

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended 31 December 2019  
(Audited Financial Statements)

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## THANACHART CAPITAL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

### Management's Discussion and Analysis (Audited Financial Statements)

#### Economics Outlook and Competition in Banking Industry

In 2019, the Thai economy expanded by 2.4 percent, a decline from the previous year growth of 4.2 percent, mainly due to the contraction in export sector, as a result of the economic slowdown of trading partner countries and harsh trade protection measures together with baht appreciation. Although there were government stimulus measures to help support the economic growth in the fourth quarter of 2019, government investment, private investment and private consumption expanded at a slower rate. As the Thai economy slowed down and the inflation rate was lower than estimated, the Monetary Policy Committee of the Bank of Thailand issued a resolution to reduce the policy rate two times within the year from 1.75 percent per annum to 1.50 percent per annum during the third quarter of 2019 and from 1.50 percent per annum to 1.25 percent per annum during the fourth quarter 2019 to help stimulate the economic growth.

In 2019, loan volume in the commercial banking industry grew at a slower rate, in line with the overall Thai economy. Corporate loans declined as loans repayments. Retail loans slowed down, due to the slowdown of mortgage loans from mortgage control measures and the slowdown of hire purchase loans from a decrease in new car sales. Non-performing loans continued increasing in line with the economic slowdown.

For 2020, the Thai economy is expected to grow by 1.5 – 2.5 percent as predicted by the Office of the National Economic and Social Development Council. The slowdown is from the spread of COVID-19 virus, the drought, and the delay of government budget implementation. However, the improvement of trade protection measures and the favorable conditions of domestic demand by both government investment and household spending would help support the Thai economic growth.

#### Key Events in 2019

1. On 24 April 2019, the Annual General Meeting of Shareholders for the year 2019 of Thanachart Capital Public Company Limited ("the Company") had a resolution to pay dividend to shareholders at the rate of 1.60 baht per share, amounting to 1,833 million baht. Taking into account this round of dividend payment and the interim dividend payment worth 1.00 baht per share or 1,165 million baht, total dividend payment in 2018 amounted to 2.60 baht per share or 2,998 million baht. The dividend payment was made on 17 May 2019.
2. On 19 September 2019, the Board of Directors of the Company had a resolution to approve the payment of interim dividend for the first six-month of 2019 at a rate of 1.20 baht per share to all shareholders of the Company. The determination of the name of shareholders eligible for interim dividend payment would be on 4 October 2019 and the payment was made on 18 October 2019.
3. On 23 September 2019, the Company held the Extraordinary Shareholders' Meeting No. 1/2019 in order for the Meeting to consider and approve the important undertakings in relation to the business restructuring of the Company and Thanachart Bank Public Company Limited ("TBANK") and the merger plan between TBANK and TMB Bank Public Company Limited. The Meeting approved with the votes of not less than three-fourths of the total votes of the shareholders who attended the Meeting and had the right to vote. The details of which are disclosed in the

Company's notification submitted to the Stock Exchange of Thailand No. TCAP.CSO 128/2019 Re: Informing the Resolutions of the Extraordinary General Meeting of Shareholders No. 1/2019 of Thanachart Capital Public Company Limited.

Later between 3-4 December 2019, the Company has made important transactions as follows:

