

Thanachart Capital Public Company Limited

Management Discussion and Analysis for the 3rd quarter and 9-month of 2007

(Financial Statement Reviewed)

Economic and Finance & Banking Sector Outlooks of 3rd Quarter of 2007

After the Constitutional Referendum and the confirmed Election Date Settlement, the tension regarding the political issues was partially relieved in the 3rd quarter of the year 2007. Thus, for the very first time since March 2007 the business sentiment index for next 3 months as of August was higher than 50. However, retail oil price had increased and caused a greater negative influence to the confidence of consumers and investors.

The Thai economic overview in the 3rd quarter demonstrated a similar-level expansion as to the previous quarter. Consumption and private investment reflected an improved trend. As substantiation, consumption and investment index in durable goods started to recover back. At the same time the net export signaled a slight slow down, paralleling to the slow down of the trade partners' economy. However, the essential economic driver in the 3rd quarter 2007 was the net export sector.

In the 3rd quarter, the global economy was widely affected from sub-prime crisis in USA. The result was a fluctuation in money market and capital market. Providentially, the attempts from many countries such as United States of America, United Kingdom, and other countries in Europe to reach the solution had eased up such tension. Thus, the investment in-flow began to revisit the Asia countries once again.

The average inflation rate in the 3rd quarter 2007 was 1.7%. The average core inflation rate was 0.8%, which slightly hastened from the previous quarter. The trend signaled an increase at the end of 2007 due to increase in the oil price. Monetary Policy Committee had resolution of decreasing the interest policy by 0.25% at 3.25% (the meeting held on July 18, 2007), and a resolution to remain that interest policy was settled on August 29, 2007 and October 10, 2007 meetings.

Major events

1. On July 12, 2007, the Company disposed its investments in 8 subsidiaries to Thanachart Bank Public Company Limited (a subsidiary company) at the total price of Baht 4,158 million which equalled the book value of those subsidiaries at the end of June 2007. The names of 8 subsidiaries are as follows:

1. Thanachart Securities Public Company Limited.
2. Thanachart Life Assurance Company Limited.
3. Thanachart Insurance Company Limited.
4. Thanachart Group Leasing Company Limited.
5. Thanachart Fund Management Company Limited.
6. Thanachart Broker Company Limited.
7. Thanachart Management & Services Company Limited.
8. Thanachart Legal and Appraisal Company Limited.

The financial statements of the Company only already booked gain from the disposal of 8 subsidiaries amounted to Baht 1,146 million.

2. On July 19, 2007, The Company sold its common shares of Thanachart Bank amounted to 157,130,216 shares at Baht 16.37 per share, whereas Thanachart Bank sold its new issued shares amounted to 276,263,200 shares at Baht 16.37 per share to BNSAL. As a result, BNSAL holds 24.98% of total issued and paid up shares of Thanachart Bank and the Company holds 74.48% of Thanachart Bank shares.
3. According to the Extraordinary General Shareholders Meeting of Thanachart Bank No.1/2007, the Meeting approved the delisting of Thanachart Bank shares from the Stock Exchange of Thailand (SET). This was attributable to the followings:

3.1 Whereas the regulation of the Stock Exchange of Thailand requires that a listed company shall maintain its qualification with respect to share distribution so that its ordinary shares shall be held by minority shareholders not less than 150 and such shareholders shall hold shares in aggregate not less than 15% of the paid up capital. Thus, Thanachart Bank has 2 majority shareholders which consist of Thanachart Capital Public Company Limited and the Bank of Nova Scotia Asia Limited holding 74.48% and 24.98% of Thanachart Bank's paid up capital respectively. Consequently, Thanachart Bank has its minority shareholders of 0.54% of paid up shares which less than 15% requirement of the SET. Thanachart Bank therefore disqualifies to be a listed company on the SET.

