TRIS RATING

CreditNews ข่าวเครดิต

THANACHART CAPITAL PLC

Announcement no. 845 16 January 2012

Company Rating: A+

Outlook: Stable

New Issue Rating: -

Rating History:

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

Contacts:

Phisut Sakulthong
phisut@trisrating.com

Taweechok Jiamsakunthum
taweechok@tris.co.th

Raithiwa Naruemol
raithiwa@tris.co.th

WWW.TRISRATING.COM

Rating Rationale

TRIS Rating upgrades the company rating of Thanachart Capital PLC (TCAP) and the ratings of TCAP's senior debentures to "A+" from "A". The ratings reflect TCAP's position as an investment holding company of Thanachart Group, its management control of 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 its core bank subsidiary, 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 improvement in its standard risk management system, a strong capital base, and the strong business and financial support from its Canadian strategic partner – Bank of Nova Scotia (BNS). The acquisition of Siam City Bank PLC (SCIB) by TBANK has enhanced Thanachart Group's market position, the extent of its diversification efforts, and future financial performance. The acquisition has aided growth in the loan portfolio and rises in the deposit base and the number of branches. These strengths, however, are constrained by weakening asset quality. The ratings are also pressured by the uncertainties surrounding the effects of the recent severe flooding in Thailand, intense competition in the banking, hire-purchase, and securities industries, as well as the uncertain domestic political situation and global financial arenas. These factors might limit the Group's profitability and expansion opportunities in the future.

BNS has become a strategic partner of TCAP, taking a 24.98% stake in TBANK in July 2007 and raising its stake to 49% in February 2009. As a part of the TBANK's growth strategy, TBANK acquired SCIB in 2010 and smoothly transferred all of SCIB's businesses to TBANK on 1 October 2011. The acquisition of SCIB has strengthened TBANK's competitive position in the banking industry, and has diversified TBANK's loan portfolio, yielding a better mix between corporate and retail loans.

Based on consolidated asset size as of September 2011, TCAP was ranked 6th among all 15 Thai commercial banks, with 8.3% market share in loans and 6.5% share in deposits. At the end of September 2011, TCAP's total consolidated assets were Bt888.1 billion, up by 7.9% from Bt881.9 billion in 2010. For the first nine months of 2011, TBANK and its subsidiaries contributed approximately 93% of the net operating income of TCAP. The remaining 7% was from TCAP's other businesses, including Max Asset Management Co., Ltd. (MAX-AMC) and NFS Asset Management Co., Ltd. (NFS-AMC).

TCAP's financial profile has further improved. The company's consolidated net profit in 2010 was Bt5,639 million, up 10.4% from Bt5,109 million in 2009. The increase was mainly driven by a wider interest spread and lower credit cost, as well as more fee-based income. Nonetheless, in line with TRIS Rating's projection, TCAP's net profit for the first nine months of 2011 decreased by 4.4% year-on-year, from Bt4,250 million in 2010 to Bt4,065 million in 2011. The return on average assets (ROAA) grew from 0.77% in 2008 to 1.2% in 2009. However, ROAA dropped to 0.84% in 2010 because its asset size doubled after consolidating SCIB's assets, while SCIB contributed just a small net profit to TCAP. Return on average equity (ROAE) increased from 8.57% in 2008 to 12.81% in 2009, but dropped to 9.47% in 2010. The drop resulted from an increase in non-controllable interest of subsidiaries (BNS) following the increase in the shareholders' equity of TBANK. ROAA and ROAE for the first nine months of 2011 were 0.46% and 5.62% (non-annualized), down from 0.65% and 7.24% (non-annualized) for the same period of the prior year.

TCAP has developed a proficient management team that has enabled the company to support the competitive positions of its subsidiaries and allowed TCAP to remain flexible to respond to changes in the economic and business environments. TCAP's consolidated risk management framework has improved continuously to comply with international standards. Nonetheless, TCAP has been constrained by an increase in non-performing loans (NPL) after the acquisition of SCIB by TBANK. Most of the NPLs were from the commercial loan portfolio of SCIB. At the end of September 2011, on a consolidated basis, TCAP's ratio of NPLs to total loans was 6.62%, up from 4.06% in 2009. This ratio is above the industry average of 3.98% for 11 Thai commercial banks in TRIS Rating's database (excluding three foreign-owned banks). TCAP's non-performing assets (NPA) (the sum of classified loans more than three months overdue, plus restructured loans and foreclosed property) as of September 2011 were 0.76 times capital funds plus the allowance for doubtful accounts, up from 0.44 times in 2009, and higher than the industry average of 0.53 times. The management team's ability to control asset quality during the post-merger consolidation period has yet to be proved. An improved risk management system, an experienced management team, and business diversification are crucial factors that will protect the company from downside risks in the medium term.

Rating Outlook

The "stable" outlook, revised from "positive", 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 the core businesses. In addition, strong financial support and business know-how from both strategic partners - BNS and TCAP will enhance TBANK's overall business performance. The deterioration in asset quality, which came after acquiring SCIB, is expected to be under control shortly.

