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17 January 2013
Bangkok, Thailand

**Baron Point Secured Debenture Series Limited
Khun Luang Secured Debenture Series**

(a Bankruptcy Remote Special Purpose Company in Thailand)

***PARTICIPATE AT SCALE IN AN INVESTMENT THAT WILL SIGNIFICANTLY CONTRIBUTE TO THE BALANCE SHEET OF
THAILAND'S GOVERNMENT AND BANKING SYSTEM***

***THERE IS OVER US\$100 BILLION OF FIXED INCOME DEAL FLOW AVAILABLE IN THAILAND OVER THE NEXT
DECADE, WITH US\$1 BILLION OF CAPACITY THAT WILL START BEING PLACED UNDER THIS GLOBAL
INVESTMENT-GRADE EMERGING MARKETS DEBT SERIES STARTING NOW***

- Thailand has emerged as the market leader at the center of the Southeast Asian region, with the 2nd largest and fastest growing economy in Southeast Asia, supported by a stable banking system
 - Thailand's bond market is among the most attractive and growing emerging market options. On 16 January 2013, Reuters reported that foreign holdings of Thai bonds hit a record high at the end of 2012 and have risen further this year, according to the Thai Bond Market Association. In 2012, net foreign holdings of Thai government and corporate bonds rose by 290 billion Thai Baht (approximately US\$10 billion) to a record 710 billion (approximately US\$24 billion), representing 8.3% of the total fixed income market size of over US\$280 billion, which was up from 5.9% at the end of 2011.
 - Baron Point has developed a global investment-grade emerging market debt series issued from Thailand:
 - Principal is explicitly rated Global A3 by Moody's Investors Service and Thailand National Rating Scale AA+ by Capital Intelligence
 - This debt offering has been filed and is permitted by Thailand's Security and Exchange Commission, and the Bank of Thailand has consented under its regulations
 - This debt offering has superior terms, with a fixed coupon paid semi-annually that is priced to beat the Thai AA corporate bond yield curve by approximately 100 bps and the Thai government bond yield curve by approximately 200 bps, depending on tenor (as of the date hereof)
 - Flexible tenors are available (5 to 30 years)
 - This debt offering has been developed by a joint team of Wall Street professionals (based in both Thailand and New York), in partnership with leading local partners with deep business and government relationships
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ABOUT COUNTRY GROUP:

COUNTRY GROUP CAPITAL LIMITED (“Country Group”) operates **special situation investments in fixed income, securitizations, and private equity** with a **keen focus on emerging market government and substantial private investments**. A member of the Taechaubol family’s group of holdings, Country Group’s sister organization is Country Group Securities PCL, the **largest non-bank owned securities firm in Thailand** (<http://www1.cgsec.co.th/corpweb/>). With a long and **storied history in the Kingdom of Thailand**, Country Group leverages its deep network and business know-how to identify unique opportunities through special operational expertise, and deep industry knowledge in Asia.

ABOUT MR. FERNANDEZ:

- Head of Investments for Country Group Capital Limited
- Most recently the **General Manager** of the **Commercial Bank of Dubai Financial Services**
- Previously an **Executive Vice President of Institutional Sales** at **Seamico Securities**, Bangkok
- Former Head of Institutional Services & **Country Head of Nomura International**, Bangkok
- Head of Foreign Equities, TISCO Securities, Bangkok
- **Executive Director** & Head of Equities, **UBS**, Thailand
- Graduated from the University of Denver, Colorado, Double Major, Finance & Marketing

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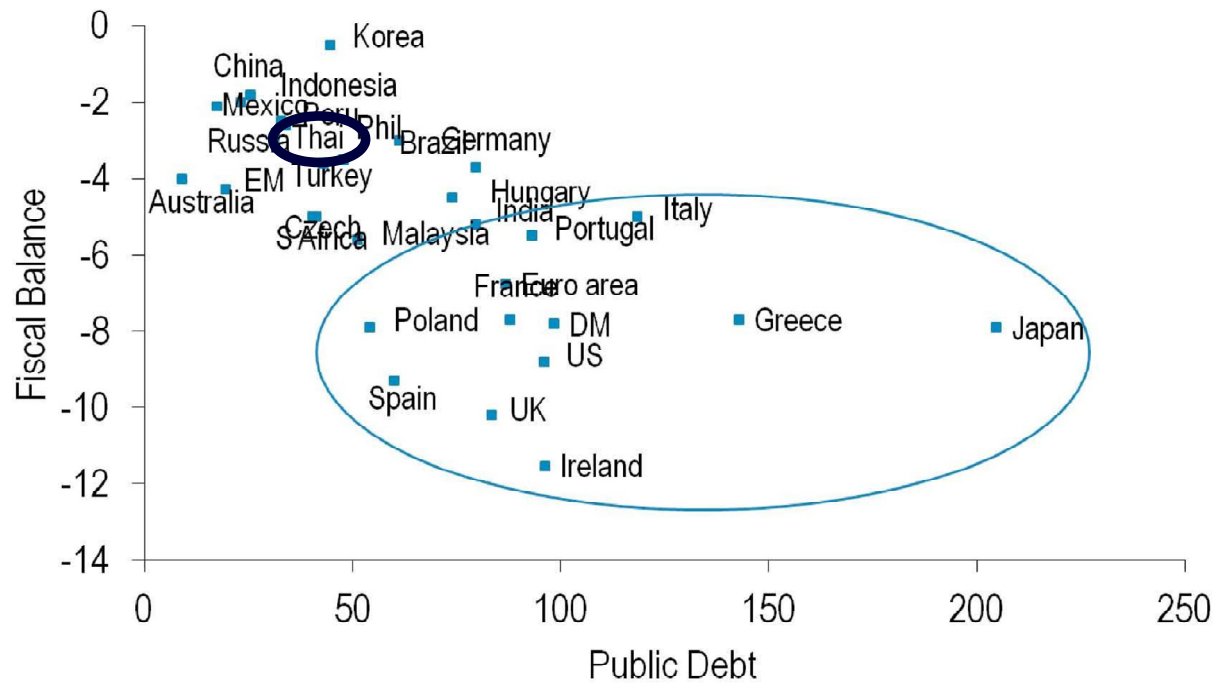
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T HAILAND HAS EMERGED AS THE MARKET LEADER IN THE REGIONAL CENTER OF S.E. ASIA