3.2 Thanachart Capital Public Company Limited and the Bank of Nova Scotia Asia Limited which are 2 major shareholders have no policy to delegate the rest to minority

The procedure of share purchase and other securities that has the convertibility right to be the Bank's shares from minority shareholders and general investors has Thanachart Capital Public Company Limited acting as the tender offer purchaser at Baht 16.37 per share. The expected period of tender offer will be from

October 16, 2007 to December 20, 2007. Finally, on October 9, 2007, the SET approved the Bank to delist its shares from the SET.

4. As of September 28, 2007, the Bank has purchased additional 6,000,000 shares of Thanachart Insurance Co., Ltd. which is one of the Bank's subsidiaries from an unrelated person, in the price at Baht 13.02 (Book Value as of July 31, 2007) in the total amount of Baht 78,120,000. Thus, the Bank holds 100.0% of the company's shares while Thanachart Capital indirectly holds 74.5%.
5. On October 4, 2007, the Board of Directors' Meeting had a resolution approving the dividend payment for the performance in the first half of 2007 at the rate of Baht 0.30 per share, amounting to Baht 400 million. The closing date of the registered book was on October 18, 2007 and the payment is scheduled on November 2, 2007.

Operating Results of the Company and its subsidiaries

Operating Results and financial analysis

Summary of the Company and its subsidiaries' performance

For the 3rd quarter of 2007, the Company and its subsidiaries had their net profit of Baht 824 million, representing an increase of Baht 189 million or 29.8% compared to the 2nd quarter of 2007. This was attributable to the continuously improvement of the interest spread which resulted in the increase in the net interest income by 16.0%. Moreover, the non-interest income increased by 50.3%, due mostly to gain from disposal of the investment in subsidiaries. In addition, cost to income ratio decreased to 58.1% while the provision for bad debts and doubtful accounts slightly increased due to the efficiently control of the non-performing loans even the Group's hire purchase business continuously expanded. However, income tax expenses increased from the disposal of the investment in subsidiaries to Thanachart Bank and BNSAL which caused the Company to have income tax higher than proper limit compared to the previous quarter. However, such gain could not be realized on the consolidated financial statements because of the inter-company transaction.

For the 9-month period of 2007 compared to the same period last year, the Company and its subsidiaries registered their net profit of Baht 2,036 million, representing an increase of 28.5% or Baht 451 million. The main reasons came from the efficiently cost management in both cost of funds and operating cost as well as the boost up the Group's non interest income from hire purchase and insurance/life insurance businesses

Diluted earning per share for the 3rd quarter and the 9-month period of 2007 were Baht 0.62 and Baht 1.53 respectively.

(Unit: Baht Million)

	3 rd quarter of 2007	2 nd quarter of 2007	Change (% qoq)	9-month 2007	9-month 2006	Change (% yoy)
Interest and Dividend Income	4,810	4,759	1.1	14,088	12,149	16.0
Interest Expenses	2,343	2,633	(11.0)	7,722	6,984	10.6
Net Interest and Dividend Income	2,467	2,126	16.0	6,366	5,165	23.3
Non-Interest Income	3,259	2,168	50.3	7,320	5,774	26.8
Operating Expenses	3,324	2,752	20.8	8,754	7,864	11.3
Earnings before Bad Debts and Doubtful Accounts	2,402	1,542	55.8	4,932	3,075	60.4
Reversal for Bad Debts and Doubtful Accounts (Bad Debts and Doubtful Accounts)	(667)	(631)	5.7	(1,050)	(606)	73.3
Earnings before Income Tax and Minority Interest	1,735	911	90.5	3,882	2,469	57.2
Corporate Income Tax	(709)	(257)	175.9	(1,626)	(763)	113.1
Minority Interest in Net Losses (Earnings) in Subsidiary Companies	(202)	(19)	963.2	(220)	(121)	81.8

Net Earnings (Losses)	824	635	29.8	2,036	1,585	28.5
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● Net Interest and Dividend Income

Although the interest and dividend income has been affected by the declining trend of the interest rate, the interest expenses has also gone down in the same direction together with the effectiveness of cost control and suitable deposits management. Also, the continuous growth in hire purchase and efficient liquidity management caused the net interest and dividend income of the Company and its subsidiaries in the 3rd quarter of 2007 amounted to Baht 2,467 million, representing an increase of 16.0% or Baht 341 million from the previous quarter. For the 9-month period of 2007, the net interest and dividend income amounted to Baht 6,366 million, an increase of 23.3% or Baht 1,201 million from the same period last year.

