

THANACHART CAPITAL PLC

No. 99/2012

14 December 2012

Company Rating: A+

Outlook: Stable

New Issue Rating: -

Rating History:

Date	Company	Issue (Unsecured/ Subordinated)
16/01/12	A+/Sta	A+/-
12/03/10	A/Pos	A/-
14/07/05	A/Sta	A/-

Rating Rationale

TRIS Rating affirms the company rating of Thanachart Capital PLC (TCAP) and the ratings of TCAP's senior debentures at "A+". The ratings reflect TCAP's position as an investment holding company of Thanachart Group, its management control of its core bank subsidiary, Thanachart Bank PLC (TBANK), through a 50.96% ownership stake, and a stable stream of dividends from TBANK. TCAP's company rating is one notch lower than the company rating of TBANK. The one notch difference reflects TCAP's dependence on dividends from TBANK and the regulatory barriers to payments of dividends.

The ratings take into consideration the capable management team, the improvements in its standard risk management system, and the strong business support TCAP receives from its Canadian strategic partner – Bank of Nova Scotia (BNS). BNS holds a 49% stake in TBANK through Scotia Netherlands Holdings BV. The ratings also reflect TBANK's enhanced franchise value and nationwide banking network after the acquisition of Siam City Bank PLC (SCIB) by TBANK in 2010. These strengths, however, are constrained by weakening asset quality, and intense competition in the banking, hire-purchase, and securities industries, as well as the uncertainty in the domestic political arena and the global financial arena. These factors might limit the Group's profitability and expansion opportunities in the future.

Based on consolidated asset size as of September 2012, TCAP was ranked 6th among all 15 Thai commercial banks, with 8.0% market share in loans and 7.2% market share in deposits. Its total consolidated assets were Bt957.2 billion, up by 7.8% year-on-year (y-o-y) from Bt888.1 billion as of September 2011. For the first nine months of 2012, TBANK and its subsidiaries contributed around 90% of the consolidated net operating income of TCAP. The remaining 10% was from the operations of TCAP and its two subsidiary companies which operate the distressed asset management business.

TCAP's financial profile deteriorated in 2011, which was in line with TRIS Rating's projection for the post-acquisition business integration period. Consolidated net profit declined by 11.3% y-o-y, from Bt5.6 billion in 2010 to Bt5.0 billion in 2011. In 2011, return on average assets (ROAA) and return on average equity (ROAE) were 0.56% and 6.79%, respectively, down from 0.84% and 9.47% in 2010. However, net profit for the first nine months of 2012 was Bt4.1 billion, up slightly by 2.0% y-o-y. Non-annualized ROAA and ROAE were 0.45% and 5.29%, down slightly from 0.46% and 5.62% from the same period of the prior year. The slight drops were mainly caused by a declining interest spread as well as higher operating costs.

The risk management framework of TCAP has been developed and improved, in an effort to comply with international standards. However, TCAP's business profile is still pressured by a higher level of non-performing assets (NPAs; the sum of classified loans more than three months overdue, plus restructured loans and foreclosed property) which rose after the merger of TBANK and SCIB. TCAP has strived to resolve the legacy non-performing loans (NPLs), most of which were assumed when TBANK bought SCIB's commercial loan portfolio. As a result, the amount of consolidated NPLs fell from Bt39.5 billion in 2010 to Bt35.7 billion at the end of September 2012. The ratio of NPLs to total loans reduced to 5.06% as of

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September 2012, from 6.46% in 2010. Nonetheless, TCAP's NPLs ratio remained above the industry average of 3.27% for 11 Thai commercial banks (excluding four non-listed banks). As of September 2012, NPAs were 0.76 times capital funds plus the allowance for doubtful accounts, slightly down from 0.81 times in 2011. TCAP's ratio, however, remains higher than the industry average of 0.44 times.

In terms of its capital base, TCAP's capital funds remained sufficient to support its growth in the medium term. As of June 2012, the company reported a Tier-1 capital ratio and a total capital ratio (on a fully consolidated basis) of 8.32% and 12.09%, respectively, down from 8.48% and 12.53% in 2011. These two ratios remain above the minimum requirements of 4.25% and 8.50% set by the Bank of Thailand (BOT). An improved risk management system, an experienced management team, and successful business diversification efforts are the crucial factors that will protect the company from downside risks in the medium term.