- Thailand is the 2nd largest and fastest growing economy in Southeast Asia.
 - 25th largest economy by purchasing power with a GDP (purchasing power parity) of US\$609.8 billion according to the U.S. Central Intelligence Agency (CIA) *World Factbook*.
 - According to a recent report by the International Monetary Fund (IMF), Thai GDP growth is predicted at 5.5% in 2012 and 7.5% in 2013, the highest among all ASEAN nations, while the country's unemployment figure will be at the lowest in Asia (currently standing at 0.7%).
 - According to the World Bank in 2011 exports accounted for 78% of GDP with Thailand functioning as the anchor economy for the region, including key strong ties to the neighbouring countries of Cambodia, Laos PDR, Vietnam, and rapidly liberalizing Myanmar (Burma).
 - 20th most populous country in the world, with a current population of 69.5 million according to the Population Reference Bureau.
- A growing demand for foreign direct investment ("FDI") into Thailand to support accelerated growth both domestically and especially throughout the Southeast Asian region.
 - Strong growth fundamentals throughout Asia together with a de-leveraged banking system support an obvious shift to Asian growth economies, with Thailand leading at the regional center of Southeast Asia (see Appendix A-3 and A-4 for Merrill Lynch and BlackRock comments).
 - On an aggregate basis, total net FDI into Thailand is growing at the rapid annual rate of over 15% p.a., and Thailand ranks as the 11th best destination in the world for FDI, according to the United Nations Conference on Trade and Development (UNCTAD).
 - In terms of Asian demand, Japan is the largest foreign direct investor in Thailand. According to a report by the Japan Bank for International Cooperation (JBIC), Japanese manufacturers named Thailand as the second most favorable location for investment behind China, thanks to its high potential in terms of future economic growth, strong supply chain infrastructure, cheap labor costs and a sizeable and growing domestic market.
- Thailand is a key centrally located strategic logistics/infrastructure port and land transport hub in Southeast Asia, with strong strategic ties to Japan, the U.S., Europe and the Middle East.
 - Officially inaugurated in 1833, according to The National Bureau of Asian Research ("NBR"), 180 years of diplomatic relations make Thailand the oldest diplomatic partner to the U.S. in Asia.
 - Now in its 30th year, Cobra Gold takes place from Thailand and is the largest joint military exercise in the world. Cobra Gold has also laid the groundwork for regional cooperation on a number of natural disasters
 - One of the largest airstrips in all of Asia (U-Tapao International Airport) and a major deep sea port (Sattahip) were built with U.S. funding, and are located only 90 miles southeast of Bangkok.
 - Additionally, there is significant western investment as well as strategic assets in the country held by the U.S. government and many of the largest U.S. and multinational corporate enterprises.
- The strength and growth of Thailand's domestic economy has resulted in an additional need for liquidity, as Thailand seeks to accelerate its industrialized growth path, particularly since the mid-1980s to early 1990s when major institutional investment from the West resulted in several waves of infrastructure build out that has been successfully completed.
 - Thailand's government is looking to source an additional US\$100+ billion of capital for the next growth cycle and to create capacity and improve on what is already built (see Appendix A-5 for recent news on infrastructure spending in Thailand).
 - New liquidity is aimed to support growth in Thailand, in addition to Thailand's rapidly developing neighbours (e.g. if you turn on the TV or pick up the phone the next time you are in a neighboring country of Thailand, you are likely to be entertained and communicate through Thai infrastructure provided by a large Thai company such as True Corporation, CAT Telecom, AIS, DTAC, et al).
 - Thailand is currently experiencing increasing local demand in its economy, resulting from growth in the manufacturing, tourist, land development, and other major private sectors. As a result, increased government spending on large-scale infrastructure and reconstruction projects is required to accommodate this growth (e.g. the foundation has been built, now is the time to establish more infrastructure and expand not only domestically, but throughout the region).
- The slowdown in global macroeconomic fundamentals in the West, in contrast to the strong fundamentals and accommodative monetary/FX policies from the Bank of Thailand and favourable fiscal stimulus measures by the current incumbent Yingluck Shinawatra government, has bolstered domestic growth and created the fastest growing economy in Southeast Asia.
 - This combination of economic conditions has resulted in a long-term strengthening trend of the Thai Baht versus the U.S. Dollar (even well before the 2008 financial crisis), and has created a strong demand for Thai Baht denominated fixed income debt such as Baron Point's offering (see Appendix A-6 for details on the current market demand and currency stability).

