

Thanachart Capital Public Company Limited
Management Discussion and Analysis
For the 1st quarter ended 31 March 2008
(Financial Statement Reviewed)

Economic and Finance & Banking Sector Outlooks of 1st Quarter of 2008

In the first quarter of 2008, Thai economy has reflected the recovery of the domestic demand for both private consumption and investment, in line with the increase in Consumer Confidence Index and Business Sentiment Index. At the same time, net export for the first 2 months showed a slight deficit due to the import acceleration although the export continued to expand.

However, higher oil and commodities prices have affected to the production costs and the purchasing powers of consumers. For the first quarter of 2008, the headline inflation was at 5.0%, an increase from 2.9% while the core inflation was at 1.5%, an increase from 1.1%.

From highly accelerated inflation pressure, the Monetary Policy Committee has decided to maintain the policy interest rate at 3.25% although the Fed has cut its Fed Fund rate to 2.25% or cutting by 1.25% in the first quarter this year.

Moreover, on February 29, 2008, the Bank of Thailand decided to cancel its 30% reserve withholding on foreign transfers by introducing other instruments to support the Baht fluctuation. For the first quarter, the Thai Baht was averaged at Baht 32.4 per U.S. Dollar or appreciated by 4.4% from the end of 2007.

Major events

1. On January 15, 2008, Thanachart Bank Public Company Limited (a subsidiary company) delisted from the Stock Exchanged of Thailand by its own request.
2. On April 23, 2008, the Annual General Meeting of the Bank's shareholders (a subsidiary company) approved the payment of a dividend of Baht 0.43 per share to the ordinary shareholders, or a total of Baht 746 million, in respect of income for the year 2007.
3. On April 28, 2008, the Company's Annual General Shareholders' Meeting approved the dividend payment paid to ordinary and preferred shareholders for the performance in the second half of 2007 at the rate of Baht 0.60 per share, amounting to Baht 800 million.

Operating Results and financial analysis

Operating Results

Summary of the performance

For the 1st quarter of 2008, the net earnings of Thanachart Capital Public Company Limited consolidated income statements amounted to Baht 1,016 million, representing an increase from the same period last year of 76.1% or Baht 439 million. This was from the highly expanded of the affiliated businesses including Banking business, Securities business, Fund Management business, Life/Non-life Insurance businesses, and Asset Management companies. This movement was in line with policies and strategies to increase service channel, proactively launch new products, initiate more choices for customers as well as utilize synergy among Thanachart group. This resulted in the increase in the net interest and dividend income by 66.2% and also the improvement on loan spread from 2.9% to 4.2%.

In addition, the non-interest income increased by 69.1%. The ratio of non-interest income to total income accounted for 52.3% compared to the same period last year which accounted for 51.8%. At the same time, the operating expenses increase in a decelerating rate, which was mainly due to the increase in expenses from the increased transactions. This resulted in the decrease in the cost to income ratio from 73.0% at the end of the first quarter 2007 to 60.1% at the end of the first quarter this year.

Diluted earning per share as of the end of the first quarter was Baht 0.76, an increase from Baht 0.43 as of the end of the first quarter last year. Moreover, the average return on equity was 15.2% at the end of the 1st quarter of 2008, compared to 10.0% at the end of the same period of 2007.