Rating Outlook

The "stable" outlook reflects the expectation that TBANK, as the major source of revenue for TCAP, will be able to leverage the synergies among TBANK and BNS to strengthen its market positions in its core lines of business. In addition, the strong financial support and business know-how from both strategic partners, BNS and TCAP, will sustainably enhance TBANK's overall business and financial performance in the future.

Thanachart Capital PLC (TCAP)

Company Rating:	A+
Issue Ratings:	
TCAP131A: Bt3,000 million senior debentures due 2013	A+
TCAP14NA: Bt9,000 million senior debentures due 2014	A+
TCAP22NA: Bt3,000 million senior debentures due 2022	A+
Rating Outlook:	Stable

Financial Statistics*

Unit: Bt million

		----- Year Ended 31 December -----				
	Jan-Sep 2012	2011	2010	2009	2008	2007
Total assets	957,209	895,157	882,757	459,965	394,090	321,256
Investment in securities	140,701	154,184	147,615	97,112	39,385	28,874
Loans and receivables	703,974	638,084	610,602	289,424	279,774	239,490
Allowance for doubtful accounts	25,010	27,286	27,959	10,534	10,008	8,456
Deposits	650,268	435,865	532,382	265,871	269,730	188,166
Borrowings**	160,835	322,804	225,262	118,245	72,756	83,674
Shareholders' equity	80,997	75,681	71,720	47,407	32,361	32,262
Net interest income	17,813	24,315	23,029	14,148	11,084	8,277
Bad debts and doubtful accounts	2,003	2,077	1,653	2,849	3,593	2,052
Non-interest income	11,152	11,931	11,400	9,777	6,089	6,185
Operating expenses	17,689	22,261	17,630	10,912	9,238	7,537
Net income (excluding non-controlling interests of subsidiaries)	4,144	5,002	5,639	5,109	2,768	2,818
Net income (including non-controlling interests of subsidiaries)	7,232	8,772	10,302	7,175	3,342	3,169

* Consolidated financial statements

** Including interbank and money market

Key Financial Ratios*

Unit: %

	Jan-Sep 2012	----- Year Ended 31 December -----				
		2011	2010	2009	2008	2007
Profitability						
Net interest income/average assets	1.92 **	2.74	3.43	3.31	3.10	2.73
Non-interest income/average assets	1.20 **	1.34	1.70	2.29	1.70	2.04
Fees and service income***/total income	14.77	10.65	12.39	15.70	16.43	15.19
Operating expenses/total income	36.91	39.51	37.97	34.22	33.59	30.17
Operating profit/average assets	1.00 **	1.34	2.26	2.38	1.21	1.60
Return on average assets	0.45 **	0.56	0.84	1.20	0.77	0.93
Return on average equity	5.29 **	6.79	9.47	12.81	8.57	10.12
Asset Quality						
Non-performing loans/total loans	5.06	6.20	6.46	4.06	4.24	4.61
Non-performing assets/total assets	8.59	10.16	9.16	5.50	6.10	7.50
Bad debts and doubtful accounts/average loans	0.30 **	0.33	0.37	1.00	1.38	0.91
Allowance for doubtful accounts/total loans	3.55	4.28	4.58	3.64	3.58	3.53
Capitalization						
Shareholders' equity/total assets	8.46	8.45	8.12	10.31	8.21	10.04
Shareholders' equity/total loans	11.51	11.86	11.75	16.38	11.57	13.47
BIS ratio	12.09 *****	12.53	13.08	18.00	13.93	13.32
Liquidity						
Total loans/deposits****	104.16	97.58	90.87	86.53	86.90	94.64
Deposits****/total liabilities	77.13	79.80	82.85	81.07	89.00	87.57
Total loans/total assets	73.54	71.28	69.17	62.92	70.99	74.55

* Consolidated financial statements

** Non-annualized

*** Including net insurance premium/life insurance premium income

**** Including bills of exchange

***** As of June 2012

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