● Non-interest income

For the 3rd quarter of 2007, the non-interest income of the Company and its subsidiaries amounted to Baht 3,259 million, an increase of 50.3% or Baht 1,091 million from the previous quarter. The most important contributions came from an increase of Baht 579 million in gain on investment which did not include Baht 1,146 million gains from disposal 8 subsidiaries to Thanachart Bank because the inter-company transaction is unable to realize profit on consolidated financial statements. In addition, there was the reserve provided for impairment of some equity stocks to protect against the future risk. Moreover, insurance premium/life insurance premium income rose from the previous quarter by 36.5% from the insurance business expansion. For 9-month period 2007 compared to that period last year, the non-interest income increased by Baht 1,546 million, or an increase of 26.8%. The details of which are as follows:

(Unit: Baht Million)

	3 rd quarter of 2007	2 nd quarter of 2007	Change (% qoq)	9-month 2007	9-month 2006	Change (% yoy)
Non-Interest Income						
Brokerage Fee	237	144	64.6	511	474	7.8
Gains (Losses) on Investment	693	114	507.9	773	499	54.9
Share of Profit from Investment in Associated Companies	80	64	25.0	214	186	15.1
Fees and Service Income	396	337	17.5	1,008	648	55.6
Discounted Income on Insurance Premium	155	175	(11.4)	530	553	(4.2)
Gain(Loss) on Exchanges/ financial derivatives contracts	19	(16)	218.8	16	23	(30.4)
Gain on Debt Settlement/Disposals	58	230	(74.8)	322	653	(50.7)
Insurance Premium/Life Insurance Premium Income	1,394	1,021	36.5	3,419	2,031	68.3
Gain(Loss) on Property Foreclosed/Other Assets	104	(33)	415.2	153	494	(69.0)

Other Income	123	132	(6.8)	374	213	75.6
Total Non-Interest Income	3,259	2,168	50.3	7,320	5,774	26.8

● Operating Expenses

For the 3rd quarter of 2007, the Company and its subsidiaries had their operating expenses of Baht 3,324 million, representing an increase of 20.8% or Baht 572 million from the previous quarter. This was the result of insurance/life insurance expenses which increased by 44.9% or Baht 347 million from the previous quarter in line with the income increased. This also included the ability to efficiently control the operating expenses, even though the business continued to expand. As a result, the cost to income ratio in this quarter dropped to 58.1% from 64.1% in the previous quarter.

In addition, the operating expenses of the Company and its subsidiaries in the 9-month period increased by Baht 890 million, representing an increase of 11.3% compared to the same period last year. The main factors were the insurance/life insurance expenses which increased by 65.9% and the personnel expenses as well as premises and equipment expenses which increased by 12.3% and 12.1% respectively. This was the result of the expansion of banking branches of Thanachart Bank. In this connection, as of the end of the 3rd quarter of 2007, Thanachart Bank had 157 branches compared with 133 branches at the end of last year.