T HAILAND'S DEBT AND FISCAL INDICATORS COMPARE FAVORABLY TO DEVELOPED MARKET ECONOMIES



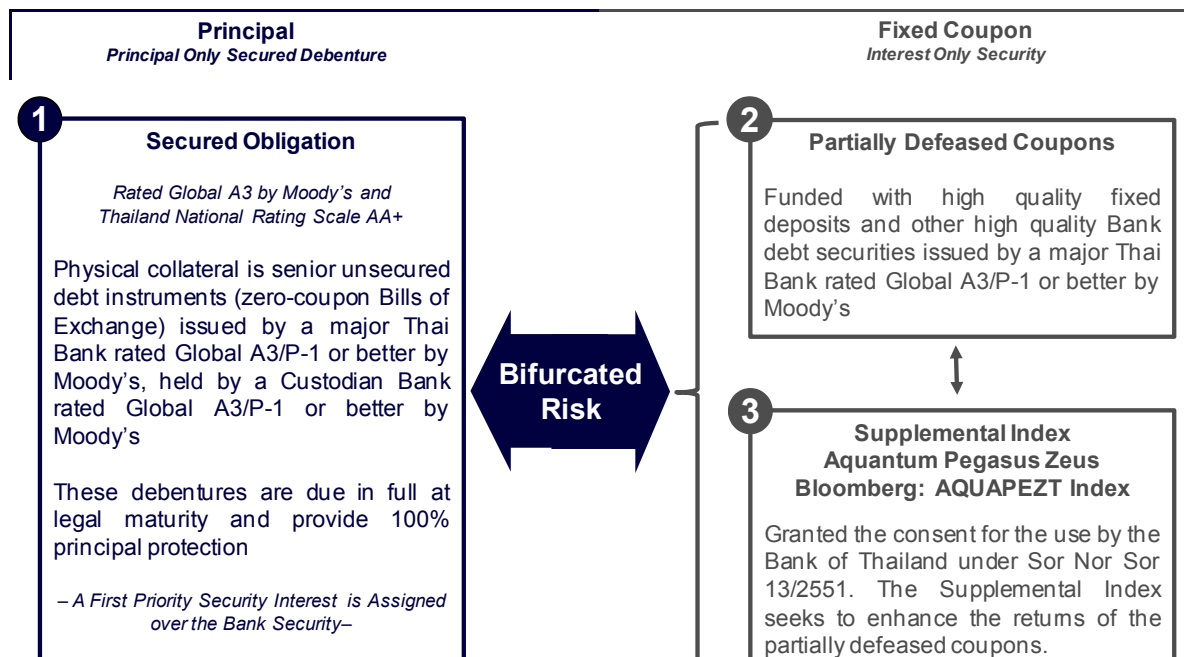
Source of Data: JPMorgan Emerging Markets and Credit Research

A GLOBAL INVESTMENT-GRADE EMERGING MARKETS DEBT SERIES FROM THAILAND

- Baron Point’s unique Global Investment-Grade Emerging Markets Debt Series offers higher returns than both the local AA corporate and Thai government bond yield curves.
- This debt offering is comprised of a three silo approach bundled together to form one Secured Debenture Security, privately placed to institutional investors globally:
 1. Principal Only Secured Debenture with 100% principal protection at maturity rated Global A3 by Moody’s and Thailand National Rating Scale AA+ by Capital Intelligence; and a
 2. Fixed Coupon Amount generated through an Interest Only Security comprised of:
 - a. A laddered portfolio of high-grade fixed deposits and/or zero-coupon debt instruments that partially defease the fixed coupon (the “Defeased Coupon”); and
 - b. Coupon enhancement provided through the performance of a reference index, currently Aquantum Pegasus Zeus TR Index™ (the “Supplemental Index”)

Prospectus & Secured Debenture Security Purchase Agreement

A Bundled Security offering 100% Return of Principal with a Fixed Coupon



Source: Baron Point Financial, Ltd.

- The issuance has scalability of US\$3-5 billion placed over several series of Secured Debentures.
- The principal and coupon enhancement is bifurcated, and the overall Baron Point Secured Debenture Security structure offers foreign currency diversification to other currency denominated fixed income debt.
- Designed to offer superior scalability to AA corporate Thai fixed income debt, and a diversified cash-flow income stream for the fixed coupon.
- The Bank of Thailand has consented to the properties and linkage of the Supplemental Index which enhances the partially defeased coupon, and successful notification has been properly lodged with the Security and Exchange Commission, Thailand for the debt offering.

