	26.8%	10,329	6,443	3,886	60.3%
Total income ⁽¹⁾	7,911	6,260	1,651	26.4%	17,387	12,387	5,000	40.4%
Non-interest expenses	5,026	3,975	1,051	26.4%	9,639	7,654	1,985	25.9%
Bad debt and doubtful accounts ⁽²⁾	1,362	1,021	341	33.4%	2,620	1,747	873	50.0%
Net income	744	761	(17)	-2.2%	2,934	1,777	1,157	65.1%

Operating performance

Basic earnings per share (Baht)	0.58	0.57	0.01	1.8%	2.29	1.33	0.96	72.2%
Return on average assets (ROA)	0.8%	0.9%		-0.1%	1.5%	1.1%		0.4%
Return on average equity (ROE)	10.3%	11.2%		-0.9%	21.0%	13.4%		7.6%
Yield on earning assets ⁽³⁾	5.8%	6.3%		-0.5%	5.8%	6.4%		-0.6%
Cost of fund ⁽⁴⁾	2.1%	3.0%		-0.9%	2.4%	3.1%		-0.7%
Interest spread ⁽⁵⁾	3.7%	3.3%		0.4%	3.4%	3.3%		0.1%
Loan spread ⁽⁶⁾	4.8%	4.2%		0.6%	4.5%	4.1%		0.4%
Cost to income ratio net insurance premium income ⁽⁷⁾	49.5%	51.9%		-2.4%	41.5%	49.3%		-7.8%

Balance sheet information (Million Baht)

	Jun-09	Dec-08		
Loans	281,453	279,450	2,003	0.7%
Non performing loans	13,555	12,265	1,290	10.5%
Total assets	391,424	394,136	(2,712)	-0.7%
Deposits and short-term borrowings	292,889	316,382	(23,493)	-7.4%
Total liabilities	349,889	361,775	(11,886)	-3.3%
Equity attributable to the Company's shareholders ⁽⁸⁾	29,416	26,592	2,824	10.6%
Minority Interest	12,119	5,769	6,350	110.1%
Total shareholders' equity	41,535	32,361	9,174	28.3%
Treasury Stock	388	110	278	252.7%

Operating performance

Loans to deposits and short-term borrowings	96.1%	88.3%		7.8%
NPL-gross to total loans	4.8%	4.4%		0.4%
NPL-net to total loans	1.3%	1.4%		-0.1%

⁽¹⁾ Total income = Net interest income + Non-interest income

⁽²⁾ Including loss on debt restructuring

⁽³⁾ Yield on earning assets = Interest and dividend income / Average earning assets

⁽⁴⁾ Cost of fund = Interest expenses / Average paying liabilities

⁽⁵⁾ Interest spread = Yield on earning assets - Cost of fund

⁽⁶⁾ Loan spread = Yield on loans - Cost of fund

⁽⁷⁾ Cost to income ratio net insurance premium income = Non-interest expenses net insurance expenses / Total income net insurance premium income

⁽⁸⁾ Excluding minority interest

Consolidated income statements

- **Net interest and dividend income**

In the 2nd quarter of 2009, net interest and dividend income amounted to THB3,802 million, an increase of THB783 million or 25.9% once compared to the same period last year. Interest and dividend income was THB5,468 million, an increase of THB306 million or 5.9% while interest expenses decreased by THB477 million or 22.3%. Following the interest rate downtrend, cost of fund decreased to 2.1% from 3.0% from the same period last year, making loan spread of the Company and its subsidiaries to be at 4.8%.

In the 1st half of 2009, the Company and its subsidiaries had net interest and dividend income in the amount of THB7,058 million, an increase of THB1,114 million or 18.7%. Interest and dividend income was THB11,000 million, an increase of THB741 million or 7.2% from the same period last year, following the continuous hire purchase loan expansion. Interest expenses were THB3,942 million, a decrease of THB373 million or 8.6%. Consequently, loan spread increased from 4.1% in the 1st half of 2008 to 4.5% in the 1st half of 2009.

- **Non-interest income**

In the 2nd quarter of 2009, the Company and its subsidiaries had non-interest income in the amount of THB4,109 million, an increase of THB868 million or 26.8% from the same quarter last year. This was mainly due to the increase in insurance premium and life insurance premium income while gains on investments decreased by THB107 million or 95.5%, as a result of the depressive market condition.