Consolidated Income Statements	1 st quarter of 2008		1 st quarter of 2007		Change
	Amount	Proportion	Amount	Proportion	(%)
	(Million Baht)	(%)	(Million Baht)	(%)	
Interest and Dividend Income					
Loans	832	13.6	748	20.5	11.2
Interbank and Money Market Items	415	6.8	329	9.0	26.1
Hire Purchase and Financial Lease	3,582	58.4	3,069	84.0	16.7
Investments	268	4.4	362	9.9	(26.0)
Total Interest and Dividend Income	5,097	83.2	4,508	123.4	13.1
Interest Expenses	2,171	35.5	2,747	75.2	(21.0)
Net Interest and Dividend Income	2,926	47.7	1,761	48.2	66.2
Non-Interest Income					
Brokerage Fee	214	3.5	130	3.5	64.6
Fees and Services Income	612	10.0	475	13.0	28.8
Insurance Premium/Life Insurance Premium					
Income	1,856	30.3	1,004	27.5	84.9
Other Income	520	8.5	284	7.8	83.1
Total Non-Interest Income	3,202	52.3	1,893	51.8	69.1
Earnings before Bad Debts and Doubtful Accounts	6,128	100.0	3,654	100.0	67.7
Reversal for Bad Debts and Doubtful Accounts					
(Bad Debts and Doubtful Accounts)	(726)		248		(392.7)
Earnings after Bad Debts and Doubtful Accounts	5,402		3,902		38.4
Operating Expenses	3,680		2,667		38.0
Earnings before Income Tax and Minority Interest	1,722		1,235		39.4
Corporate Income Tax	(467)		(660)		(29.2)
Minority Interest in Net Losses (Earnings) in					
Subsidiary Companies	(239)		2		(12,050.0)
Net Earnings	1,016		577		76.1

Interest Spread

	1 st quarter of	
	2008	2007
	(%)	(%)
Yield on loans	7.3	7.2
Cost of Fund	3.1	4.3
Loan Spread	4.2	2.9

● Net Interest and Dividend Income

The net interest and dividend income of the Company and its subsidiaries amounted to Baht 2,926 million, representing an increase of 66.2% or Baht 1,165 million from the same period last year. At the same time, the interest and dividend income amounted to Baht 5,097 million, representing an increase of 13.1% or Baht 589 million. The increase was mainly from the continuous growth in hire purchase lending while the interest expenses decreased by Baht 576 million or 21.0% from the branch expansion which resulted in the capability of taking appropriate cost of deposits, and also from the interest rate down trend. Loan spread, therefore, increased from 2.9% as at the end of the first quarter last year to 4.2% as at the end of the first quarter this year.

● Non-interest income

For the 1st quarter of 2008, the non-interest income of the Company and its subsidiaries amounted to Baht 3,202 million, an increase of 69.1% or Baht 1,309 million from the same period last year. The most important contributions came from an increase of Baht 852 million or 84.9% in insurance premium/life insurance premium, and fees and charges income increased by 28.8% or Baht 137 million in line with the expansion of banking and fund management businesses transactions. In addition, the brokerage fee increased by 64.6% or Baht 84 million.

● Operating Expenses

For the 1st quarter of 2008, the Company and its subsidiaries had the operating expenses of Baht 3,680 million, representing an increase of 38.0% or Baht 1,013 million from the same quarter last year. This was mainly from the insurance/life insurance expenses which increased by 86.4% in line with the income increase. Moreover, the personnel expenses as well as the premises and equipment expenses increased by 13.4% and 12.6% respectively. This was the result of the expansion of banking branches of Thanachart Bank. In this connection, as at March 31, 2008, Thanachart Bank had 172 branches compared with 166 branches at the end of last year. Although the business continued to grow, the Company and its subsidiaries were able to effectively control their operating expenses, which resulted in the decrease in the cost to income ratio from 73.0% at the end of the first quarter 2007 to 60.1% at the end of the first quarter this year.

- **Bad debts and doubtful accounts**

For the 1st quarter of 2008, the Company and its subsidiaries had the bad debts and doubtful accounts amounted to Baht 726 million, representing an increase of Baht 974 million from the same quarter last year. The main reason was that in the 1st quarter of 2007, the Company and its subsidiaries had the reversal of bad debts and doubtful accounts while the reserve provided in the 1st quarter this year was mainly to be in line with the Group's loans growth, and to cope with the economy slowdown which affected to the increase in the NPLs.