A GLOBAL INVESTMENT-GRADE EMERGING MARKETS DEBT SERIES FROM THAILAND (CONTINUED)

- Baron Point's Secured Debenture Series offers blue chip service provision in a global note offering format:
 - Bankruptcy remote security explicitly rated A3 by Moody's Investors Service and AA+ by Capital Intelligence credit rating agencies;
 - DLA Piper for Thai-corporate matters and Watson, Farley & Williams for Thai securities and regulatory matters and for SEC, Thailand offering notification as well as issuing the legal opinion letter;
 - A major former partner at Duane Morris's midtown Manhattan securities practice group joined Baron Point in 2008 and as now its President and Director;
 - Citibank, N.A., London Branch acts as the Issuing Agent and Account Bank;
 - Standard Chartered Bank (Thai) Public Company Limited (AAA(thai) Fitch, A3/P-1 Moody's) acts as the Custodian;
 - Citco Singapore Pte. Ltd. (A member of the Citco Group of Companies) has been appointed as the Corporate Service provider.
 - Bangkok First Investment & Trust PCL engaged as Debentureholder Representative (Office of the SEC, Thailand approved);
 - RSM Audit Services (Thailand) Ltd., a member of McGladrey/RSM International and Office of the SEC, Thailand approved, as the Auditor;
 - Considered a Classic Global Note (CGN), this debt offering clears through Euroclear Bank and Clearstream Banking, Luxembourg;
 - The Thai Bond Market Association (supervised by the Office of the Securities and Exchange Commission, Thailand) is a local listing agent for the Base Prospectus with Bloomberg and ISIN codes available.

- Physical collateral underlying the transaction is issued by the A3/P-1 Moody's rated Standard Chartered Bank (Thai) Public Company Limited ("Standard Chartered") and/or Siam Commercial Bank PCL ("SCB"), creating a Baron Point Secured Debenture rated Global A3 by Moody's and Thailand National Rating Scale AA+ by Capital Intelligence. This rating is one notch above the Moody's sovereign rating of Thailand which is Baa1. Theoretically, the government could default, and investors may still get their money back in full, together with the partially defeased coupon payments.
 - Standard Chartered has a Tier 1 Capital ratio of 17.15% as of December 31, 2011, the highest of all the major Thai Banks. In addition, it is one of the oldest banks in Thailand, and was established as a foreign bank branch in 1894.
 - SCB, the King's Bank, is the leading universal banking group in Thailand, and has a Tier 1 Capital Ratio of 11.20% as of December 31, 2011. SCB has the highest market capitalization among financial institutions in Thailand. The King of Thailand owns 21.30% of SCB, and the Thai Ministry of Finance owns 23.16%, making SCB a pseudo-sovereign bank.

- Primary dealers in the Issuance intend (but are not obliged) to maintain a secondary market. Secondary market prices shall be quoted as clean prices.

- For an additional fee, an optional financing facility of up to 70% of the face value is available to be used as collateral for a margin loan.







- Monthly unwind available with 30 days notice. The redemption fee will be assessed at the rate of 5.0% for redemptions during the first year, 4.0% for redemptions during the second year, 3.0% for redemptions during the third year, 2.0% for redemptions during the fourth year, 1.0% for redemptions during the fifth year, and 0% thereafter, or if held to legal maturity.

Baron Point principals have been involved in multiple billion dollar principal investments and blockbuster transactions

Institutional pedigree with many of the world's smartest and largest institutions

<p>Deep project development and financing expertise</p>  <p>Cat Telecom Public Company Limited Fiber-Optic Link Around the Globe (FLAG) US\$1,500,000,000 Financing of Flag Cable System, fibre optic network 1993 – 1996</p>	<p>Risk and insurance coverage by major governments</p>  <p>EXPORT-IMPORT BANK of the UNITED STATES 経済産業省 METI Ministry of Economy, Trade and Industry Ex-Im Bank and METI US\$1,500,000,000 Political and Default Risk 1993 – 1996</p>	<p>Institutional risk and principal investment expertise</p>  <p>Verizon Investment Management US\$4,100,000,000 Advised on 70+ fund investments; allocations averaged – US\$60 mm each 1993 – 2008</p>	<p>Institutional structuring & product success</p>  <p>CNA Financial US\$14,000,000,000+ Acquisition / investment management; developed most successful guaranteed index fund 1980 – 2008</p>	<p>Large Thailand structured products experience</p>  <p>TCC Land Co., Ltd. ฿7,000,000,000 UOB Thai Structured Derivatives Hedging Investment 2009</p>
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Other notable investment management, trading and transaction experience