In the 1st half of 2009, the Company and its subsidiaries had THB10,329 million in non-interest income, an increase of THB3,886 million or 60.3%. This was mainly due to extraordinary income from sale of Thanachart Bank's ordinary shares to Scotiabank in the amount of THB2,805 million and due to the business expansion of the companies in the group. The insurance premium and life insurance premium income increased by THB1,249 million or 32.8%.

- **Operating expenses**

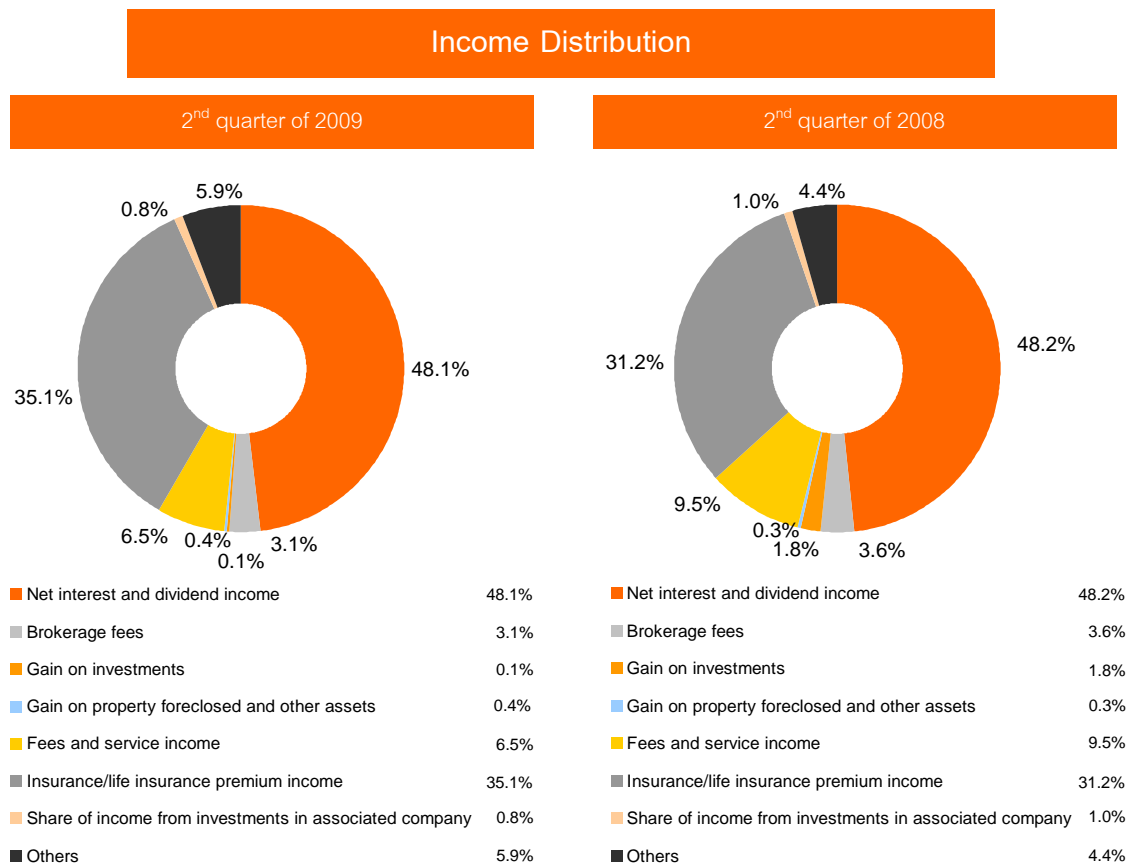
In the 2nd quarter of 2009, operating expenses were THB5,026 million, an increase of THB1,051 million or 26.4% from the same period last year. This was mainly due to the insurance/life insurance expenses, which increased by THB688 million or 45.5%. Personnel expense increased by THB180 million or 20.1%. Other expenses also increased from the increasing transaction volume of the companies in the group.

