

Press Release

No. 8/2012
16 January 2012

TRIS Rating Upgrades Company & Senior Debt Ratings of "TCAP" to "A+ /Stable" from "A/Positive"

TRIS Rating Co., Ltd. has upgraded the company rating of Thanachart Capital PLC (TCAP) and the ratings of TCAP's senior debentures to "A+" from "A". The outlook has been revised to "stable" from "positive". 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.

The "stable" outlook reflects the expectation that TBANK, as the major source of revenue for TCAP, will be able to leverage the synergies among TBANK and BNS to strengthen its market positions in 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.

TRIS Rating reported that 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.

TRIS Rating said, TCAP was ranked 6th among all 15 Thai commercial banks, based on consolidated asset size as of September 2011, 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

(Continue on page 2)

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, said TRIS Rating. -- End

Thanachart Capital PLC (TCAP)

Company Rating:

Upgraded to A+ from A

Issue Ratings:

TCAP131A: Bt3,000 million senior debentures due 2013

Upgraded to A+ from A

TCAP14NA: Bt9,000 million senior debentures due 2014

Upgraded to A+ from A

Rating Outlook:

Stable from Positive

TRIS Rating Co., Ltd./www.trisrating.com

Contact: rapee@tris.co.th, Tel: 0-2231-3011 ext 500/Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand

© Copyright 2012, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at http://www.trisrating.com/en/rating_information/rating_criteria.html.