

## Thanachart Capital Public Company Limited Management Discussion and Analysis

For the year 2008

(Financial Statement Unaudited)

### Economic Outlook and Banking Industry in 2008

The global financial crisis and the nation political unrest have caused an essential impact on the Thai economy in 2008. The economic indicators in the 4<sup>th</sup> quarter evidently reflect the impact on the real sector. The manufacturing production index has shown a contraction once compared to the same period last year, in both domestic consumption and export which followed the depressive domestic and global demands.

Moreover, various other economic indicators reveal the economic recession, whether the consumer confidence index or business confidence index has dropped to the historical lowest point. At the same time, the productivity rate has sharply decreased in the 4<sup>th</sup> quarter and caused the employment rate and investment to most likely decrease.

In the 4<sup>th</sup> quarter, the intensified aggression of national political problem caused more than 50% of the tourists from foreign countries to terminate their visitation during the high tourist season. Thus, the income from tourism sector contracted as well. At the same time, the world crude oil price has sharply dropped, causing the headline inflation to decrease from 7.2% in the 3<sup>rd</sup> quarter to 2.2% in the 4<sup>th</sup> quarter, the lowest since December of 0.4%. However, the average headline and core inflations in 2008 amounted to 5.5% and 2.3% respectively.

The economic slowdown and the domestic political instability as well as the world money markets and capital markets turmoil resulted in the increase in NPLs. The Bank, therefore, had a high level of excess liquidity in the last quarter of 2008 for supporting future risks.

## Key Events

1. On 7 November 2008, the Bank of Thailand sent the letter no. ThorPortor. PhorGorGor. (Mor) 2100/2507 notified the approval of holding the additional shares of Thanachart Bank Public Company Limited by the Bank of Nova Scotia (“BNS”) from 24.98% of the total paid up shares. In this regard, BNS will purchase the shares from the Company in order to hold the Bank’s shares in the total amount held by the foreign shareholders not more than 49% of total paid up shares. The shares purchasing is in the process, and is expected to be complete within the 1<sup>st</sup> quarter of 2009.

2. On 27 November 2008, the Company’s Board of Directors Meeting no. 11/ 2008 approved the share repurchasing plan under the condition that it would not be exceeding than Baht 1,200 million or equal to not more than 10% of total registered and paid up shares. The reasons of this share buy-back are for financial and excess liquidity management.

3. On 28 November 2008, the Company purchased the additional investment in MAX Asset Management Company Limited (a subsidiary of the Company) in the amount of Baht 242,000,000 or 14,294,280 shares at Baht 16.93 per share from MSCF. This transaction made the Company hold the shares in MAX Asset Management up to 83.44% from 58.45% of total paid up shares.

4. On 8 January 2009, the Extraordinary Shareholders’ Meeting no. 1 of Thanachart Bank Public Company Limited (“the Bank”) had the resolutions as follows:

1) Increasing capital up to Baht 2,000 million by issuing and offering the shares for capital increase to the existing shareholders in the amount of 200 million shares at par value of Baht 10 per share.

2) Approving the issuance of debentures in both subordinated debentures and debentures in the amount of not more than Baht 10,000 million. The reasons are for increasing the Bank’s capital base and supporting its business expansion.

## Operating Results and financial analysis

### Operating Results

#### Summary of the performance

As at 31 December 2008, the consolidated assets of Thanachart Capital Public Company Limited and its subsidiaries were Baht 394,136 million, representing an increase of 22.7% or Baht 72,880 million from the end of 2007. This was mainly due to the loan growth even the overall economic condition did not support well. In this connection, the loans grew by 16.8 from the previous year. At the same time, the liabilities increased by 25.2% or Baht 72,781 million, due to the increase in deposits and short-term borrowings by 24.6% from the previous year.