 <p>NTT Communications Corporation US\$1,600,000,000 Advised NTT (Japan) on its minority investment in Philippine Long Distance Telephone Company 1999</p>	 <p>Raimon Land PLC ฿4,430,880,000 Arranger for then largest land sale in Thailand history for prime land plot in central Bangkok 2008</p>	 <p>GE Capital Corporation US\$300,000,000 Structured Finance Group representation and various joint venture and contract negotiations 1997 – 2000</p>	 <p>Bridge Trading Company Covered 500 largest U.S. pensions and funds; Ranked #5 in the world for 2014 alpha production by Institutional Investor Magazine 1994 – 2005</p>	 <p>Caxton-Iseman Capital, LLC US\$1,200,000,000 Formation of LBO investment fund and multiple acquisitions 1995 – 1998</p>	 <p>Verizon Communications Inc. US\$2,000,000,000 Instrumental in merger of GTE and Bell Atlantic which led to the formation of Verizon 2000</p>
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Source: Baron Point Financial, Ltd.

- American professionals with deep Wall Street experience** (over 26 years each on average) and verifiable success in closing blockbuster deals. According to an opinion letter issued by the law firm of Watson, Farley & Williams, Baron Point's senior management team is a New York City and Bangkok-based investment advisory team averaging over 26 years each with expertise in fixed income debt, structured finance, alternative investments, and emerging markets investments and financing. Baron Point's team has significant experience in project finance and in structuring complex transactions, including successfully negotiating and closing risk insurance (political and default) underwriting from the Export-Import Bank of the United States (Ex-Im Bank) and The Ministry of Economy, and Industry, Japan (METI) — formally MITI — in aggregate of US\$1.5 billion for the FLAG project (Fiber optic Link Around the Globe). This project included significant participation from CAT Telecom Public Company Limited and, at the time, was the largest infrastructure project in Thailand's history. The company's institutional risk and principal investment expertise also includes US\$4.1 billion of investment allocations while counsel to the US\$66.97 billion in assets under management Verizon Investment Management Corp. and quantitative management and structured finance while at a US\$19.2 billion Wall Street fixed income and structuring specialists as well as significant time spent within money center and investment banks such as Merrill Lynch, Prudential Equity Group, Credit Suisse, Krungthai Bank, United Overseas Bank, and hedge fund managers such as Victor Sperandeo, Tudor Investments and at Caxton-Iseman.
- Thai principals with stature in civil services at the government house, ministries, as well as highly placed within societal peerage**

 - Principals of Baron Point in Thailand have served the Prime Minister's office as high-ranking civil servants for decades, or at ministries setting successful economic policy for the government and industry.

DEEP RELATIONSHIPS IN SOUTHEAST ASIA

- The Founding Principal of Baron Point in Thailand, Mr. Buditbhan (“Joe”) Bhandhukravi, has *served The Secretariat of the Prime Minister’s Office with honour for over two decades.*
 - Additionally, Mr. Bhandhukravi is the grandson to Plaek Phibunsongkhram, the longest reigning Prime Minister of Thailand (1948-1957), who changed the name of the country from Siam to Thailand, in addition to deep ties with the Thai Royal Family. This is particularly important since having ties to the royal family and government is a critical success factor for doing business in Thailand.
- A Baron Point advisor in Thailand is a senior member in civil service in the Ministry of Finance - Fiscal Policy Office, Thailand
- Another senior advisor is a veteran senior banker with over four decades of experience in Thailand, most recently as an Advisor to the Board of Directors as well as the First Senior Executive Vice President – Managing Director, Credit Restructuring and Asset Management Group at Krungthai Bank Public Co., Ltd. This distinguished professional is working with Baron Point’s senior management on strategic initiatives and to give advice on the company’s private placement debt capital markets structuring capabilities, as well as with government and institutional investor transactions in the S.E. Asian region.
- A Baron Point Strategic Advisor is the *former Chairman of the Pacific Basin Economic Council and the former Thailand Trade Representative.* A strong reference for Baron Point, this distinguished executive is a regular supporter of high-level meetings for Baron Point. Recent meetings include the CEO and Executive Director at the World Bank Group (MIGA) to focus the Thai Government, Baron Point and the World Bank’s newly formed Asian team. The result is, for an additional fee, an optional political risk investment guarantee may be provided by World Bank Group (MIGA) on certain future Secured Debenture offerings issued by Baron Point.
- In addition to World Bank Group (MIGA), Baron Point has relationships with other multilateral agencies such as the Japan Bank for International Cooperation, Japan External Trade Organization, as well as regular and consistent access to senior persons at major global corporations, the Thai government, as well as other governments doing business with Thailand.
- Additionally, Baron Point counts the *Director-General of The Treasury Department, Thailand,* the Chairman of the Board of one of the largest bank-owned Thai Asset Managers, and the CEO of a major Land Development and Private Equity company in Thailand as regular supporters of Baron Point led initiatives in Southeast Asia.