Financial Status

Consolidated Balance sheets	31 March 2008		31 December 2007		Change (%)
	Amount	Proportion	Amount	Proportion	
	(Million Baht)	(%)	(Million Baht)	(%)	
Assets					
Cash	2,475	0.7	3,275	1.0	(24.4)
Interbank and Money Market Items - Net	47,042	13.9	40,462	12.6	16.3
Securities Purchased under Resale Agreements	-	-	2,500	0.8	(100.0)
Net Investments	31,837	9.4	28,874	9.0	10.3
Loans and Accrued Interest Receivable	249,322	73.8	239,490	74.5	4.1
Allowance for Doubtful Accounts and Revaluation Allowance for Debt Restructuring	(9,085)	(2.7)	(8,456)	(2.6)	7.4
Other Assets	16,380	4.9	15,111	4.7	8.4
Total Assets	337,971	100.0	321,256	100.0	5.2
Liabilities and Shareholders' Equity					
Deposits and Short-term Borrowings	268,882	79.6	254,014	79.1	5.9
Interbank and Money Market Items - Net	5,071	1.5	3,709	1.2	36.7
Long-term Borrowings	11,958	3.5	14,117	4.4	(15.3)
Total	285,911	84.6	271,840	84.6	5.2
Other Liabilities	18,255	5.4	17,154	5.4	6.4
Total Liabilities	304,166	90.0	288,994	90.0	5.2
Equity Attributable to Company's Shareholders	27,505	8.1	26,208	8.1	4.9
Minority Interest	6,300	1.9	6,054	1.9	4.1
Total Shareholders' Equity	33,805	10.0	32,262	10.0	4.8
Total Liabilities and Shareholders' Equity	337,971	100.0	321,256	100.0	5.2

- **Assets**

The Company and its subsidiaries' assets as at 31 March 2008 were Baht 337,971 million, representing an increase of 5.2% or Baht 16,715 million compared to that at 31 December 2007. The majority of this increase was a result of loans which amounted to Baht 249,075 million or accounted for 73.7% of the total assets, while the net investments accounted for Baht 31,837 million or 9.4% of all assets, with details as follows:

- Loans amounted to Baht 249,075 million, representing an increase of 4.1% or Baht 9,838 million from the end of 2007. This was from the continuous increase in hire purchase loans. As of the end of the 1st quarter of 2008, hire purchase loans were Baht 199,542 million, accounted for 80.0% of total loans. Although the competitors were aggressively moving forward to this business, the Company and its subsidiaries still continued to maintain their market leader of the new car hire purchase.

- The net investments at the end the 1st quarter of 2008 were Baht 31,837 million, representing an increase of 10.3% or Baht 2,963 million from the end of last year. This was from the market improvement.

- Interbank and money market items -net amounted to Baht 47,042 million, representing an increase of 16.3% or Baht 6,580 million from the end of 2007.

- **Liabilities and shareholders' equity**

As at 31 March 2008, the Company and its subsidiaries had the total liabilities of Baht 304,166 million, representing an increase of 5.2% or Baht 15,172 million from the end of 2007. The related main factors were:

- The deposits and short-term borrowings amounted to Baht 254,014 million, representing an increase of 5.9% or Baht 14,868 million. This was due to the increase in the Bank's saving channels offered to its customers by issuing short-term bill of exchange for supporting the Deposit Insurance Act B.E. 2551.
- Long-term borrowings amounted to Baht 11,958 million, a decrease of 15.3% or Baht 2,159 million from the end of last year.
- The Company and its subsidiaries had shareholders' equity of Baht 33,805 million, a 4.8% increase from Baht 32,262 million at the end of 2007. The increase was the results of the good performance of the Company and its subsidiaries, and the increase in the revaluation surplus on investments.

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)

	Debt balance/book value		Allowance for doubtful accounts	
	Mar 31, 08	Dec 31, 07	Mar 31, 08	Dec 31, 07
Normal	225,589	199,066	567	528
Special Mention	20,257	22,100	134	141
Substandard	2,370	2,492	1,651	1,685
Doubtful	1,575	2,244	964	1,085
Doubtful of Loss	7,214	6,047	4,508	3,870
Total	257,005	231,949	7,824	7,309
General Reserve			595	523
Total Allowance for Doubtful Accounts			8,419	7,832

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 107 million in the 1st quarter of 2008.