(Unit: Baht Million)

	3 rd quarter of 2007	2 nd quarter of 2007	Change (% qoq)	9-month 2007	9-month 2006	Change (% yoy)
Operating Expenses						
Personnel Expenses	715	696	2.7	2,076	1,848	12.3
Premises and Equipment Expenses	327	298	9.7	943	841	12.1
Taxes and Duties	96	86	11.6	289	404	(28.5)
Fees and Service Expenses	79	52	51.9	179	202	(11.4)
Directors' Remuneration	4	17	(76.5)	26	29	(10.3)
Fund Contributed to the Financial Institution						
Development Fund	207	200	3.5	607	530	14.5
Commission Charged on Hire Purchase*	-	-	-	-	1,063	(100.0)
Insurance/Life Insurance Expenses	1,120	773	44.9	2,723	1,641	65.9
Other Expenses	776	630	23.2	1,911	1,306	46.3
Total Operating Expenses	3,324	2,752	20.8	8,754	7,864	11.3

*Commission Charged on Hire Purchase has been deducted from the interest income on hire purchase since January 1, 2007

● Bad debts and doubtful accounts

For the 3rd quarter of 2007, the Company and its subsidiaries had the bad debts and doubtful accounts amounted to Baht 667 million, representing an increase of 5.7% or Baht 36 million from the previous quarter. The

main reasons were to provide the reserve to be in line with the Group's loans growth for efficiently control the NPLs and to cope with the economy slowdown.

Financial Status

Balance sheets

(Unit: Baht million)

	Sep 30, 07	Dec 31, 06	Changes from 2006 Increase(Decrease)	% Change
Assets				
Interbank and Money Market Items -Interest Bearing	29,027	23,980	5,047	21.0
Securities Purchased under Resale Agreements	-	6,300	(6,300)	(100.0)
Investments-net	36,723	34,766	1,957	5.6
Loans	229,621	209,288	20,333	9.7
Total Earning Assets	295,371	274,334	21,037	7.7
Other Assets	12,965	11,895	1,070	9.0
Total Assets	308,336	286,229	22,107	7.7
Liabilities and Shareholders' Equity				
Deposits	201,664	198,527	3,137	1.6
Interbank and Money Market Items -Interest Bearing	4,203	4,339	(136)	(3.1)
Short Term Borrowings	36,007	18,460	17,547	95.1
Long Term Borrowings	16,259	26,575	(10,316)	(38.8)
Total Borrowings	52,266	45,035	7,231	16.1
Total Interest Bearing Liabilities	258,133	247,901	10,232	4.1
Other Liabilities	18,511	14,897	3,614	24.3
Total Liabilities	276,644	262,798	13,846	5.3
Total Shareholders' Equity	31,692	23,431	8,261	35.3
Total Liabilities and Shareholders' Equity	308,336	286,229	22,107	7.7

● Assets

The Group's assets grew from Baht 286,229 million at the end of 2006 to Baht 308,336 million at the end of the 3rd quarter of 2007, representing an increase of 7.7%. The majority of this increase was a result of loans which amounted to Baht 229,621 million or accounted for 74.5% of the total assets, while the net investment accounted for Baht 36,723 million or 11.9% of all assets, with details as follows:

▫ As of the end of the 3rd quarter of 2007, the total outstanding hire purchase loans were Baht 184,514 million, accounted for 80.3% of total loans. Although the economy and the car industry slowdown and aggressive competitors coming in, the Company and its subsidiaries continued to maintain their market leader of the new car hire purchase.

▫ The net investment at the end of the 3rd quarter of 2007 was Baht 36,723 million, representing an increase of 5.6% or Baht 1,957 million from the end of 2006. This was for liquidity purpose of Thanachart Bank and other subsidiaries.

▫ Interbank and money market items -interest bearing amounted to Baht 29,027 million, representing an increase of 21.0% or Baht 5,047 million from the end of 2006.