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+
Rating Outlook:	Stable

KEY RATING CONSIDERATIONS

Strengths/Opportunities

- Capable and experienced management with a proven track record
- Good risk management system and efficient information management system
- Strong market position in auto hire-purchase lending

Weaknesses/Threats

- Deteriorated asset quality after acquiring SCIB
- Smaller cushion of capital funds and allowances for doubtful accounts compared with peers
- Intensifying competition in the banking industry
- Uncertain domestic political and worldwide financial situations

CORPORATE OVERVIEW

TCAP, formerly named National Finance PLC, was established in 1959, and later changed its name to Capital Trust Finance and Securities Co., Ltd. after joining the Stock Exchange of Thailand (SET) in 1974. In 1980, Siam Commercial Bank PLC (SCB) acquired a majority stake in TCAP and gained management control. The company was renamed National Finance and Securities PLC. Two years later, the company was listed on the SET. Since 2003, TCAP's shareholders have been a diverse mix of local and foreign institutional investors, with foreign shareholders owning 49% of the company. As of 11 October 2011, the company's 10 largest shareholders held its stake of 40.15% in total.

In 1989, TCAP acquired a majority stake in Ekachart Finance and Securities PLC (EFS). In 1997, TCAP separated the finance and security businesses, running the finance business under the name National Finance PLC (NFS). The name of the securities business was changed to National Securities Co., Ltd. (NATSEC). The company is one of the few finance companies that survived the 1997 financial crisis. Its proven track record reflects its ability to withstand liquidity runs and to raise capital at appropriate times.

In 2002, TCAP's 99%-owned subsidiary, EFS, was awarded a restricted banking license and was granted a full banking license in 2004, then renamed National Bank PLC (NBANK). The bank's name was changed to the Thanachart Bank PLC in April 2005. Under the Financial Sector Master Plan, Thanachart Group was permitted to have one deposit-taking institution under the "One Presence" policy. Subject to regulatory approval, the company consolidated its banking and finance businesses into TBANK at the end of 2004. TCAP became a financial holding company on 22 April 2005, when the proposed reorganization plan was approved by the Ministry of Finance (MOF). According to the plan, all of TCAP's financial service businesses were transferred to TBANK while TCAP became a financial holding company which owns TBANK. On 30 January 2006, the shareholders approved the change of the name from National Finance PLC to Thanachart Capital PLC. TCAP returned the finance company license to the MOF on 31 March 2006.

In order to comply with the restructuring plan for the Thanachart Group's financial business, in accordance with the Bank of Thailand's (BOT) principle of consolidated supervision, on 12 July 2007, TBANK bought eight subsidiaries from TCAP at book value as of 30 June 2007 for Bt4,158 million. These subsidiaries were Thanachart Securities PLC (TNS), Thanachart Insurance Co., Ltd. (TNI), Thanachart Life Assurance Co., Ltd. (TLIFE), Thanachart Fund Management Co., Ltd. (TFUND), Thanachart Broker Co., Ltd., Thanachart Group Leasing Co., Ltd., Thanachart Management & Services Co., Ltd. and Thanachart Legal and Appraisal Co., Ltd. As a result, TCAP's key financial subsidiaries became TBANK's subsidiaries while TCAP continued to hold TBANK and two asset management companies, NFS-AMC and MAX-AMC.

In July 2007, TCAP signed a joint venture agreement with a new strategic partner, BNS, to invest in TBANK. As a result, TBANK had two major shareholders, TCAP and BNS, holding 74.48% and 24.98% of TBANK's paid up capital, respectively. TBANK subsequently delisted from the SET on 15 January 2008. TCAP's stake on TBANK rose to 74.92%, as TCAP bought shares of TBANK from the minority shareholders. On 3 February 2009, TCAP sold an additional 416.5 million ordinary shares of TBANK to BNS. As a result, TCAP's stake in TBANK fell to 50.92%. On 29 May 2009, TCAP injected capital worth Bt1,019 million to TBANK. TCAP's stake in TBANK remained unchanged at 50.92%. In April 2010, TCAP injected more capital in TBANK: Bt18,246 million for the purpose of acquiring SCIB. At the end of December 2011, TCAP held a 50.96% stake in TBANK while BNS continued to hold a 49.00% stake.