• Non-Performing Loans (NPLs)

As at 31 March 2008, the Company and its subsidiaries had the non-performing loans in accordance with the Bank of Thailand's notification amounting to Baht 11,675 million, representing an increase of Baht 415 million or 3.7% 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 4.4%, representing a decrease from 4.7% as at the end of last year.

In addition, the outstanding of NPLs-net of the Company and its subsidiaries according to the new definition of the BOT as at 31 March 2008 amounted to Baht 4,059 million, accounted for 1.6%.

(Unit: Baht million)

	Mar 31, 08	Dec 31, 07
Non-Performing Loans (NPLs)	11,675	11,260
%NPLs to Total Loans	4.4%	4.7%
NPL-net (IAS39)	4,059	4,165
%NPL-net	1.6%	1.8%
Allowance for Doubtful Accounts	9,040	8,417
%Allowance for Doubtful Accounts to NPLs	77.4%	74.8%

Operating Results of the Subsidiary Companies

(Unit: Baht million)

Subsidiary Companies*	% of direct and indirect holding	Net Profits (Losses)	
		1 st quarter of 2008	1 st quarter of 2007
Thanachart Bank Plc. (the Company only)	74.9%	637.6	128.8
Thanachart Securities Plc.	74.9%	43.8	(11.1)
Thanachart Fund Management	56.2%	37.0	15.4
Thanachart Insurance	74.9%	(2.6)	(10.9)
Thanachart Life Assurance	74.9%	115.4	48.4
NFS-AMC	100.0%	28.4	(127.2)
MAX-AMC	58.5%	27.2	(4.3)

*Each Company Data

• Significant financial performance of subsidiaries under Thanachart Group

Banking business

For the first quarter of 2008, net profit of the Bank and its subsidiaries amounted to Baht 926 million, reflected the continuous growth of the Bank and its subsidiaries businesses especially from banking, securities, fund management as well as life and non-life insurance businesses. This movement was in line with policies and strategies to increase service channel, proactively launch new products, initiate more choices for customers as well as utilize synergy among Thanachart group.

Net profit of the Bank amounted to Baht 638 million, representing an increase of Baht 509 million or 395.2% from the same quarter of the last year, resulted from the improvement of loan spread from 2.8% to 3.9%. The main reasons came from the efficiency of cost of fund management by raising deposits through branch expansion widespread around Bangkok and upcountry in every part of Thailand. Following this strategy, the portion of low cost deposit has been increased in addition to the decline of market interest rate. Non-interest income increased Baht 305 million or 75.2%, mainly contributed from an increase of fees and services income followed the expansion of business transaction in both domestic and international. On the other hand, non-interest expenses increased due to the business growth, however, the effectively controlled of operating expenses and economies of scale caused by synergy among Thanachart group, cost to income ratio was declined from 64.8% in the first quarter of 2007 to 50.4% in this quarter.

- Loans

The Bank's loans amounted to Baht 237,771 million, an increase of Baht 12,831 million or 5.7% from the year 2007. The main reason came from hire purchase business expansion at Baht 13,420 million or 8.3% from the year 2007 to Baht 175,624 million in this quarter. For the first quarter, new business

loans accounted to Baht 25,999 million, representing an increase of Baht 848 million from the same quarter of the last year. The Bank was the market leader of both new and used car hire purchase.

- Deposits and short-term borrowings

The Bank's deposits and short-term borrowings amounted to Baht 265,212 million, an increase of Baht 17,128 million or 6.9% from the year 2007. This was due to the expansion of the Bank's service channels through branches and short-term bill of exchange offered to be customers' choice as well as prepared for Deposit Insurance Agency Act 2008.