In the 1st half of 2009, the Company and its subsidiaries' operating expenses were THB9,639 million, an increase of THB1,985 million or 25.9% from the same period last year. This was mainly due to insurance/life insurance expenses which increased by 35.6%, varying with the transaction volume. Personnel expenses and premises and equipment expenses increased by 28.4% and 20.8% respectively, as a result of the Bank's branch network expansion. As of 30 June 2009, the Bank had a total of 243 branches while in the same period last year, the Bank had 191 branches. However, the Company and its subsidiaries were able to control operating expenses effectively along with the continuous business expansion. Consequently, the cost to income ratio net insurance premium income decreased from 49.3% in the 1st half of last year to 41.5% in the 1st half of this year.

• Bad debt and doubtful accounts

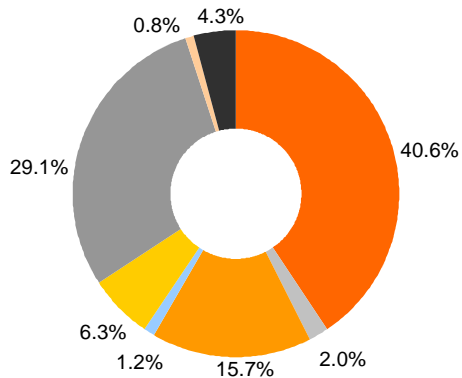
The Company and its subsidiaries' bad debt and doubtful account expenses were THB1,345 million in the 2nd quarter of 2009, an increase of THB324 million or 31.7% once compared to the same period last year.

In the 1st half of 2009, the Company and its subsidiaries' bad debt and doubtful account expenses were THB2,603 million, an increase of THB856 million or 49.0% from the same period last year, following the economic slowdown.



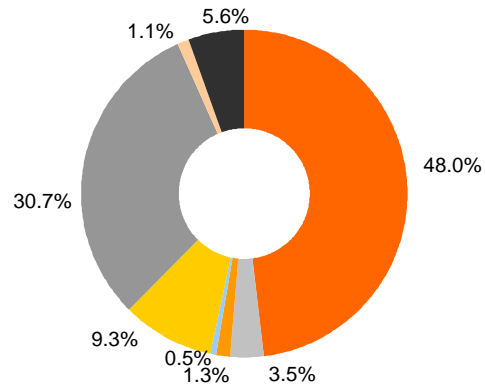
Income Distribution

1st half of 2009



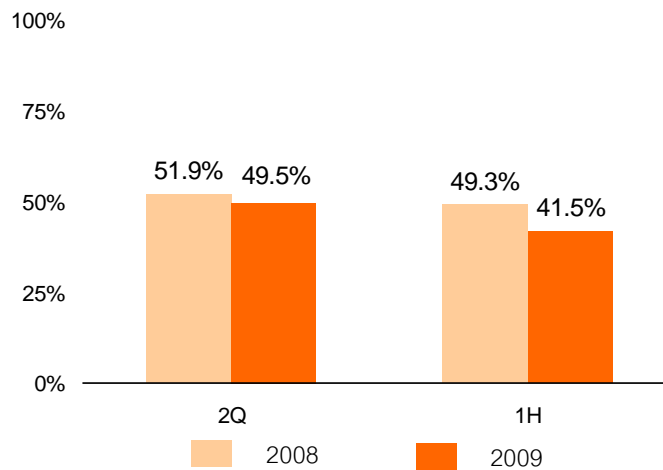
Net interest and dividend income	40.6%
Brokerage fees	2.0%
Gain on investments	15.7%
Gain on property foreclosed and other assets	1.2%
Fees and service income	6.3%
Insurance/life insurance premium income	29.1%
Share of income from investments in associated company	0.8%
Others	4.3%

1st half of 2008



Net interest and dividend income	48.0%
Brokerage fees	3.5%
Gain on investments	1.3%
Gain on property foreclosed and other assets	0.5%
Fees and service income	9.3%
Insurance/life insurance premium income	30.7%
Share of income from investments in associated company	1.1%
Others	5.6%

Cost to Income Ratio net Insurance Premium Income (%)



Consolidated balance sheet

• Assets

The Company and its subsidiaries' total assets were THB391,424 million, a decrease of THB2,712 million or 0.7% from the end of 2008. The main reasons were as follows:

- Interbank and money market items were THB55,923 million, a decrease of THB9,867 million or 15.0% from the end of last year;
- Loans amounted to THB281,453 million, an increase of THB2,003 million or 0.7% from the end of last year, mainly due to the expansion of corporate loans; and
- Net investments were THB47,284 million, an increase of THB7,899 million or 20.1% from the end of last year.