Table 1: TCAP Group Structure
(As of 31 Dec 2011)

TCAP Group Structure	TCAP's Ownership (%)
Thanachart Bank PLC (TBANK)	50.96
<u>TBANK's subsidiaries</u>	
- Thanachart Securities PLC (TNS)	
- Thanachart Fund Management Co., Ltd. (TFUND)	
- Thanachart Insurance Co., Ltd. (TNI)	
- Thanachart Life Assurance Co., Ltd. (TLIFE)	
- Thanachart Group Leasing Co., Ltd.	
- Thanachart Broker Co., Ltd.	
- Thanachart Management and Services Co., Ltd.	
- Thanachart Legal and Appraisal Co., Ltd.	
- Thanachart Training and Development Co., Ltd.	
- TS Asset Management Co., Ltd. (TS AMC)	
- Ratchthani Leasing PLC (THANI)	
- Siam City Bank PLC (SCIB)	
- Siam City Life Assurance Co., Ltd. (SCILIFE)	
- SCIB Service Co., Ltd.	
NFS Asset Management Co., Ltd. (NFS-AMC)	100.00
MAX Asset Management Co., Ltd. (MAX-AMC)	83.44

Sources: TCAP financial statements

RECENT DEVELOPMENTS

- ***Business integration between TBANK and SCIB was successful***

TBANK signed the Entire Business Transfer Agreement (EBT) covering SCIB's businesses, effective on 1 October 2011. The agreement consisted of the transfer to TBANK of the assets, liabilities, and commitments of SCIB as of 1 October 2011, and/or contingent liabilities that may arise in the future. SCIB discontinued its all business, starting from 1 October 2011. SCIB filed for business dissolution and returned its banking license to the MOF in 2011.

- ***Recapitalized THANI, the newly acquired leasing firm***

In accordance with the terms of the EBT agreement, in October 2011, TBANK acquired a 48.35% stake in Ratchthani Leasing PLC (THANI) by receiving 437.3 million ordinary shares, worth Bt536 million, of THANI from SCIB.

On 1 November 2011, TBANK purchased 437.5 million more shares of THANI, at the price of Bt1.52 per share, worth Bt665 million. As a result, TBANK's stake in THANI rose to 65.18% of the total shares issued.

- ***Restructuring TBANK's subsidiaries***

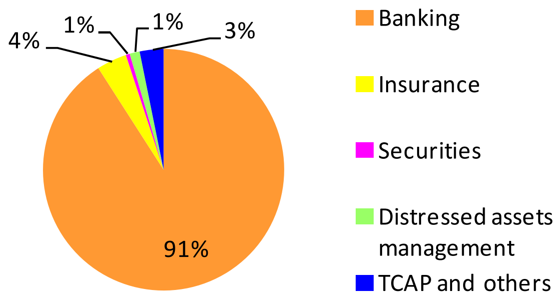
TBANK and its subsidiaries reorganized the group structure after acquiring SCIB and its subsidiaries. In May 2011, all shares of Siam City Asset Management Co., Ltd. were disposed by being sold to the Government Pension Fund. The securities businesses of Siam City Securities Co., Ltd. (SCIB Securities) were transferred to TNS in late 2010 and all shares of SCIB Securities were subsequently disposed at a total price of Bt168 million in August 2011. At the same time, TBANK disposed all of the shares of Siam City Insurance Co., Ltd. at a total price of Bt114 million in August 2011. In the second quarter of 2011, TBANK established a new subsidiary company, TS Asset Management Co., Ltd. (TS AMC), to manage NPLs and foreclosed property transferred from SCIB.

BUSINESS ANALYSIS

TCAP renders a variety of services through its core operating subsidiaries, TBANK and two distressed-asset management companies, NFS-AMC and MAX-AMC. TCAP's services offered through TBANK and affiliated companies include banking, hire-purchase lending and leasing, securities brokerage, fund management, life and non-life insurance, and other supporting businesses. Based on consolidated asset size as of September 2011, TCAP was ranked 6th among all 15 Thai commercial banks. TCAP's consolidated assets were Bt888.1 billion, with 8.3% market shares in loans and 6.5% in deposits.

TBANK is the core operating network for the five main financial business units of the group: banking, securities and fund management, life and non-life insurance, leasing & hire-purchase lending, and distressed asset management. The banking business (TBANK and SCIB) contributed 91% of the Thanachart Group's assets, followed by insurance (TLIFE and TNI, 4%). The group's market share, in terms of asset size, improved significantly, rising from 10th place in 2004 to 6th place out of 15 Thai banks at the end of September 2011. The rise in market share was a result of a two-fold growth strategy: expansion of the banking network nationwide by opening new branches during 2005-2009 and the acquisition of SCIB in April 2010. At the end of September 2011, the Thanachart Group provided services through 683 branches and 2,179 automated teller machines (ATMs) of TBANK (including those of SCIB), 36 securities branches of TNS, and the offices of other subsidiaries.