- Non-performing Loans

As at March 31, 2008, non-performing loans amounted to Baht 5,723 million, representing an increase of Baht 510 million from the year 2007. The most important factor was from the increase in non-performing loans of hire purchase business. The NPLs ratio was 2.26%, declined from 2.31% as at the end of last year. In addition, NPL after allowance for doubtful accounts accounted Baht 1,729 million which accounted to 0.69% of total loans.

Allowance for doubtful accounts was Baht 5,193 million, accounted for 90.7% of non-performing loans, comprising of Baht 4,771 million reserved for classified loans and Baht 422 million for general reserve.

With strong reserve preparing for long-term business activities, the Bank has total reserve to reserve required by the Bank of Thailand at 108.9%.

- Capital Adequacy ratio

As of March 31, 2008, the Bank's total capital fund was Baht 23,737 million, which could be classified as tier-1 at Baht 20,066 million and tier-2 at Baht 3,671 million. The Capital Adequacy ratio was equal to 11.47%, declining from the end of last year's 12.00%, however, the ratio was still higher than the 8.5% minimum requirement by the Bank of Thailand. Details are following

	Mar 31, 08		Dec 31, 07	
	Million Baht	%	Million Baht	%
Tier-1 Capital	20,066	9.70	20,017	10.15
Total Capital Requirement	23,737	11.47	23,661	12.00

Securities Business

For security market in the first quarter of 2008, the SET index closed at 817.03 points, decreased from 858.10 points at the end of last year with the average daily turnover equaled to Baht 18,846.24 million, increased from Baht 11,800.08 million from the same quarter of the last year. This was mainly due to the investors' more confidence on political situation.

The average trade volume per day in the 1st quarter of 2008 of Thanachart Securities was Baht 1,415 million, compared to Baht 870 million of the same period last year. The market share of 2007 was at 3.67%. In this regard, the trade volume from retail customers accounted for 60%, foreign customers accounted for 29%, and institutional customers accounted for 11%.

For the operating side in the 1st quarter of 2008, Thanachart Securities had its net profit of Baht 44 million, an increase of Baht 55 million from the same period last year. This was attributable to the brokerage fee of Baht 214 million, an increase of 64.6% or Baht 84 million and return on equity was at 7.5%.

Fund Management Business

As at the end of the 1st quarter of 2008, Thanachart Fund Management Company had its net asset under management of Baht 88,769 million, representing an increase of 12.5% or Baht 9,862 million from the end of last year. The net asset under management consisted of 92.9% of mutual funds 4.1% of provident funds and 3.0% of private funds.

For its operating results of the 1st quarter of 2008, Thanachart Fund Management had its management fee of Baht 97 million, an increase from the same period last year of 64.5% or Baht 38 million in line with the asset under management expansion. In this connection, its net profit increased by 140.6% or Baht 22 million to Baht 37 million. The Return on Equity was at 60.1%.

Insurance Business

For the 1st quarter of 2008, Thanachart Insurance Company had its insurance premium income of Baht 587 million, representing an increase of 17.9% or Baht 89 million from the same period of 2007. However, Thanachart Insurance had its net loss of Baht 3 million, compared with its net loss of Baht 11 million at the same period last year. This was due to the income after deducting the reserve of insurance premium cannot count as the company's income and the increase in the losses incurred.

Life Insurance Business

For the 1st quarter of 2008, Thanachart Life Assurance Company had its net profit of Baht 115 million, increased from the same period year by Baht 67 million or 138.4%. This was mainly due to the increase in the gains on insurance premium of Baht 58 million, and the increase in the income from investment and other income of Baht 47 million. The Return on Equity was at 38.7%.

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 1st quarter of 2008, the automobile hire purchase businesses of the Company and subsidiaries continuously expanded resulted in the increase in overall risk of the Group. As transaction volume increased, credit risk and operational risk increased as well.

The overall risk of the Company and its subsidiaries will remain under the risk limit. Taking into account the risk measures mentioned above, the Company and its subsidiaries' capital fund is adequate to accommodate the established future plan of expansion.