AA+

GLOBAL INVESTMENT-GRADE EMERGING MARKETS DEBT FROM THAILAND WITH A YIELD PRICED TO BE HIGHER (AS OF THE DATE HEREOF) THAN THE AA THAI AND GOVERNMENT YIELD CURVES AND SCALABILITY THAT MEETS FOREIGN INSTITUTIONAL DEMAND

- *Exclusive Global Investment-Grade Emerging Markets Debt Series denominated in Thai Baht.* The issue caters to foreign debt capital market investors' appetite for an investment in Thai Baht denominated investment-grade fixed income debt in the fastest growing economy in Southeast Asia.
- It is a *bankruptcy remote structure* operated by American principals on the ground in Thailand and New Yorkers with deep Wall Street experience (over 26 years each on average) and verifiable success in closing blockbuster deals (See Baron Point Management section above).
- This leadership combines with local Thai principals and advisors with impeccable track-records and senior access to business and government promoting a unique customized structure for Baron Point.
- A scalable offering platform which enables institutional fixed income desks to *move size quickly with a low market profile.*
- The offering allows institutional fixed income desks to play a central role in boosting the balance sheet of the Thai-government and banking system with US\$3-5 billion of scalability available almost immediately, and US\$100+ billion available over time (eight to ten years).
- Participate in the *only investment-grade rated fixed income issuance* that links to a supplemental index strategy and is *consented to by the Bank of Thailand and is Security and Exchange Commission, Thailand permitted.*
- The principal in the investment is *explicitly rated Global A3 by Moody's Investors Service and Thailand National Rating Scale AA+ by Capital Intelligence.*
- A fixed coupon, paid semi-annually, which *beats the local AA Thai corporate bond yield curve by anywhere from approximately 100 bps or more and the Thai government bond yield curve by 200 bps (as of the date hereof), depending on tenor, with paper rated higher at Global A3 and Thai Local AA+.*
- Flexible tenors from 5 to 30 years available, based on the institutional deal book's tenor profile and demand.

The End

EXHIBIT A-1

Thailand's bond market gaining World-Class stature

By Chakkrit Parapuntakul, Deputy Permanent Secretary of the Finance Ministry and past serving Director-general of the Public Debt Management Office from 2009 to September 2012.

October 10, 2012 – Today, the three pillars of the Thai capital market - equities, loans and bonds - are well balanced, with a similar market size of around 70% to 90% of gross domestic product each. This implies that funding sources as well as investment channels for both the private and public sectors are healthy.

The size of the Thai bond market right now is about 8.2 trillion baht, or equivalent to US\$280 billion. It comprises two main parts: 75% government and central bank bonds and 25% corporate and state-owned enterprise (SOE) debt. The latter usually have terms of three to seven years. For the Bank of Thailand, the focus is on very short terms, with 95% of its bonds less than three years. In contrast, government benchmark bonds mostly range anywhere between three and 50 years.

Over the past five years, the government bond market has entered what we would call a market-deepening stage, in which we have multiple tasks to achieve.

First is the establishment of benchmark bonds and yield curve. Right now, we have eight different benchmark terms running from three years up to 50 years which we offer on a regular basis. I believe that we are the fourth country in the world, after the UK, France and China, to have issued a 50-year benchmark bond.

The second task is to develop more sophisticated products, like inflation-linked bonds and electronic retail savings bonds, which we launched last year. In the pipeline next year are amortising bonds and perhaps long-term zero-coupon bonds.

The third task is to upgrade bond market infrastructure, such as a public debt management fund to act as a pre-funding agency of large-sized benchmark bonds. Primary-dealer privileges would also be upgraded to encourage them to actively play a role as market makers. Also planned for next year is a bond-switching framework to enhance liquidity and consolidate our bond profile.

We have created a variety of government debt instruments as part of our mission to establish a sustainable funding source from the domestic market. We have set two strategies to accomplish this mission: build benchmark bonds to stabilise the yield curve, and segment the investor base to diversify dependency risk.

At a time when the government requires a large amount of funds to invest in infrastructure, the Public Debt Management Office must make sure that not only are funding needs met, but that the funding is mobilised from diversified sources, in order to minimise costs and to optimise the profile of the portfolio.

We divide our benchmark terms into two categories. First is the 10-year benchmark and below, which includes four terms of 3, 5, 7 and 10 years. It is critically important that these terms have sufficient outstanding size in order to increase liquidity in the secondary market. For seven- and 10-year benchmark bonds, the aim is to have about \$3 billion [outstanding] per series, while three- and five-year terms will have up to \$5 billion.

Primary dealers (PDs) are also encouraged to participate in these auctions. At present, these terms of 10 years and less have turnover ratios of 2.5 to 4.0 times, while the overall market turnover ratio is one time. The five-year benchmark bond is the most traded bond in the secondary market and is our "superstar".

The second category of benchmark bonds is those longer than 10 years. They also comprise four terms: 15, 20, 30 and 50 years. Even long benchmarks like the 15- and 20-year bonds are beginning to have liquidity as the bond series were reopened. So we are reopening all of our benchmark terms in fiscal 2013. By the end of fiscal 2013, all benchmark terms, from three to 50 years, will have at least \$3 billion in outstanding size. This is indeed another milestone in the history of the Thai bond market.