Chart 1: Thanachart Group's Asset Composition



Sources: TCAP financial statements

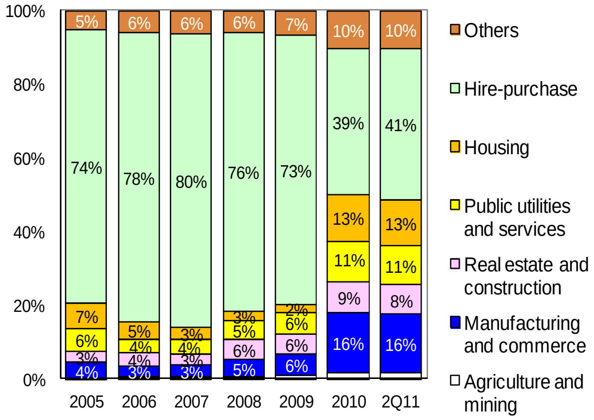
- ***Strong alliance with a strategic partner***

BNS, a leading Canadian bank, increased its shareholding in TBANK to 49% in February 2009, reaffirming the vision of TBANK and BNS's confidence in TBANK. Since BNS became a strategic partner in 2007, TBANK has been integrating the corporate cultures of BNS and the Thanachart Group. BNS has designated four directors and placed some second-level managers in the key business units of TBANK. The second-level managers play key roles in improving the working procedures, enhancing innovation, plus leveraging experience and knowledge. This strategic partnership is expected to enhance the financial stability, capability, and sustainability of TBANK in the medium to long term.

- ***Diversifying into corporate loans***

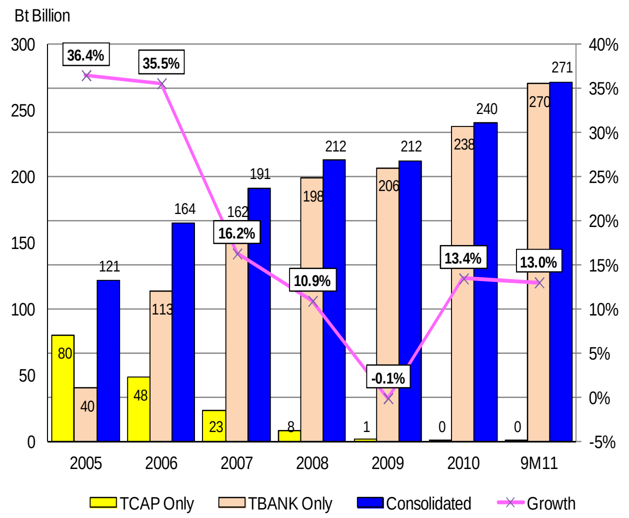
To reduce the emphasis on automobile hire-purchase lending, TCAP has diversified its product line and now makes more corporate loans. At the end of June 2011, TCAP's consolidated loan portfolio was Bt633.3 billion, up by 4% from December 2010. Of the total, corporate loans accounted for 36% of the total loan portfolio while the remainder (64%) was personal consumption loans. Corporate loans significantly grew, from Bt51.9 billion in 2009 to Bt228.6 billion at the end of June 2011. As of June 2011, corporate loans mainly comprised loans to companies in the manufacturing and commerce segment (16% of total loans), followed by the public utilities and services segment (11%) and the real estate and construction segment (8%). The bulk of personal consumption loans were hire-purchase and housing loans, accounting for 41% and 13% of total loans, respectively.

Chart 2: TCAP Consolidated Loan Portfolio Breakdown by Sector



Sources: TCAP financial statements

Chart 3: TCAP's Consolidated Hire-Purchase Receivables



Sources: TCAP financial statements

▪ ***Market leader in hire-purchase lending***

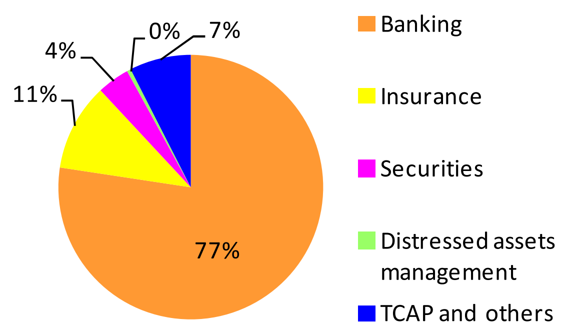
The decision to enter the hire-purchase lending business in 1999 came at the early stage of an upturn in this industry. This demonstrates the ability of TCAP's management to seek business opportunities, at the right time, in potential markets. The move has provided TCAP with a large retail customer base and favorable financial performance. The auto hire-purchase lending business was transferred from TCAP to TBANK in May 2005. TBANK is well-equipped to succeed in making new hire-purchase loans. One benefit from building an extensive branch network is reflected in TBANK's ability to acquire new hire-purchase loans. The monthly average of new hire purchase loans rose from Bt4,449 million in new loans per month in 2009 to Bt6,512 million per month in 2010, and Bt7,101 million per month for the first nine months of 2011. The consolidated value of hire-purchase loans outstanding increased by 13%, from Bt239.9 billion in 2010 to Bt271.1 billion at the end of September 2011. This equals to a market share of around 26%.

▪ ***TBANK, the core contributor to TCAP***

TBANK and its subsidiaries are the core subsidiaries of TCAP in terms of asset size and revenue contributions. For the first nine months of 2011, TBANK and its subsidiaries accounted for approximately 93% of TCAP's consolidated net operating income, down slightly from 94% in 2010. The income came mainly from the banking business (77%), insurance business (11%), and securities business (4%). The contributions from two distressed asset management companies, NFS-AMC and MAX-AMC, diminished, falling to 1% for the first nine months of 2011. The amount of net profit contributed by the distressed asset management business is expected to further decline. NFS-AMC may not acquire any new sizable distressed assets in time to offset the portion of distressed assets being resolved. MAX-AMC will wind down in the near future, and the core entity running the distressed asset management will be NFS-AMC.