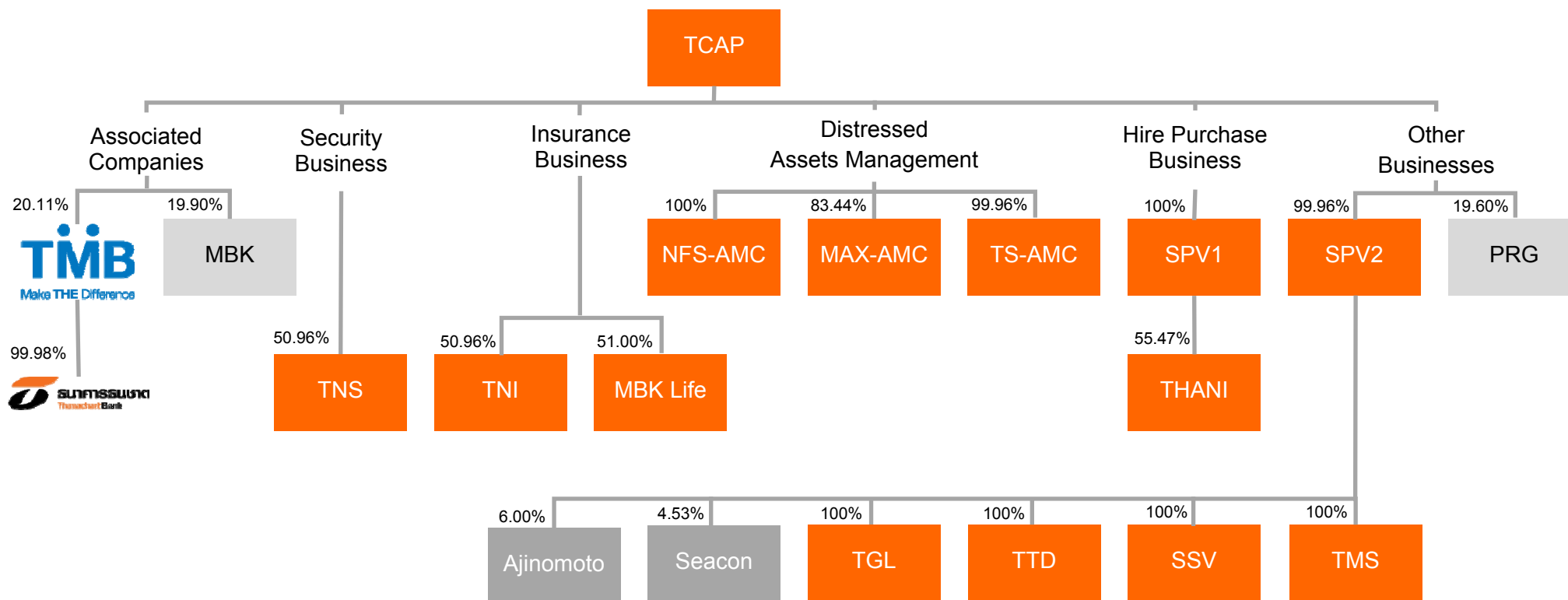
1. Purchase of ordinary shares of the subsidiaries and other companies offered for sale by TBANK to its shareholders in proportion to their respective shareholdings under the business restructuring of TBANK,
2. Sale of ordinary shares of TBANK to TMB,
3. Subscription of newly issued ordinary shares of TMB, and
4. Purchase of ordinary shares of the subsidiaries and other companies from BNS after the business restructuring of TBANK.

The details are appeared in the notification of the Stock Exchange of Thailand No. Sor Nor Sor 167/2562 regarding the initial price in relation to the purchase of ordinary shares of the subsidiaries and other companies offered for sale by TBANK to its shareholders in proportion to their respective shareholdings, the initial price in relation to the sale of ordinary shares of TBANK, the initial price in relation to the subscription of newly issued ordinary shares of TMB, and the initial price in relation to the purchase of ordinary shares of the subsidiaries and certain other companies after the business restructuring of TBANK and scheduled the transaction date for 2 December 2019. As a result, TMB has become an associated company of the Company, which the Company will recognize the profit / loss of TMB through share of profit from investments accounted for under equity method.

4. From the transactions in item 3, the Company has remaining cash of around 14,000 million baht. The Board of Directors Meeting held on 16 December 2019 had considered and approved the management of excess cash as follows:
  1. Approval of Share Repurchase Project for Financial Management in the amount of not exceeding 6,000 million baht with the number of repurchased shares not exceeding 97,045,970 shares. The repurchase price per share would not exceed the average share price of the business day prior to the repurchase date adjusted to the next tick size, plus two tick sizes.
  2. Approval of special interim dividend payment of 4.00 baht per share to the shareholders of the Company. The name of the shareholders eligible for the interim dividend payment was set on 30 December 2019 and the payment of the interim dividend was made on 16 January 2020.