Besides our benchmark bonds, two other products are groundbreaking for the Thai market: our inflation-linked bond (ILB) for sophisticated investors and the electronic retail savings bond (SB) for retail investors.

Thailand is the first country in Asean to have issued inflation-linked bonds. The issuance of the current 10-year ILB with total outstanding size of \$3.5 billion is nearly complete. This ILB has a turnover ratio of 0.7 times, which is not bad at all. In the pipeline next year is an extension of the ILB yield curve, with the issue of a 15-year ILB. Of course, we will consult PDs and investors for their preference.

For the electronic retail savings bond, this product is available for retail and non-profit organisations only. What we are trying to establish is a safe haven and easy-to-access savings product for micro-savers. The minimum purchase is as low as 1,000 baht or about \$30, and can be done through ATMs.

The significance of maintaining a retail market is that household savings have proven to be a substantial source of government funding. Electronic retail savings bonds are the only funding instrument that can mobilise as much as \$6 billion at a time without interfering with the yield curve, as retail investors typically hold the bonds to maturity. Electronic retail savings bonds are therefore considered unique, as they serve a savings culture policy and act as a funding instrument for the government.

I must say that even with the huge government funding requirements for long-term investment projects, the Thai domestic bond market is sufficiently strong to mobilise the required amounts. We believe that, with favourable market liquidity and by using all available instruments, the government of Thailand can raise up to about \$40 billion per year.

Nevertheless, raising funds abroad, through Yankee or Samurai bonds, can be conducted if necessary. Foreign investors ask about Thai paper, while domestic issuers ask about overseas government benchmarks. Our bond team monitors the market closely, and on the balance sheet side, our foreign debt is nearly zero. If the situation calls, we will be ready.

After five years of hard work and dedication to the development of the bond market, we are proud to say that all of our key performance indicators have confirmed that we are heading in the right direction. Issuance of 30- to 50-year bonds has lengthened out average time to maturity (ATM) from around five years in 2007 to nearly nine years now, which I believe is very healthy by international standards.

The maturity profile has also improved significantly. Only 50% of total government debt will mature in the next five years, while 30% will mature in the next 10 years. In terms of risk

management, I believe this maturity profile is well distributed, with nearly no risk of "bunching".

Also, thanks to our commitment to bond supply, we have been able to auction benchmark bond at very reasonable rates. Over the last four years, regardless of changing government funding needs, we have managed to stabilise the annual benchmark bond supply at near the pre-announced levels. As a result, the government yield curve has been stable and so have costs.

At this point, I am proud to say that we have achieved multiple tasks of meeting our funding requirements, deepening bond market development as well as enhancing the government debt portfolio. Now, our mission is to develop the domestic bond market to an international standard. I am quite certain that the Thai bond market will take a leading role among Asean countries.

Source: <http://www.bangkokpost.com/business/economics/315941/thailand-s-bond-market-gaining-world-class-stature>

EXHIBIT A-2

Fitch Ratings Thailand National Ratings 2011 Transition Study

Fitch Ratings — 3 September 2012 14:13

Fitch Ratings (Thailand) says 88% of its corporate National Ratings were unchanged in 2011, with the remainder being more upgrades than downgrades. Fitch expects ratings to broadly stabilise in 2012 as the agency forecasts an economic recovery with 5.5% GDP growth, driven by reconstruction spending, a rebound in manufacturing production, and government spending.

Fitch Thailand upgraded three nationally-rated corporate finance issuers (comprising corporates, banks and non-bank financial institutions) and downgraded one in 2011. All Fitch Thailand structured finance bond national ratings were affirmed. At end-2011, Fitch Thailand maintained 35 National Ratings on corporate finance issuers and three on structured finance bonds.

No defaults have been recorded by Fitch since the agency began assigning National Ratings in Thailand in 2001. The study includes all publicly rated long-term corporate finance issuers and also provides transition rates for structured finance transactions.

Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA(thai)' for National ratings in Thailand. Specific letter grades are not therefore internationally comparable.

Source: <http://www.thaibma.or.th/news/MarketNewsDetail.aspx?headline=227718>

Fitch Thailand National Ratings 2011 Transition Study

Ratings Broadly Stabilised
Special Report

Rating Stability: Overall, 88% of Fitch Thailand corporate national ratings remained unchanged in 2011, with the remainder associated more with positive than negative rating movements. Fitch Ratings expects the ratings to broadly stabilise through 2012 as the agency forecasts an economic recovery with 5.5% GDP growth – driven by reconstruction spending, a rebound in manufacturing production, and government spending. Nonetheless, the eurozone debt crisis and domestic political situation remain the challenging factors for the Thai economy.

One Downgrade, Three Upgrades: A single downgrade was recorded alongside three upgrades, contracting from figures in 2010 of two and eight, respectively. The only downgrade was an issuer in the telecommunications sector. The three upgrades included one issuer in the corporate sector (driven by an improved financial profile), and two issuers in the bank and non-bank financial institution sectors – supported by strong operational integration with their respective major shareholders. All structured finance bond ratings were affirmed.