● Liabilities and shareholders' equity

As of September 30, 2007, the Company and its subsidiaries had the total liabilities of Baht 276,644 million, representing an increase of 5.3% or Baht 13,846 million from the end of 2006. The related main factors were:

- Deposits as of the end of the 3rd quarter of 2007 increased from Baht 198,527 million at the end of 2006 to Baht 201,664 million, representing an increase of 1.6% or Baht 3,137 million. This was the result of fund raising to support substantial loan growth. Most of the increase in public deposits was from savings deposits.
- Total borrowings amounted to Baht 52,266 million, which consisted of short-term borrowings amounting to Baht 36,007 million and long-term borrowings amounting to Baht 16,259 million. In addition, the short-term borrowings increased by Baht 17,547 million from the end of last year. This was due to the issuance of short-term bills of exchange and the re-classification of some long-term borrowings whose maturities were less than 1 year. Therefore, the Company and its subsidiaries' total borrowings increased by 16.1% or Baht 7,231 million from Baht 45,035 million at the end of 2006.
- As of the end of the 3rd quarter of 2007, the Company and its subsidiaries had shareholders' equity of Baht 31,692 million, a 35.3% increase from Baht 23,431 million at the end of 2006. This increase was the results of the performance of the Company and its subsidiaries and the minority interest -equity attributable to minority increased by Baht 5,187 million from selling Thanachart Bank's shares to BNSAL as mentioned.

Quality of Assets

Classification of loans under the Bank of Thailand's guideline of the Company and its subsidiaries which are financial institutions (the Bank and the Asset management companies)

(Unit: Baht million)

	Debt balance/book value		Allowance for doubtful accounts	
	Sep 30, 07	Dec 31, 06	Sep 30, 07	Dec 31, 06
Normal	189,919	177,282	473	1,556
Special Mention	21,402	16,762	131	187
Substandard	2,267	2,525	1,499	953
Doubtful	2,204	1,943	1,035	776
Doubtful of Loss	6,632	5,993	4,184	3,732
Total	222,424	204,505	7,322	7,204
General Reserve			420	486
Total Allowance for Doubtful Accounts			7,742	7,690

Note: Debt balances of the normal loans and special mention loans did not include accrued interest receivables

• Non-Performing Loans (NPLs)

As of September 30, 2007, the Company and its subsidiaries had the non-performing loans in accordance with the Bank of Thailand's notification amounting to Baht 11,532 million, representing an increase of Baht 690 million or 6.4% from the end of 2006. The most important factor was from the increase in non-performing loans of hire purchase business amounting to Baht 663 million, due to the economy slowdown. The ratio of NPLs to the Group loans was 5.0%, representing a decrease from 5.2% as at the end of last year.

In addition, the outstanding of NPLs-net of the Company and its subsidiaries amounted to Baht 4,410 million, accounted for 2.0% of Group loans net off the allowance for doubtful accounts.

(Unit: Baht million)

	Sep 30, 07	Dec 31, 06
Non-Performing Loans (NPLs)	11,532	10,842
%NPLs to Total Loans	5.0%	5.2%
NPL-net (IAS39)	4,410	5,048
%NPL-net	2.0%	2.5%
Allowance for Doubtful Accounts	8,269	8,139
%Allowance for Doubtful Accounts to NPLs	71.7%	75.1%

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

Operating Results of the Subsidiary Companies

(Unit: Baht million)

Subsidiary Companies*	% of holding	3 rd quarter of 2007	2 nd quarter of 2007	9-month 2007	9-month 2006
Thanachart Bank Plc. (the Company only)	74.5%	422.6	164.4	715.7	250.8
Thanachart Securities Plc.	74.5%	180.0	33.4	202.3	112.9
Thanachart Fund Management	55.9%	30.3	21.2	66.9	43.5
Thanachart Insurance	74.5%	20.0	45.2	54.3	22.2
Thanachart Life Assurance	74.5%	37.2	61.5	147.1	44.5
NFS-AMC	100.0%	25.0	113.0	10.8	344.7
MAX-AMC	58.5%	37.1	20.9	53.7	248.0

*Company Data

- Significant financial performance of subsidiaries under Thanachart Group

Banking business

For the 3rd quarter of 2007, the Bank had a profit in the amount of Baht 423 million, increased from the last quarter by Baht 258 million or 157.0%, which was significantly higher than the Bank's budget. The interest spread was the main cause. With a continuous improvement, the interest spread was at 2.87%. The interest income and dividends increased from the last quarter by the amount of Baht 316 million. The cost to income ratio decreased to 61.8%. Another reason was the efficient control of the NPL's portfolio expansion, considering the hire purchase business continued to grow.