After acquiring SCIB, TBANK's credit profile has strengthened and it now has a larger competitive edge. TBANK expanded its distribution and branch network, developed its IT systems, and established a standard risk management framework. In addition, the 49% stake in TBANK that BNS has owned since February 2009 reflects the solid medium- to long-term support BNS has continued to provide. However, BNS, TCAP, and TBANK have yet to prove they can get the greater benefits from utilizing the bank's physical network to achieve all the possible synergies.

Chart 4: Thanachart Group's Revenue Structure



Sources: TCAP financial statements

- ***Improved group-wide risk management framework***

TCAP has continuously developed and implemented a risk management system that measures risk on a consolidated basis. The company established an international standard risk management framework to comply with BASEL II. With a large retail customer base, TCAP has developed its in-house information management capabilities to support the management of credit risk across all affiliated companies. A deposit-taking institution provides the group with greater access to stable and flexible sources of funds, both from public borrowings (deposits) and the money market. An improved risk management system, an experienced management team, and business diversification are crucial factors that will protect the company from downside risk in the medium term.

ASSET QUALITY

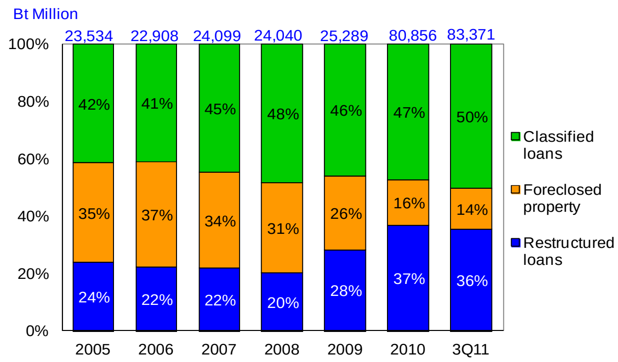
- ***Challenged to maintain good asset quality***

TCAP's asset quality improved during 2005-2009, as illustrated by the consolidated NPLs to total loans ratio. This ratio continuously declined, falling from 5.97% in 2005 to 4.06% in 2009. However, TCAP's NPL ratio rebounded to 6.62% at the end of September 2011, above the industry average of 3.98%. This rise resulted from TBANK's acquisition of SCIB's loan portfolio, which contained a large amount of NPLs. In addition, the NPLs in TCAP's consolidated hire-purchase loan portfolio slightly increased, rising from 1.2% of total hire-purchase loans in 2005 to 1.8% at the end of June 2011. Since 2003, TCAP has focused on used car hire-purchase loans, which constituted around 28% of total hire-purchase receivables as of September 2011. This segment exposes the company to higher credit risk along with higher yields. Furthermore, the heavy floods in Thailand in late 2011 may affect TCAP's loan quality. The higher credit risk exposure is a cause for concern. TCAP will face a challenge to maintain good asset quality as its asset quality may deteriorate in the future.

- ***NPA ratio is sharply higher***

At the end of September 2011, TCAP's consolidated NPAs totaled Bt83.4 billion, a sharp increase from Bt25.3 billion in 2009. The rise resulted from the acquisition of a large amount of NPAs from SCIB. The largest portion of the NPAs was classified loans more than three months past due, which accounted for 50% of total NPAs. Restructured debts and property foreclosures comprised 36% and 14% of NPAs, respectively. The ratio of NPAs to total assets was 9.39% as of September 2011, up substantially from 5.5% in 2009. This level was also above the industry average of 7.07%, indicating that the asset quality of TCAP has weakened. TS AMC, a new subsidiary of TBANK, was created subsequently to receive and manage the deteriorated assets transferred from SCIB.