For the year 2008, the net earnings of Thanachart Capital Public Company Limited consolidated income statements amounted to Baht 2,768 million, representing a decrease of 1.8% or Baht 50 million. The important factor affected to the Company and its subsidiaries' operation was from the increase in the net interest and dividend income by 31.0% or Baht 2,815 million according to the continuous growth of loans. The loan spread improved from 3.6% to 4.0%. At the same time, the non-interest income increased by 11.8% or Baht 1,261 million, due mostly to the increase in the fees and services income and income from life and non-life insurance businesses. However, the non-interest income was already accounted the impairment of investment in securities from the capital market deterioration amounted to Baht 254 million while there was an extra gain from selling the investment in Thanachart Bank Public Company Limited in 2007. In addition, the operating expenses increased by 23.9% or Baht 3,065 million, mainly from the expenses that related to income and business transaction as well as the investment in IT systems and infrastructures resulted in the increase in Cost to Income Ratio from 64.9% at the end of 2007 to 66.7%.

Bad debts and doubtful accounts increased by 74.6% or Baht 1,529 million. This was the results of the slowdown of the economy which affected to the ability of the customers to repay debts. The Company and its subsidiaries developed more stick policies for providing loans, and improved its efficiency of debt collection in order to reduce the future damages. In 2009, the Company and its subsidiaries has been using the Collective Approach, uses the historical losses to provide reserve, for providing reserve of retail lending instead of providing 100% for non-performing loans.

Diluted earning per share for the year 2008 was Baht 2.08, decreased from Baht 2.11 from that in the year 2007. Moreover, the average return on equity of the year 2008 was 10.4%.

Consolidated Income Statements	2008		2007		Change (%)
	Amount	Proportion	Amount	Proportion	
	(Million Baht)	(%)	(Million Baht)	(%)	
Interest and Dividend Income					
Loans	3,793	15.9	3,064	15.5	23.8
Interbank and Money Market Items	1,570	6.6	1,274	6.5	23.2
Hire Purchase and Financial Lease	14,736	61.9	13,118	66.5	12.3
Investments	1,314	5.5	1,343	6.8	(2.2)
<b>Total Interest and Dividend Income</b>	<b>21,413</b>	<b>89.9</b>	<b>18,799</b>	<b>95.3</b>	<b>13.9</b>
Interest Expenses	9,506	39.9	9,707	49.2	(2.1)
<b>Net Interest and Dividend Income</b>	<b>11,907</b>	<b>50.0</b>	<b>9,092</b>	<b>46.1</b>	<b>31.0</b>
Non-Interest Income					
Brokerage Fee	756	3.2	714	3.6	5.9
Gain (Loss) on Investment	(302)	(1.3)	819	4.1	(136.9)
Fees and Services Income	2,422	10.2	2,153	10.9	12.5
Insurance Premium/Life Insurance Premium					
Income	7,340	30.8	5,389	27.3	36.2
Other Income	1,691	7.1	1,571	8.0	7.6
<b>Total Non-Interest Income</b>	<b>11,907</b>	<b>50.0</b>	<b>10,646</b>	<b>53.9</b>	<b>11.8</b>
<b>Earnings before Bad Debts and Doubtful Accounts and Loss on Debt Restructuring</b>	<b>23,814</b>	<b>100.0</b>	<b>19,738</b>	<b>100.0</b>	<b>20.7</b>
Reversal for Bad Debts and Doubtful Accounts (Bad Debts and Doubtful Accounts)	(3,580)		(2,051)		74.5
Loss on Debt Restructuring	(14)		-		100.0
<b>Earnings after Bad Debts and Doubtful Accounts and Loss on Debt Restructuring</b>	<b>20,220</b>		<b>17,687</b>		<b>14.3</b>
Operating Expenses	15,878		12,813		23.9
<b>Earnings before Income Tax and Minority Interest</b>	<b>4,342</b>		<b>4,874</b>		<b>(10.9)</b>
Corporate Income Tax	(1,000)		(1,705)		(41.3)
Minority Interest in Net Losses (Earnings) in Subsidiary Companies	(574)		(351)		63.5
<b>Net Earnings</b>	<b>2,768</b>		<b>2,818</b>		<b>(1.8)</b>