Having evaluated the consolidated financial statement of the Bank which included the performance results of 9 subsidiaries, in the 3rd quarter of 2007 the Bank and its subsidiaries experienced profit in the amount of Baht 628 million. The major reason was the business expansion of the commercial banks, insurance/life insurance businesses, and also the security business had better performance results. As for the performance results of the 9-month in the year 2007, the Bank and its subsidiaries had their profit in the amount of Baht 925 million.

For the performance result in the first 9 months of the year 2007 where the Bank had profit of Baht 716 million, compared to such period of last year, the increase was in the amount of Baht 465 million. This was the result of the efficient cost management, both the cost of funds and the cost to income ratio, and of the continuous generating of the non-interest income.

Securities Business

Security market in the 3rd quarter of this year had improved. The SET index closed at 845.50 points and the average daily turn over was at Baht 21,917.34 million, due to the economic condition and the political became more certain. The market share of the 9-month of 2007 (January – September 2007) was at 3.50%, ranking at number 10. The Thanachart Security Public Company had higher brokerage fee by Baht 94 million. Consequently, the Thanachart Security Public Company had profit in the 3rd quarter of the year 2007 in the amount of Baht 180 million, a Baht 147 million increase from last quarter.

For the net profit of the first 9 months, the company had net profit of Baht 202 million, increase from such period of last year by 78.8%. And the Return on Equity was at 13.2%.

Fund Management Business

At the end of 3rd quarter, the Thanachart Fund Management Company had Baht 74,496 million of net assets under management, increased from the end of last year by the amount of Baht 25,978 million. Most of the increase came from mutual funds. In the 3rd quarter and the first 9 months of the year 2007, the company had Baht 30 million in profit and Baht 67 million in profit respectively. The Return on Equity was at 56.1%.

Insurance Business

The insurance business has been expanding continuously. Consequently, in the 3rd quarter of the year 2007, Thanachart Insurance Company had Baht 526 million from insurance premium income, equivalent to 7.8%. The profit from insurance premium income decreased from the last quarter by 14.6%, mainly due to an increase of the severance from the previous quarter. As a result, Thanachart Insurance Company had net profit in the quarter in the amount of Baht 20 million, a 55.6% decrease from the previous quarter.

For 9-month of the year 2007, Thanachart Insurance Company had Baht 54 million in net profit, increased from such period of previous year by Baht 32 million. The Return on Equity was at 11.2%

Life Insurance Business

Thanachart Life Assurance Company had a net profit, in the 3rd quarter, in the amount of Baht 37 million, decrease from the previous quarter by Baht 24 million or by 40.0%. The major cause was a Baht 352 million or 68.0% increase in the premium expense while the net premium income increased by Baht 335 million or by 63.0%.

As for the performance of 9-month in the year 2007, Thanachart Life Assurance had Baht 147 million in net profit, increased by Baht 103 million or 230.1%. The Return on Equity was at 20.5%

Risk Management

The Company and its subsidiaries' 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 and its subsidiaries conduct 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 3rd quarter of 2007, the automobile hire purchase businesses continuously expanded resulted in the increase in overall risk of the Group. As transaction volume increased, credit risk and operational risk increased as well. At the same time, market risk went to the same direction from the enlargement of the Company's investment portfolio.

The overall risk of the Company and its subsidiaries will remain under the risk limit. As the Bank of Nova Scotia Asia Limited bought Thanachart Bank's capital-increased shares in July, 2007, Tier I of the Company and its subsidiaries improved, and has still been adequate to accommodate the established future plan of expansion.