After the restructuring of Thanachart Group including the sale of ordinary shares of TBANK to TMB and the subscription of newly issued ordinary shares of TMB, resulting in as of 31 December 2019, the structure of Thanachart Group has changed, as shown

## TCAP's Structure After Closing Date (As of 31 December 2019)



Remark : TCAP = Thanachart Capital PCL, NFS-AMC = NFS Asset Management Col. Ltd. MAX-AMC = MAX Asset management Col. Ltd., MBK = MBK PCL, PRG = Patum Rice Mill and Granary PCL, TNS = Thanachart Security PCL, TNI = Thanachart Insurance PCL, TS-AMC = TS Asset management Col. Ltd., SPV 1&2 = Thanachart Special Purpose Vehicle 1 & 2, THANI = Ratchthani Leasing PCL, TGL = Thanachart Group leasing Col. Ltd., TTD = Thanachart Training & Development Company Limited, SSV = Security Scib Services Col. Ltd., TMS = Thanachart Management and Service Col. Ltd.

Percentage of shareholding for MBK, TNS, TNI, TS-AMC, THANI, SPV2 and PRG are excluding the shares holding for TBANK minority shareholders.

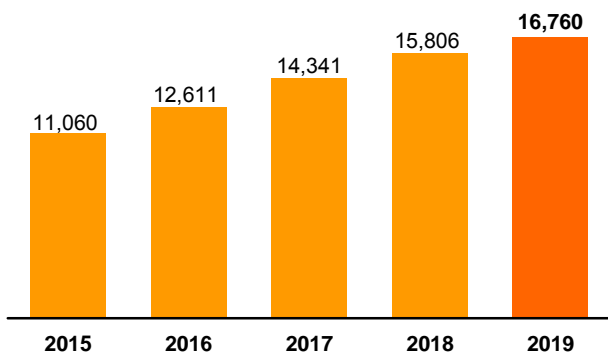
**Operating Results for the Year 2019**

**Performance Overview**

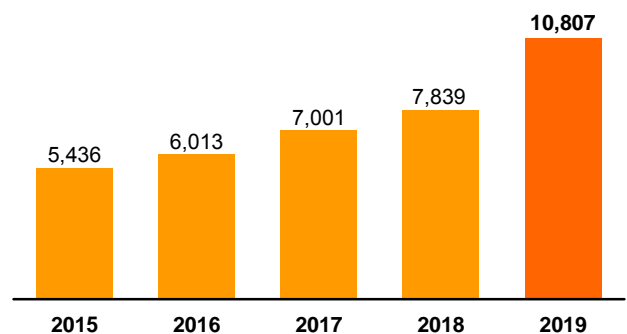
In 2019, the Company and its subsidiaries' net profit according to the consolidated financial statements amounted to 16,760 million baht of which 10,807 million baht was the net profit attributable to the Company, representing an increase of 2,968 million baht or 37.86 percent from the previous year. This was mainly due to the performance of TBANK and its subsidiaries as well as the gains on selling TBANK to TMB. Net interest income increased from the expansion of hire purchase loans. At the same time, impairment loss of loans declined. However, non-interest income decreased, due to a decrease in net insurance/life insurance income from low long-term bond yields which resulted in an increase in life insurance reserve as per GPV method. Operating expenses increased, due to an increase in expenses for retirement pension and severance payment at the rate of 400 days' wage. As a result, the net profit attributable to the Company amounted to 10,807 million baht. Earning per share (EPS) was 9.43 baht, an increase from 6.74 baht. Return on average assets (ROAA) and return on average equity (ROAE) of the Company's shareholders were at 1.67 and 15.70 percent, respectively.

The Company's net profit according to the separate financial statements in 2019 amounted to 57,261 million baht, an increase of 53,945 million baht from the previous year. This was mainly due to the sale of TBANK to TMB. Earning per share (EPS) was 49.98 baht, an increase from 2.85 baht.