Interest Spread	For the Year	
	2008	2007
Yield on Loans (%)	7.2	7.3
Cost of Fund (%)	3.2	3.7
Loan Spread (%)	4.0	3.6

- **Net Interest and Dividend Income**

For the year 2008, the net interest and dividend income of the Company and its subsidiaries amounted to Baht 11,907 million, representing an increase of 31.0% or Baht 2,815 million from the last year. This was the result of the increase in the interest and dividend income by 13.9% or Baht 2,614 million due to the continuous loans growth of the Company. At the same time, the interest expense decreased by 2.1% or Baht 201 million due to the maintaining of the yield on loans and the effective cost control which resulted in the increase in the loan spread from 3.6% in the last year to 4.0%.

- **Non-interest income**

In 2008, the non-interest income of the Company and its subsidiaries amounted to Baht 11,907 million, representing an increase of 11.8% or Baht 1,261 million. The increase was mainly from the growth of main businesses under the Group. In this connection, the insurance premium/life insurance premium increased by Baht 1,951 million or 36.2%, fees and services income increased by Baht 269 million or 12.5%, and the brokerage fee increased by Baht 42 million or 5.9%.

- **Operating Expenses**

For the year 2008, the Company and its subsidiaries' operating expenses were Baht 15,878 million, representing an increase of 23.9% or Baht 3,065 million from the last year. This increase was mainly due to the increase in expenses related to the income and business transaction. In this connection, the insurance/life insurance expenses increased by 30.4%, the personnel expenses as well as the premises and equipment expenses increased by 26.4% and 22.4% respectively following the business expansion and the Bank's network expansion. As at 31 December 2008, the Bank had 213 branches, an increase from 166 branches at the end 2007. Moreover, the investments in IT systems and infrastructures caused the cost to income ratio to increase from 64.9% in the last year to 66.7%.

- **Bad debts and doubtful accounts**

In 2008, the bad debts and doubtful accounts amounted to Baht 3,580 million, an increase of 74.6% or Baht 1,529 million from the last year. This was the results of the slowdown of the economy which affected to the ability of the customers to repay debts, resulted in the increase in the NPLs. The increase also included that the Company had very high level of excess provision compared to the BOT's regulation in 2007, which resulted in the low level of reserve provided for bad debts and doubtful accounts at that time.

## Financial Status

Consolidated Balance sheets	31 December 2008		31 December 2007		Change (%)
	Amount	Proportion	Amount	Proportion	
	(Million Baht)	(%)	(Million Baht)	(%)	
<b>Assets</b>					
Cash	4,018	1.0	3,275	1.0	22.7
Interbank and Money Market Items - Net	65,790	16.7	40,462	12.6	62.6
Securities Purchased under Resale Agreements	-	-	2,500	0.8	(100.0)
Net Investments	39,385	10.0	28,874	9.0	36.4
Loans and Accrued Interest Receivable	279,774	71.0	239,490	74.5	16.8
Allowance for Doubtful Accounts and Revaluation Allowance for Debt Restructuring	(10,008)	(2.5)	(8,456)	(2.6)	18.4
Other Assets	15,177	3.8	15,111	4.7	0.4
<b>Total Assets</b>	<b>394,136</b>	<b>100.0</b>	<b>321,256</b>	<b>100.0</b>	<b>22.7</b>
<b>Liabilities and Shareholders' Equity</b>					
Deposits and Short-term Borrowings	316,383	80.3	254,014	79.1	24.6
Interbank and Money Market Items - Net	7,293	1.8	3,709	1.1	96.6
Long-term Borrowings	18,810	4.8	14,117	4.4	33.2
<b>Total</b>	<b>342,486</b>	<b>86.9</b>	<b>271,840</b>	<b>84.6</b>	<b>26.0</b>
Other Liabilities	19,289	4.9	17,154	5.4	12.4
<b>Total Liabilities</b>	<b>361,775</b>	<b>91.8</b>	<b>288,994</b>	<b>90.0</b>	<b>25.2</b>
Equity Attributable to Company's Shareholders before Treasury Stock	26,702	6.8	26,208	8.1	1.9
<u>Less</u> Treasury Stock	(110)	(0.1)	-	-	100.0
Equity Attributable to Company's Shareholders	26,592	6.7	26,208	8.1	1.5
Minority Interest	5,769	1.5	6,054	1.9	(4.7)
<b>Total Shareholders' Equity</b>	<b>32,361</b>	<b>8.2</b>	<b>32,262</b>	<b>10.0</b>	<b>0.3</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>394,136</b>	<b>100.0</b>	<b>321,256</b>	<b>100.0</b>	<b>22.7</b>