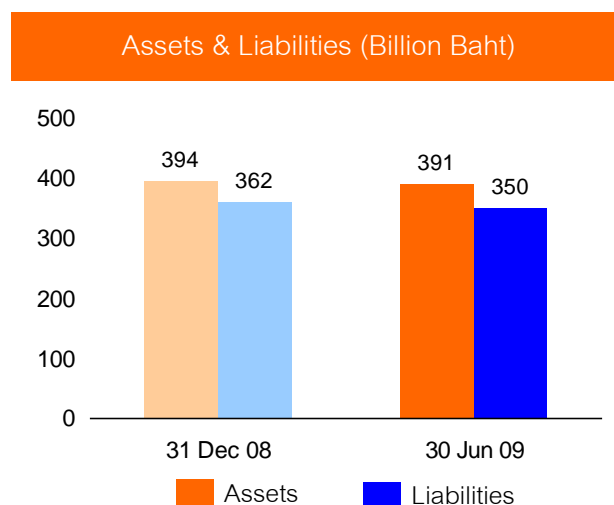
• Liabilities

The Company and its subsidiaries' total liabilities were THB349,889 million, a decrease of THB11,886 million or 3.3% from the end of 2008. The key reasons were as follows:

- Deposits and short-term borrowings were THB292,889 million, a decrease of THB23,493 million or 7.4% from THB316,382 million at the end of 2008;
- Interbank and money market items were THB24,744 million, an increase of THB17,451 million or 239.3% from the end of last year, as a result of liquidity management; and
- Long-term borrowings were THB9,430 million, a decrease of THB9,381 million or 49.9% from the end of 2008, mainly due to the long-term borrowings which would mature in less than 1 year were recorded as short-term borrowings. At the same time, Thanachart Bank (a subsidiary company) issued subordinated debentures during this quarter and will be maturing in the year 2019 in the amount of THB2,000 million, which were accounted as Tier 2 capital.

• Shareholders' equity

Total shareholders' equity was THB41,535 million, an increase of THB9,174 million or 28.3% from the end of 2008, as a result of profit-generating performance of the Company and the increasing portion of minority interest.



- **Non-performing Loans (NPLs)**

Non-performing loans of the Company and its subsidiaries at the end of the 2nd quarter of 2009 amounted to THB13,555 million. Non-performing loans to total loans (NPL Ratio) accounted for 4.8%, an increase from 4.4% at the end of 2008. Non-performing loans after deducting the provision (NPL-net) amounted to THB3,478 million or accounted for 1.3% of the total loans.

- **Operating results of subsidiary companies**

Unit: Million Baht

Unit: Million Baht

Subsidiaries	% of direct and indirect holding	Net profit (loss)			
		2Q09	2Q08	1H09	1H08
Thanachart Bank Plc.					
(Separate financial statements)	50.9%	713	572	1,051	1,210
Thanachart Securities Plc.	50.9%	123	85	93	128
Thanachart Fund Management	38.2%	25	35	47	72
Thanachart Insurance	50.9%	98	28	82	25
Thanachart Life Assurance	50.9%	117	174	186	289
NFS-AMC	100.0%	128	46	130	75
Max-AMC	83.4%	13	45	53	72

Banking Business

As the core business of Thanachart Group, Thanachart Bank's performance in the 2nd quarter of 2009 resulted in a net profit of THB713 million, an increase of 24.6% from the same period last year. The key contributing positive factors were the increase of interest spread from 3.3% in the 2nd quarter of 2008 to 3.7% and the increase of non-interest income, while the negative factors were the increase in bad debt and doubtful accounts expenses following the increase in NPLs. However, the operating expenses were managed effectively, and thus, the cost to income ratio decreased from 56.4% in the 2nd quarter of 2008 to 47.3%.