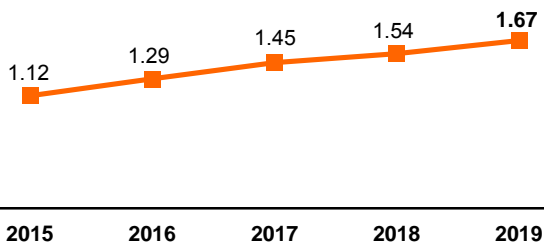
**Net Profit of Thanachart Group (Million Baht)**



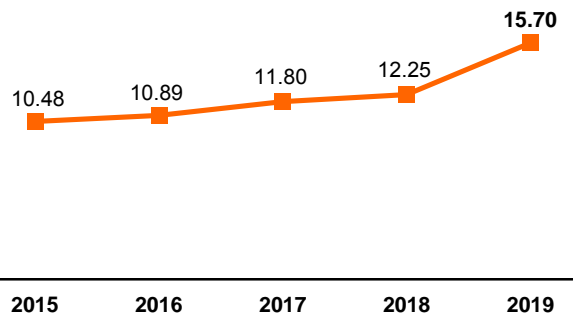
**Net Profit Attributable to the Company (Million Baht)**



ROAA (Percent)



ROAE\* (Percent)



\* Shareholders' equity of the company

## Financial Highlights

### Financial Highlights

Audited Financial Statements	For the year ended	
	31-Dec-19	31-Dec-18
<b>Operating Performance (Million Baht)</b>		Restated
Interest Income	4,339	4,074
Interest Expenses	1,599	1,515
Net Interest Income	2,740	2,559
Non-interest Income	4,863	5,546
Net Operating Income <sup>(1)</sup>	7,603	8,105
Other Operating Expenses	3,153	3,019
Impairment Loss of Loans and Debt Securities (Reversal)	(316)	302
Profit before Tax	4,766	4,784
Income Tax	1,367	927
Profit for the Year from Continuing Operations	3,399	3,857
Profit for the Year from Discontinued Operations	13,361	11,949
<b>Profit for the Year</b>	<b>16,760</b>	<b>15,806</b>
<b>Net Profit Attributable to the Company</b>	<b>10,807</b>	<b>7,839</b>
Basic Earnings per Share (Baht)	9.43	6.74
	31-Dec-19	31-Dec-18
<b>Financial Position (Million Baht)</b>		
Loans	56,266	754,613
Investment in Associated Company-net	45,421	3,027
Total Assets	160,927	1,060,929
Deposits	-	751,917
Total Liabilities	86,868	923,011
Company's Shareholders' Equity	65,833	65,735
Non-controlling Interests	8,226	72,183
Total Shareholders' Equity	74,059	137,918
<b>Operating Performance Ratios (Percent)</b>		
ROAA	1.67	1.54
ROAE <sup>(2)</sup>	15.70	12.25
D/E Ratio (times)	1.17	6.69

(1) Net Operating Income = Net Interest Income + Non-interest Income

(2) ROAE is calculated from equity attributable to the Company's shareholders

## Net Interest Income

### Net Interest Income (Million Baht)

	2019	2018 (Restated)	Change	
			+ / (-)	%
<b>Interest Income</b>	<b>4,339</b>	<b>4,074</b>	<b>265</b>	<b>6.50</b>
Interbank and Money Market Items	148	139	9	6.47
Investments for trading	121	149	(28)	(18.79)
Investments for debts securities	281	216	65	30.09
Loans	250	368	(118)	(32.07)
Hire Purchase and Financial Leases	3,539	3,202	337	10.52
<b>Interest Expenses</b>	<b>1,599</b>	<b>1,515</b>	<b>84</b>	<b>5.54</b>
Interbank and Money Market Items	363	342	21	6.14
Debts Issued and Borrowings	1,222	1,161	61	5.25
Borrowing Fee	14	12	2	16.67
<b>Net Interest Income</b>	<b>2,740</b>	<b>2,559</b>	<b>181</b>	<b>7.07</b>

In 2019, the Company and its subsidiaries had 2,740 million baht in net interest income, an increase of 181 million baht or 7.07 percent from the previous year.

- Interest income was 4,339 million baht, an increase of 265 million baht or 6.50 percent. This was mainly due to the growth of hire purchase loans of THANI especially in the truck segment.
- Interest expenses were 1,599 million baht, an increase of 84 million baht or 5.54 percent. This was mainly due to an increase in interest expenses for long-term debt securities of THANI.