- **Assets**

The Company and its subsidiaries' assets as at 31 December 2008 were Baht 394,136 million, representing an increase of 22.7% or Baht 72,880 million compared to that at 31 December 2007. The majority of this increase was a result of loans and accrued interest receivable which amounted to Baht 279,774 million or accounted for 71.0% of the total assets, while the net investments amounted to Baht 39,385 million or accounted for 10.0% of all assets, with details as follows:

□ Loans and accrued interest receivable amounted to Baht 279,774 million, representing an increase of 16.8% or Baht 40,284 million from the end of 2007, due mainly to the continuous increase in hire purchase loans. As at 31 December 2008, hire purchase loans were Baht 211,828 million, accounted for 75.7% of total loans. Although the competitors were aggressively moving forward to this business, Thanachart Group still continued to maintain their market leader of both new and used cars hire purchase.

□ The net investments were Baht 39,385 million, representing an increase of 36.4% or Baht 10,511 million from the end of 2007.

□ Net interbank and money market items amounted to Baht 65,790 million, representing an increase of 62.6% or Baht 25,328 million from the end of 2007.

- **Liabilities and shareholders' equity**

As at 31 December 2008, the Company and its subsidiaries had the total liabilities of Baht 361,775 million, representing an increase of 25.2% or Baht 72,781 million from the end of 2007. The related main factors were:

- The deposits and short-term borrowings amounted to Baht 316,383 million, representing an increase of 24.6% or Baht 62,369 million. This was due to the expansion of the Bank branches for increasing the channels of deposits taking as well as the issuance of financial products for catering the customers' needs and the issuance of the short-term bill of exchange for more choices of saving.
- Long-term borrowings amounted to Baht 18,810 million, an increase of 33.2% or Baht 4,693 million from the end of last year.
- The Company and its subsidiaries had shareholders' equity of Baht 32,361 million, a 0.3% increase from Baht 32,262 million at the end of 2007. The increase was the results of the profits from the Company and its subsidiaries' operation. In December 2008, the Company bought back its common shares in the total amount of 16.3 million shares at the average price of Baht 6.8 per share.

## Classification of Loans

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)

	Dec 31, 08		Dec 31, 07	
	Debt balance/ book value	Allowance for doubtful accounts	Debt balance/ book value	Allowance for doubtful accounts
Normal	274,523	912	199,066	528
Special Mention	25,107	185	22,100	141
Substandard	2,093	1,475	2,492	1,685
Doubtful	1,719	1,230	2,244	1,085
Doubtful of Loss	7,828	5,118	6,047	3,870
<b>Total</b>	<b>311,270</b>	<b>8,920</b>	<b>231,949</b>	<b>7,309</b>
General Reserve		270		523
<b>Total Allowance for Doubtful Accounts</b>		<b>9,190</b>		<b>7,832</b>

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

- The Company and its subsidiaries have written its bad debts of Baht 1,881 million during the 2008.

- **Non-Performing Loans (NPLs)**

As at 31 December 2008, the Company and its subsidiaries had the non-performing loans in accordance with the Bank of Thailand's notification amounting to Baht 12,265 million, representing an increase of Baht 1,005 million or 8.9% from the end of 2007. The most important factor was from the increase in non-performing loans of hire purchase business. The NPLs ratio to the Group loans was 3.8%, decreased from 4.7% at the end of last year.

In addition, the outstanding of NPLs-net as at 31 December 2008 amounted to Baht 3,836 million, accounted for 1.2%.