Chart 5: TCAP's NPA Structure



Sources: TCAP financial statements

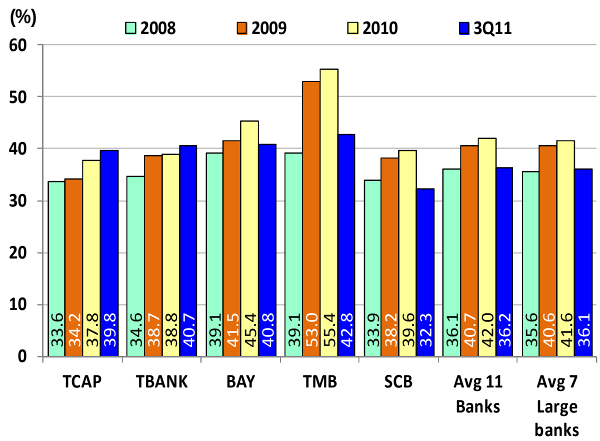
PROFITABILITY

TCAP's financial performance improved during 2007-2010. Net income (excluding minority interest of subsidiaries) continually increased, rising from Bt2,818 million in 2007 to Bt2,768 million in 2008, Bt5,109 million in 2009, and Bt5,639 million in 2010. The rise was driven by a wider interest spread, lower credit costs, and greater fee-based income. ROAA rose from 0.93% in 2007 to 1.2% in 2009, but fell to 0.84% in 2010. The fall was caused by the doubling of the asset size after TBANK acquired SCIB, but profits grew more slowly. At the same time, ROAE rose from 10.12% in 2007 to 12.81% in 2009, but declined to 9.47% in 2010. The drop resulted from an increase in minority interest of subsidiaries (BNS) following the increase in the shareholders' equity of TBANK. Profit for the first nine months of 2011 declined by 4.4% year-on-year (y-o-y), falling to Bt4,065 million. Meanwhile, non-annualized ROAA and ROAE for the first three quarters of 2011 were 0.46% and 5.62%, respectively, dropping from 0.65% and 7.24% for the same period of the prior year. The consolidated net profit of TBANK and its subsidiaries, the core contributors to TCAP, is expected to steadily grow after the successful merger with SCIB. TRIS Rating expects to see the improvement in the Thanachart Group's business and financial profile due to its enhanced franchise value and long-term opportunities in commercial banking.

- ***Interest spread narrowed***

The consolidated interest spread of TCAP widened, rising from 1.91% in 2006 to 3.28% in 2010. The spread rose because TBANK restructured its funding sources to use more lower-cost funds (deposits). The drop in funding costs was greater than the decrease in interest yields. However, for the first three quarters of 2011, the non-annualized spread was 1.95%, lower than the 2.44% spread recorded in the same period last year. The contraction in interest spread was due to the increased funding costs, coupled with a drop in yield over the year. At the end of September 2011, the ratio of net interest and dividend income to total income was 44.8%, rising steadily from 27.7% in 2006, indicating the company was more sensitive to changes in interest spread.

Chart 6: Operating Expenses to Total Income



Source: TRIS Rating

- ***High operating expenses***

After the reorganization of the Thanachart Group in 2007, the ratio of operating expenses (net of insurance expense) to total income continuously rose, climbing from 30.2% in 2007 to 39.8% for the first nine months of 2011. The ratio was also above the industry average of 36.2%. The increase was mainly due to TBANK's business expansion, as well as the business integration costs between TBANK and SCIB. The integration costs included IT system improvements, branch decoration cost, and employee benefits and training. However, these transformations are expected to enhance the bank's infrastructure and networks and to improve the efficiency of the Thanachart Group's operation in the medium to long term.

FUNDING/LIQUIDITY

- ***One Presence policy changes TCAP's funding structure***

Under the One Presence policy, a group of financial service companies is permitted to have one deposit-taking institution. This policy changed TCAP's funding structure after 1 July 2005. As a result, TCAP's stand-alone funding structure changed from public borrowings as a major funding source to a greater reliance on long-term borrowings. In the meantime, TBANK turned into the Group's sole deposit-taking institution. The cash flows from dividends received from TBANK will be sufficient to repay all borrowing obligations. As of September 2011, TCAP's stand-alone funding mainly comprised Bt13,500 million in long-term debentures.

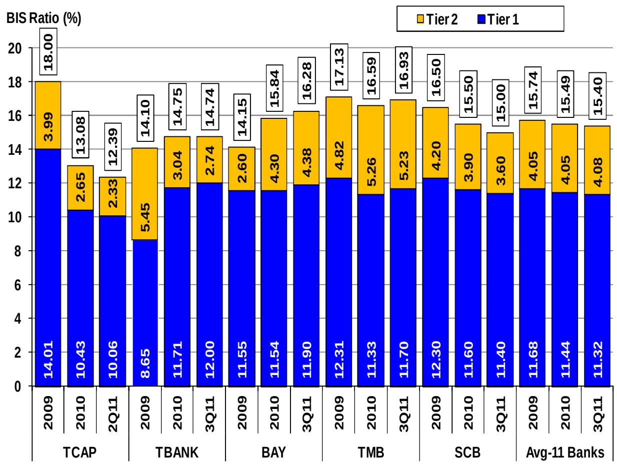
On a consolidated basis, TCAP continued to rely mostly on public borrowings. As of June 2011, the deposit structure was 27% savings and call deposits, 43% time deposits and certificate of deposits, and 30% bills of exchange (B/E). At the end of September 2011, TBANK's asset-liability structure was mismatched in terms of duration and interest rate structure. The maturity mismatch was alleviated by a rollover rate of more than 90% of deposits at TBANK.