In the 1st half of 2009, the Bank's net profit was THB1,051 million, a decrease of 13.1% from the same period last year, mainly due to the increase in bad debt and doubtful accounts expenses. Net income before bad debt and doubtful expense and tax was THB3,775 million, an increase of 24.2%. This was due to the increase in the interest spread from 3.3% in the 1st half of 2008 to 3.4%. Non-interest income increased by 7.1% while cost to income ratio was at 54.0%, an increase from 51.1% from the same period last year.

At the end of 2nd quarter of 2009, the Bank's total assets were THB355,506 million, a decrease of THB12,766 million or 3.5% from the end of 2008, mainly due to the appropriate adjustment in liquidity. Total liabilities were THB332,038 million, a decrease of THB14,964 million or 4.3%, mainly due to a decrease in deposits and borrowings. The Bank issued subordinated debentures during April 2009 in the amount of THB2,000 million. The shareholders' equity was THB23,469 million, an increase of THB2,198 million or 10.3%, mainly due to the increase in paid-up capital in the amount of THB2,000 million in May 2009. At the end of 2nd quarter of 2009, capital adequacy ratio was at 12.9%.

Securities Business

At the end of 2nd quarter of 2009, SET index closed at 597.48 points, a decrease from 768.59 points in the same period last year. Average daily trading volume increased from THB19,959.3 million to THB21,323.0 million. In the 2nd quarter of 2009, Thanachart Securities Public Company Limited's average daily trading volume was THB1,789.1 million, an increase from THB1,575.6 million or 13.6% in the same period last year, a great increase than SET's 6.8%. Market share was 4.1% and ranked 7th in the industry. Securities trading volume was divided into 72.2% retail customers, 17.5% foreign customers and 10.3% financial institution customers.

In the 2nd quarter of 2009, the company's performance resulted in a net income of THB123 million, an increase of 45.8% from the same period last year. This was mainly due to the increase of THB42 million in gains on sale of long-term investments and the increase of THB29 million in brokerage fees while operating expenses increased slightly, as a result of cost control and management of Thanachart Group.

Fund Management Business

At the end of 2nd quarter of 2009, Thanachart Fund Management Company Limited had THB97,661 million as asset under management, a decrease of THB1,646 million or 1.7% from the same period last year. This was mainly due to the increase of mutual funds while private fund and provident fund grew 106.4%. Assets under management were divided into 86.5% mutual funds, 9.1% private funds and 4.4% provident funds.

In the 2nd quarter of 2009, the company's net income was THB25 million, a decrease of 29.0% from the same period last year, mainly due to the decrease of THB13 million in management fee. The company's operating expenses decreased by 9.8% due to the effective management. Furthermore, the company has a guideline to issue various products to satisfy customer's needs and to suit with market conditions in order to increase management fee income.

Life Assurance Business

In the 2nd quarter of 2009, Thanachart Life Assurance Company Limited had a net profit of THB117 million, a decrease of THB56 million or 32.4% from the same period last year. This was mainly due to the decrease of THB46 million in gains on investment, as a result of loss from sale of securities investments. At the same time, operating expenses were close to that in the same period last year.

Non-life Insurance Business

Insurance business continued to grow continuously. In the 2nd quarter of 2009, Thanachart Insurance Company Limited's net income was THB98 million, an increase of 249.5% from the same period last year. This was due to the increase of THB126 million or 125.3% in underwriting income. Gains on investments decreased while operating expenses increased.

NPL Assets Management Business

In the 2nd quarter of 2009, NFS Asset Management Company Limited's net income was THB128 million, an increase of THB82 million or 175.6% from the same period last year. This was mainly contributed by gains on investments in debtors in the amount of THB152 million, an increase of THB148 million and reversal provisions of bad debt and doubtful accounts in the amount of THB56 million.

- **Risk Management**

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 2nd quarter of 2009, the Company and its subsidiaries' loan portfolio has grown from the previous quarter. The Company and its subsidiaries have invested in corporate bonds and foreign bonds, and this, the credit, market and operational risks have increased.

Overall, the Company and its subsidiaries' risks are under the established risk limit. Moreover, Thanachart Bank has issued long-term subordinated debentures to increase Tier 2 capital in the amount of THB2,000 million. As a result, the Company and its subsidiaries' capital are still adequate to accommodate the established future plan of expansion.