(Unit: Baht million)

	Dec 31, 08	Dec 31, 07
Non-Performing Loans (NPLs)	12,265	11,260
%NPLs to Total Loans	3.8%	4.7%
NPLs-net	3,836	4,165
%NPLs-net	1.2%	1.8%
Allowance for Doubtful Accounts	9,947	8,417
%Allowance for Doubtful Accounts to NPLs	81.1%	74.8%

## Operating Results of the Subsidiary Companies

(Unit: Baht

million)

Subsidiary Companies*	% of direct and indirect holding	Net Profits (Losses)	
		2008	2007
Thanachart Bank Plc. (the Company only)	74.9%	1,343	991
Thanachart Securities Plc.	74.9%	97	257
Thanachart Fund Management	56.2%	123	102
Thanachart Insurance	74.9%	63	66
Thanachart Life Assurance	74.9%	350	176
NFS-AMC	100.0%	253	78
MAX-AMC	83.4%	130	98

\*Each Company Data

- Significant financial performance of subsidiaries under Thanachart Group

### Banking business

For the year 2008, the Bank and its subsidiaries' net profit amounted to Baht 1,908 million, representing an increase of 43.8% or Baht 581 million. The net interest and dividend income increased by 39.5%, due to the continuous business expansion and the improvement of Loan Spread from 3.3% to 4.0%. Also, the non-interest income increased by 76.8%, due to the continuous growth of Banking, Securities, Fund Management, and life and non-life insurance businesses. At the same time, the operating expenses increased by 56.8% million from the business expansion and the investment in IT systems and infrastructures resulted in the 70.3% Cost to Income Ratio.

For the Bank income statements in 2008, the Bank had its net profit of Baht 1,343 million, an increase of Baht 352 million or 35.5% from the last year. This was due to the increase in the loan spread from 3.3% to 3.7%. The loan spread improvement was the results of the continuous loan growth and the proper cost management in acquiring deposits through the 213 Bank branches nationwide. The non-interest income increased by 19.1% while the operating expenses increased by 27.6% which was due mainly to the increase in the personnel and premises and equipment expenses regarding the investment in IT systems and infrastructures and building brand image in order to become a medium sized bank for supporting the future business growth. However, the cost to income ratio was at 60.6% close to that in the last year.

- Loans

The Bank's loans amounted to Baht 272,925 million, an increase of Baht 47,985 million or 21.3% from the end of 2007. This was mainly due to the expansion of car hire purchase loans in the amount of

Baht 36,199 million, corporate loans in the amount of Baht 13,344 million, and SMEs loans in the amount of Baht 6,603 million while loans to companies in Thanachart Group decreased by Baht 8,426 million.

As for hire purchase loans, Thanachart Group still maintains its position as a market leader for new car and used car hire purchase in the amount of Baht 198,344 million, an increase of Baht 36,139 million or 22.3% from the end of 2007. In this connection, the new business loans in 2008 amounted to Baht 95,049 million, an increase of Baht 7,332 million or 8.4% from the last year.

- Deposits and short-term borrowings

Deposits and short-term borrowings amounted to Baht 318,760 million, an increase of Baht 70,676 million or 28.5% from the end of 2007. This was due to the branch expansion for increasing channels to acquire deposits and also the introduction of new financial products to cater the customer's needs. The short-term B/E was offered as saving alternative for customers. The Loan to Deposit Ratio was at 85.6%, a decrease from 90.7% in the end of 2007, due to the deposits and short-term borrowings growth rate was higher than that of the loan expansion.

- Non-performing Loans

NPLs amounted to Baht 7,168 million, an increase of Baht 1,955 million from the end of last year, following the economic slowdown which affected to the ability of the hire purchase customers to repay their debts. However, the Bank has developed more stick policies for providing loans, and improved its efficiency of debt collection in order to reduce the future damages. NPL ratio amounted to 2.30%, close to that at the end of previous year. Once considered NPL-net, the amount was Baht 1,830 million and the ratio of NPL-net to total loans amounted to 0.60%. The allowance for doubtful accounts amounted to Baht 6,365 million, accounted for 88.8% of the total NPLs.