## Non-interest Income

### Non-interest Income (Million Baht)

	2019	2018 (Restated)	Change	
			+ / (-)	%
<b>Net Fees and Service Income</b>	<b>1,202</b>	<b>1,440</b>	<b>(238)</b>	<b>(16.53)</b>
Gains on Trading and Foreign Exchange Transactions	146	41	105	256.10
Gains on Investments	514	423	91	21.51
Share of Profit from Investments Accounted for under Equity Method	367	543	(176)	(32.41)
Gains on Properties Foreclose and Other Assets	222	369	(147)	(39.84)
Net Insurance Premium/ Life Insurance Premium Income	1,408	1,807	(399)	(22.08)
Dividend Income	181	261	(80)	(30.65)
Other Income	823	662	161	24.32
<b>Operating Income</b>	<b>3,661</b>	<b>4,106</b>	<b>(445)</b>	<b>(10.84)</b>
<b>Non-interest Income</b>	<b>4,863</b>	<b>5,546</b>	<b>(683)</b>	<b>(12.32)</b>

**Non-interest income of the Company and its subsidiaries in 2019 amounted to 4,863 million baht, a decrease of 683 million baht or 12.32 percent** from the previous year. This was mainly due to the following.

- Net fees and service income amounted to 1,202 million baht, a decrease of 238 million baht or 16.53 percent. This was mainly due to the decrease in brokerage fees from securities businesses.
- Other operating income amounted to 3,661 million baht, a decrease of 445 million baht or 10.84 percent. This was mainly due to net insurance/life insurance premium income decreased by 399 million baht from low long-term bond yields which resulted in an increase in life insurance reserve as per GPV method. Share of profit from investments accounted for under equity method decreased by 176 million baht and gains on property foreclosed decreased by 147 million baht. Meanwhile gains on trading and foreign exchange transactions increased by 105 million baht and gains on investments increased by 91 million baht.

## Other Operating Expenses

### Other Operating Expenses (Million Baht)

	2019	2018 (Restated)	Change	
			+/(-)	%
Personnel Expenses	1,895	1,793	102	5.69
Premises and Equipment Expenses	245	258	(13)	(5.04)
Taxes and Duties	35	35	-	-
Directors' Remuneration	70	59	11	18.64
Other Expenses	908	874	34	3.89
<b>Total Other Operating Expenses</b>	<b>3,153</b>	<b>3,019</b>	<b>134</b>	<b>4.44</b>

In 2019, other operating expenses of the Company and its subsidiaries amounted to 3,153 million baht, an increase of 134 million baht or 4.44 percent from the previous year, due to the increase in expenses for retirement pension and severance payment at the rate of 400 days' wage.

## Impairment Loss of Loans and Debt Securities

### Impairment Loss of Loans and Debt Securities (Million Baht)

	2019	2018 (Restated)	Change	
			+/(-)	%
Impairment Loss of Loans and Debt Securities (Reversal)	(316)	302	(618)	(204.64)

In 2019, the Company and its subsidiaries had reversal of impairment loss of loans and debt securities in the amount of 316 million baht. As a result, the impairment loss of loans and debt securities decreased by 618 million baht or 204.64 percent from the previous year.

## Operating Results of Subsidiaries

### Operating Results of Subsidiaries (Million Baht)

Subsidiaries	% Shareholding	Net Profit (Loss)	
		2019	2018
Thanachart Securities Public Company Limited	50.96%	1,674	593
Thanachart Insurance Public Company Limited	50.96%	1,449	1,042
TS AMC Company Limited	99.96%	134	237
Ratchthani Leasing Public Company Limited	55.47%	1,850	1,641
NFS AMC Company Limited	100.00%	135	14
MAX AMC Company Limited	83.44%	224	201
MBK Life Insurance Public Company Limited	51.00%	(260)	(63)

#### Thanachart Securities Public Company Limited

Average daily trading volume of Thanachart Securities Public Company Limited in 2019 was 2,664 million baht, a decrease from 3,152 million baht in the previous year. Market share of securities trading was at 2.90 percent.