CAPITALIZATION

- ***Adequate capitalization***

On a consolidated basis, TCAP's equity to total assets ratio was 10.3% in 2009, up from 8.2% in 2008. The improvement was the result of a gain on the sale of TBANK's shares to BNS, better operating results, and an injection of new capital into TBANK in 2009. However, after TBANK acquired SCIB in 2010, the equity to total assets ratio fell to 8.1% in 2010 and 8.2% at the end of September 2011. The drop was caused by the rise in TBANK's asset size. Furthermore, TCAP's fully consolidated capital adequacy ratio was 12.39% at the end of June 2011, down from 13.08% in 2010 and 18.00% in 2009. The drop came mainly as TCAP's risk assets doubled through the acquisition of SCIB by TBANK. TCAP's capitalization may weaken should TBANK's risk assets rise as the loan portfolio expands and as TBANK pays large dividends to its shareholders. Although TCAP's current capital base is adequate to absorb risks arising from future adverse changes in the business environment, TRIS Rating expects TCAP to maintain its capital base at least in line with the industry average.

Chart 7: Capital Funds Structure

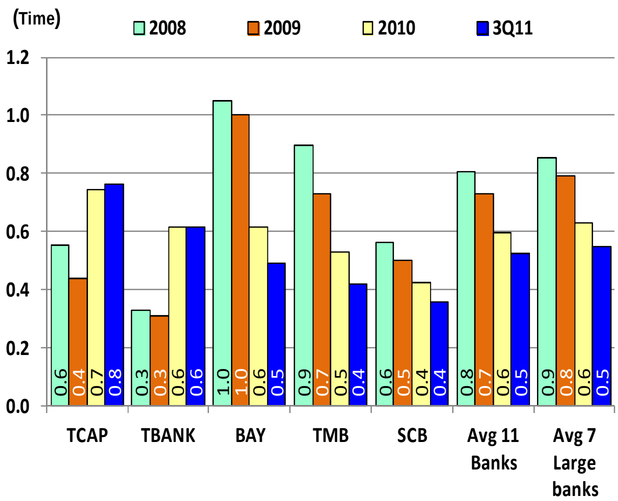


Source: TRIS Rating

- ***Smaller cushion of capital funds and allowances***

At the end of June 2011, TCAP's ratio of NPAs to total capital funds plus allowance for doubtful accounts was 0.76 times, up from 0.44 times in 2009. The ratio was also above the industry average of 0.55 times. The figure indicates TCAP's smaller amount of capital funds and allowances for doubtful accounts to serve as a cushion against NPAs. The smaller cushion may limit the ability of the Thanachart Group to expand in the future.

Chart 8: Ratio of NPAs to Capital Fund plus Allowance for Doubtful Accounts



Source: TRIS Rating

Financial Statistics*

Unit: Bt million

	---------------------------- Year Ended 31 December ----------------------------					
	Jan-Sep 2011	2010	2009	2008	2007	2006
Total assets	888,110	881,916	459,965	394,090	321,256	286,229
Investment in securities	152,119	147,232	97,112	39,385	28,874	34,766
Loans and receivables	638,829	610,602	289,424	279,774	239,490	209,565
Allowance for doubtful accounts	28,020	27,959	10,534	10,008	8,456	8,246
Deposits	458,603	532,382	265,871	269,730	188,166	198,527
Borrowings**	299,224	225,263	118,245	72,756	83,674	49,542
Shareholders' equity	72,909	71,720	47,407	32,361	32,262	23,431
Net interest and dividend income	18,728	23,254	14,148	11,084	8,277	6,168
Bad debts and doubtful accounts	1,718	1,820	2,849	3,593	2,052	924
Non-interest income	9,176	11,345	9,777	6,089	6,185	5,298
Operating expenses	16,623	17,632	10,912	9,238	7,537	7,958
Net income (excluding non-controlling interests of the subsidiaries)	4,065	5,639	5,109	2,768	2,818	1,468
Net income (including non-controlling interests of the subsidiaries)	7,251	10,302	7,175	3,342	3,169	1,620

* *Consolidated financial statements*
** *Including interbank and money market*

Key Financial Ratios*

Unit: %

		------------------------- Year Ended 31 December -------------------------				
	Jan-Sep 2011	2010	2009	2008	2007	2006
Profitability						
Net interest and dividend income/average assets	2.12 **	3.47	3.31	3.10	2.73	2.40
Non-interest income/average assets	1.04 **	1.69	2.29	1.70	2.04	2.06
Fees and service income***/total income	11.66	15.68	15.70	16.43	15.19	13.16
Operating expenses/total income	39.75	37.84	34.22	33.59	30.17	35.77
Operating profit/average assets	1.08 **	2.26	2.38	1.21	1.60	1.01
Return on average assets	0.46 **	0.84	1.20	0.77	0.93	0.57
Return on average equity****	5.62 **	9.47	12.81	8.57	10.12	6.27
Asset Quality						
Non-performing loans/total loans	6.62	6.46	4.06	4.24	4.61	5.11
Non-performing assets/total assets	9.39	9.17	5.50	6.10	7.50	8.00
Bad debts and doubtful accounts/average loans	0.28	0.40	1.00	1.38	0.91	0.50
Allowance for doubtful accounts/total loans	4.39	4.58	3.64	3.58	3.53	3.93
Capitalization						
Shareholders' equity/total assets	8.21	8.13	10.31	8.21	10.04	8.19
Shareholders' equity/total loans	11.41	11.75	16.38	11.57	13.47	11.18
BIS ratio	13.11	13.08	18.00	13.93	13.32	12.43
Liquidity						
Total loans/deposits*****	97.55	90.87	86.53	86.90	94.64	94.94
Deposits*****/total liabilities	80.33	82.93	81.07	89.00	87.57	84.00
Total loans/total assets	71.93	69.24	62.92	70.99	74.55	73.22