- Capital Adequacy ratio

As of 31 December 2008, the Bank's total capital fund amounted to Baht 28,150 million, which was divided to Tier 1 in the amount of Baht 20,261 million and Tier 2 in the amount of Baht 8,152 million. The Bank's BIS ratio amounted to 12.12%, an increase from 12.00% in the end of previous year, higher than the BOT's requirement of 8.5%. The details of capital fund to risk assets are shown below.

	Dec 31, 08		Dec 31, 07	
	Million Baht	%	Million Baht	%
Tier-1 Capital	20,261	8.73	20,017	10.15
Total Capital Requirement	28,150	12.12	23,661	12.00

### Securities Business

At the end of 2008, the SET index closed at 449.96 points, a decrease from 858.10 points from the previous year. The average trading value per day decreased from Baht 17,097.05 million to Baht 15,869.94 million, which was the result of the capital market deterioration across the world.

The average trading value per day through Thanachart Securities in 2008 amounted to Baht 1,282.0 million, an increase from Baht 1,216.1 million in the previous year. The market share was at 3.98%, an increase from 3.49% in 2007. The trading value of Thanachart Securities was divided into 62% of retail customers, 28% of foreign customers and 10% of financial institution customers.

For the year 2008, Thanachart Securities' performance resulted in a net profit of Baht 97 million, a decrease of 62.3% or Baht 160 million from the last year. This was due to the decrease in the total income by Baht 103 million which was the result of the impairment of the investment in securities in the amount of Baht 41 million, and also in the past year the company had gain from selling its long-term investment. However, the brokerage fee and forward contract income increased by Baht 54 million while the capital market deteriorated in the last quarter of 2008. The Return on Equity (ROE) was at 4.6%.

### Fund Management Business

As of 31 December 2008, Thanachart Fund Management's asset under management amounted to Baht 78,207 million, a decrease of Baht 1,903 million or 2.4% from the last year. This was mainly due to the capital market deterioration in the last quarter of the year. The proportion of the asset under management was divided into 93% of mutual funds, 5% of provident funds, and 2% of private funds.

For the year 2008, the performance resulted in net profit of Baht 123 million, an increase of Baht 21 million or 20.9% from the last year. This was mainly due to the fund management fee income which increased by Baht 70 million, following the number of funds launched during the year. The return on equity (ROE) amounted to 54.7%.

### Insurance Business

For the year 2008, Thanachart Insurance Company Limited's underwriting income increased by Baht 523 million while insurance claims and pension payment from direct insurance increased. The investment gains decreased by Baht 44 million from the impairment of the investment in securities and the loss from selling its investments. This resulted in the net profit in 2008 of Baht 63 million, slightly decreased from the previous year. The return on equity (ROE) amounted to 8.9%.

### Life Insurance Business

Thanachart Life Assurance Company's net profit for the year 2008 amounted to Baht 350 million, an increase of Baht 175 million from the last year. This was mainly due to the underwriting profit from all insurance products which increased by Baht 1,566 million. At the same time, operating expenses increased by Baht 60 million according to the business expansion. The return on equity (ROE) amounted to 31.6%.

## 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.

At the end of the 4<sup>th</sup> quarter of 2008 compared to the previous quarter, lending businesses of the Company and subsidiaries continuously expanded especially the hire purchase lending resulted in the increase in overall risk in both credit and operational risks as transaction volume increased. Although capital market faced the strong volatility in the last quarter of the year, the Company and its subsidiaries monitored and managed all kind of risks according to the scope of risk management established. Moreover, the investment decreased compared to the previous quarter, which caused the reduction of market risk.

Although the Group's BIS ratio declined from the decrease in Tier 2 capital of Thanachart Bank because some parts of subordinated debentures could not be used as Tier 2 capital, the overall risk of the Company and its subsidiaries remained under the risk limit. The Company and its subsidiaries' capital fund is still adequate to accommodate the established future plan of expansion.