**Net profit for the year 2019 amounted to 1,674 million baht, an increase of 1,081 million baht or 182.29 percent** from the previous year. Total income increased by 1,196 million baht or 63.62 percent from the previous year, due to the gains on investments from Thanachart Group's shareholding restructuring plan. Brokerage fees income decreased by 20.51 percent, which was in line with the trading volume of the stock market and the company's market share during the period. At the same time, the interest income on the margin loans decreased as the margin loans reduced and the interest rate declined. Total expenses declined by 13.99 percent.

As of December 31, 2019, the company maintained its liquidity ratio (Net Liquid Capital Rules: NCR) at 94.76 percent, higher than the minimum requirement by the Securities and Exchange Commissions (SEC) of 7.00 percent of general indebtedness and securities pledged.

#### Thanachart Insurance Public Company Limited

In 2019, Thanachart Insurance Public Company Limited had **total insurance premium of 8,368 million baht, an increase of 380 million baht or 4.75 percent** from the previous year. The increase was due to higher sales volumes through the Thanachart Bank (Bancassurance), dealers and external brokers. The total insurance premium could be divided into **auto insurance premium of 7,048 million baht, which increased by 329 million baht or 4.89 percent** from the previous year.

For operating results, **the company had a net profit in 2019 of 1,449 million baht, an increase of 407 million baht or 39.05 percent from the previous year.** This was due to the gains on investments from Thanachart Group's shareholding restructuring plan. The other reason was from using insurance selection strategies in new car segment by selecting only profitable types of cars.

**TS Asset Management Company Limited**

TS Asset Management Company Limited has continuously managed debt in accordance with the policies and business plans of the Thanachart Group. As of December 31, 2019, the Company has total assets of 2,398 million baht, a decrease of 100 million baht or 4.00 percent from the end of the previous year

**For operating result in 2019, the company had a net profit of 134 million baht, a decrease of 103 million baht from the previous year.** This was mainly due to the fact that the company had set aside impairment allowance for property foreclosed.

**Ratchthani Leasing Public Company Limited**

As of 31 December 2019, Ratchthani Leasing Public Company Limited still had a strong financial structure. The company's total assets were 50,704 million baht, an increase of 3,173 million baht or 6.68 percent from the end of previous year. **The company had hire purchase loans and financial leases in the amount of 49,709 million baht, an increase of 3,297 million baht or 7.10 percent.** This was mainly from an increase in truck hire purchase. Moreover, the hire purchase loans accounted for 98.04 percent of the total assets. Total liabilities and shareholders' equity were 43,147 million baht and 7,557 million baht, respectively.

**Net profit for the year 2019 amounted to 1,850 million baht, an increase of 209 million baht or 12.74 percent** from the previous year. Total income of the company amounted to 4,086 million baht, an increase of 259 million baht or 6.77 percent. Interest expenses were 1,011 million baht, an increase of 142 million baht or 16.34 percent, due to the acquisition of long-term borrowings to support lending. Provision expenses of the company amounted to 194 million baht, a decrease of 209 million baht or 51.86 percent. This was due to its strict and close monitoring of lending which resulted in better asset quality. Also, the company has reversed its general provision in the amount of 90 million baht for providing provision in accordance with its business operation under TFRS9 accounting standards.