* *Consolidated financial statements*
** *Non-annualized*
*** *Including brokerage fees and net insurance premium/life insurance premium income*
**** *Average equity includes non-controlling interests*
***** *Including bills of exchange*

Rating Symbols and Definitions

TRIS Rating uses eight letter rating symbols for announcing medium- and long-term credit ratings. The ratings range from AAA, the highest rating, to D, the lowest rating. The medium- and long-term debt instrument covers the period of time from one year up. The definitions are:

AAA The highest rating, indicating a company or a debt instrument with smallest degree of credit risk. The company has extremely strong capacity to pay interest and repay principal on time, and is unlikely to be affected by adverse changes in business, economic or other external conditions.

AA The rating indicates a company or a debt instrument with a very low degree of credit risk. The company has very strong capacity to pay interest and repay principal on time, but is somewhat more susceptible to the adverse changes in business, economic, or other external conditions than AAA rating.

A The rating indicates a company or a debt instrument with a low credit risk. The company has strong capacity to pay interest and repay principal on time, but is more susceptible to adverse changes in business, economic or other external conditions than debt in higher-rated categories.

BBB The rating indicates a company or a debt instrument with moderate credit risk. The company has adequate capacity to pay interest and repay principal on time, but is more vulnerable to adverse changes in business, economic or other external conditions and is more likely to have a weakened capacity to pay interest and repay principal than debt in higher-rated categories.

BB The rating indicates a company or a debt instrument with a high credit risk. The company has less than moderate capacity to pay interest and repay principal on time, and can be significantly affected by adverse changes in business, economic or other external conditions, leading to inadequate capacity to pay interest and repay principal.

B The rating indicates a company or a debt instrument with a very high credit risk. The company has low capacity to pay interest and repay principal on time. Adverse changes in business, economic or other external conditions could lead to inability or unwillingness to pay interest and repay principal.

C The rating indicates a company or a debt instrument with the highest risk of default. The company has a significant inability to pay interest and repay principal on time, and is dependent upon favourable business, economic or other external conditions to meet its obligations.

D The rating for a company or a debt instrument for which payment is in default.

The ratings from AA to C may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within a rating category.

TRIS Rating's short-term ratings focus entirely on the likelihood of default and do not focus on recovery in the event of default. Each of TRIS Rating's short-term debt instrument covers the period of not more than one year. The symbols and definitions for short-term ratings are as follows:

T1 Issuer has strong market position, wide margin of financial protection, appropriate liquidity and other measures of superior investor protection. Issuer designated with a "+" has a higher degree of these protections.

T2 Issuer has secure market position, sound financial fundamentals and satisfactory ability to repay short-term obligations.

T3 Issuer has acceptable capacity for meeting its short-term obligations.

T4 Issuer has weak capacity for meeting its short-term obligations.

D The rating for an issuer for which payment is in default.

All ratings assigned by TRIS Rating are local currency ratings; they reflect the Thai issuers' ability to service their debt obligations, excluding the risk of convertibility of the Thai baht payments into foreign currencies.

TRIS Rating also assigns a **"Rating Outlook"** that reflects the potential direction of a credit rating over the medium to long term. In formulating the outlook, TRIS Rating will consider the prospects for the rated company's industry, as well as business conditions that might have an impact on the fundamental creditworthiness of the company. The rating outlook will be announced in conjunction with the credit rating. In most cases, the outlook of each debt obligation is equal to the outlook assigned to the issuer or the obligor. The categories for "Rating Outlook" are as followed:

Positive The rating may be raised.

Stable The rating is not likely to change.

Negative The rating may be lowered.

Developing The rating may be raised, lowered, or remain unchanged.

TRIS Rating may announce a **"CreditAlert"** as a part of its monitoring process of a publicly announced credit rating when there is a significant event that TRIS Rating considers to potentially exerting a substantial impact on business or financial profiles of the rated entity. Due to an insufficient data or incomplete developments of the event, such as merger, new investment, capital restructuring, and etc., current credit rating remains unchanged. The announcement aims to forewarn investors to take a more cautious stance in investment decision against debt instruments of the rated entity. CreditAlert report consists of a "Rational" indicating warning reasons, a "CreditAlert Designation", and a current credit rating. Rating Outlook is withheld in the announcement.

CreditAlert Designation illustrates a short-term rating outlook indicative of the characteristics of impacts on the credit rating in one of the three directions (1) *Positive* (2) *Negative* and (3) *Developing.*

TRIS Rating Co., Ltd.

Office of the President, Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com