## Financial Position

### Consolidated Statements of Financial Position (Million Baht)

	31 December 2019		31 December 2018		Change	
	Amount	%	Amount	%	+/(-)	%
Cash	3	0.00	11,022	1.04	(11,019)	(99.97)
Interbank and Money Market Items-net	7,404	4.60	99,117	9.34	(91,713)	(92.53)
Investment-net	41,551	25.82	170,437	16.07	(128,886)	(75.62)
Investment in Associated Company-net	45,421	28.22	3,027	0.29	42,394	1,400.53
Loans to Customers	56,266	34.96	754,613	71.13	(698,347)	(92.54)
Accrued Interest Receivables	11	0.01	657	0.06	(646)	(98.33)
Allowance for Doubtful Accounts and Revaluation Allowance for Debt Restructuring	(3,118)	(1.94)	(24,145)	(2.28)	21,027	(87.09)
Property foreclosed-net	3,128	1.94	4,822	0.45	(1,694)	(35.13)
Land, premises and equipment - net	301	0.19	8,043	0.76	(7,742)	(96.26)
Goodwill	-	-	17,799	1.68	(17,799)	(100.00)
Assets Classified as Held for Sale	3,423	2.13	-	-	3,423	100.00
Other Assets	6,537	4.07	15,537	1.46	(9,000)	(57.93)
<b>Total Assets</b>	<b>160,927</b>	<b>100.00</b>	<b>1,060,929</b>	<b>100.00</b>	<b>(900,002)</b>	<b>(84.83)</b>
Deposits	-	-	751,917	70.87	(751,917)	(100.00)
Interbank and Money Market Items	15,660	9.73	71,923	6.78	(56,263)	(78.23)
Debt Issued and Borrowings	44,780	27.83	55,013	5.19	(10,233)	(18.60)
Insurance contracts liabilities	13,096	8.14	14,062	1.32	(966)	(6.87)
Other Liabilities	13,332	8.28	30,096	2.84	(16,764)	(55.70)
<b>Total Liabilities</b>	<b>86,868</b>	<b>53.98</b>	<b>923,011</b>	<b>87.00</b>	<b>(836,143)</b>	<b>(90.59)</b>
Company's Shareholders' Equity	65,833	40.91	65,735	6.20	98	0.15
Non-controlling Interests	8,226	5.11	72,183	6.80	(63,957)	(88.60)
<b>Total Shareholders' Equity</b>	<b>74,059</b>	<b>46.02</b>	<b>137,918</b>	<b>13.00</b>	<b>(63,859)</b>	<b>(46.30)</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>160,927</b>	<b>100.00</b>	<b>1,060,929</b>	<b>100.00</b>	<b>(900,002)</b>	<b>(84.83)</b>
Book Value per Share (Baht)	57.46		57.15			

### Assets

As of 31 December 2019, Thanachart Group's total assets amounted to 160,927 million baht, a decrease of 900,002 million baht or 84.83 percent from the end of 2018, mainly due to the sale of TBANK's shares to TMB. Key factors are as follows:

- Net investment amounted to 41,551 million baht, a decrease of 128,886 million baht or 75.62 percent from the end of the previous year.

- Net investment in Associated Company amounted to 45,421 million baht, an increase of 42,394 million baht from the end of the previous year. This was mainly due to the investment in TMB which amounted to 42,044 million baht.
- Loans amounted to 56,266 million baht, a decrease of 698,347 million baht or 92.54 percent from the end of the previous year.

### Liabilities

**Total liabilities of Thanachart Group** as of 31 December 2019 **were 86,868 million baht, a decrease of 836,143 million baht or 90.59 percent** from the end of 2018. The decrease was due to the sale of TBANK's shares. The key items were as follows:

- Interbank and money market items amounted to 15,660 million baht, a decrease of 56,263 million baht or 78.23 percent from the end of the previous year.
- Debt issued and borrowings amounted to 44,780 million baht, a decrease of 10,233 million baht or 18.60 percent from the end of the previous year.

### Shareholders' Equity

**Total shareholders' equity** as of 31 December 2019 **was 74,059 million baht**, of which 65,833 million baht was company's shareholders' equity and 8,226 million baht was non-controlling interests. Non-controlling interest decreased by 63,957 million baht or 88.60 percent from the end of previous year. This was mainly due to the sale of TBANK's shares to TMB, resulting in a decrease of non-controlling interests of Scotiabank.

### Disclaimer

Thanachart Capital Public Company Limited ('the Company') had provided this report to publish the Company's performance. Information contained in this report is the Company's past performance. Some information may be based on financial information and any information from the other sources as of the date of this report, which are subject to be changed according to economies and politics both inside and outside country. The readers or recipients should consider the information carefully and please use your discretion before making a decision in any transaction. However, the Company reserves the right with its own discretion to amend or modify the information contained in this report without any prior notice. The Company shall have no responsibility for any inaccuracy, inappropriate or incomplete of any information contained in this report.