No Defaults: There were no defaults among the Fitch Thailand National Rating entities, due in part to the limited issuance of lower-rated bonds, the relatively brief rating history, and the limited size of the Thai bond market.

Outlooks Remain Predominately Stable: At end-2011, 85% of corporate finance issuers carried a stable outlook. There were two corporate finance issuers with a negative outlook, and another two on positive outlook. One electronics product manufacturer was placed on Rating Watch Negative (RWN) due to the major flooding in late 2011. All structured finance bonds were on stable outlook.

Fitch 2011 Thailand National Rating Activity – Corporate Finance

A Decade of Data: This transition study provides key data and analysis on the performance of Fitch Thailand National Ratings in 2011 and over the past 10 years, capturing the period 2002-2011. The study includes all publicly rated long-term corporate finance issuers (referring to issuers in the corporates, banks and non-bank financial institutions) since Fitch began assigning National Ratings in Thailand in 2001, and includes a total of 275 rating observations. The report also provides transition rates for structured finance.

Related Research

[Fitch Ratings Global Corporate Finance 2011 Transition and Default Study \(March 2012\)](#)

[Fitch Ratings Sovereign 2011 Transition and Default Study \(March 2012\)](#)

[Fitch Ratings Global Structured Finance 2011 Transition and Default Study \(March 2012\)](#)

[Fitch Ratings International Public Finance 2011 Transition and Default Study \(March 2012\)](#)

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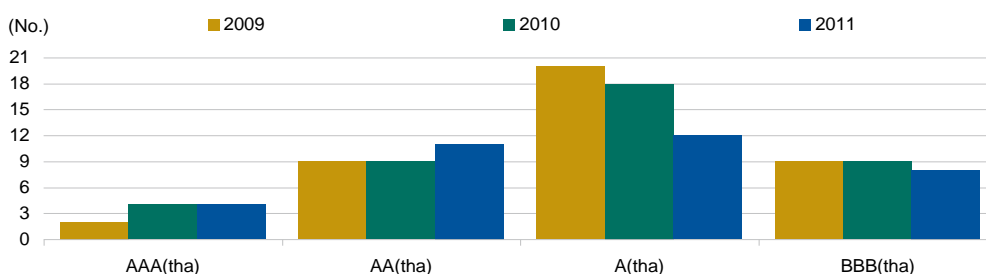
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Figure 1

Fitch Thailand National Ratings - Corporate Finance

Ratings distribution at category level



Source: Fitch Thailand

At end-2011, there were 35 National Ratings of corporate finance issuers included in the study, down from 40 issuers at end-2010. There were six rating withdrawals and two new rating assignments during the year. The year-end outstanding ratings distribution ranged from 'AAA(th)' to 'BBB(th)'. At end-2011, the median rating for banks was 'AA(th)', and 'A-(th)' for both non-bank financial institutions and corporates.

EXHIBIT A-3

REGIONAL INTEGRATION

Merrill Lynch lauds Thailand's potential

5-Sept-2012 at 02:18 AM

Despite the unresolved global economic crisis, Thailand is well positioned to be the centre of Southeast Asia's economic development, says Bank of America Merrill Lynch.

Bilateral FTAs and the country's central location in Asean support domestic growth and linkage with neighbours, says Mr. Cox.

Its bilateral trade agreements with neighbours and central location in Asean have supported domestic growth and linkage with neighbours, Jason Cox, the managing director and co-head of Asia Pacific global capital markets at Merrill Lynch (Asia Pacific) Ltd, a unit of Bank of America Corporation, said in an interview with the Bangkok Post.

He said the country's transparency and technology also meet international standards.

"These factors will support that the country's economy to rise further substantially, and its capital market will continue to be an interesting destination for investors," said Mr. Cox.

Unsurprisingly, he said, Thailand Focus 2012, the annual major event for the Thai capital market, has attracted hundreds of foreign fund managers eager to enter the market.

Furthermore, Mr. Cox pointed out they also realise this is an opportunity for them to look into opportunities in Indochina, as it is not only a Thai capital market.

Mr. Cox said for this year and next, the bank's research department projects the Stock Exchange of Thailand (SET) index target still has an upside of about 10% and expects it to reach 1,350 points.

"The upside of the Thai share market will be seen at about 10% through next year," he said.

In the long term, the research anticipates equities markets in the region will set new highs on the Asean Link trade that will be in full effect next year.

Mr. Cox said several factors can boost Thailand's economy to expand sustainability such as the Asean Economic Community (AEC), the collaboration of the Thai capital market with countries including Laos, Vietnam, Myanmar and Cambodia (the LVMC group) and the earnings growth of listed companies that will support the rise of the SET index.

The AEC, scheduled to kick off in 2015, has the potential to boost regional growth through an increase in trade in goods and services as well as attracting foreign direct investment.

It can also help with long-term challenges such as raising competitiveness, energy security and Thailand's deteriorating demographics, said Mr. Cox.

The LVMC group of countries currently has the lowest gross domestic product per capita in Asean, but they also have the potential to experience the highest growth.

"They share extensive borders with Thailand, so that could mean existing trade and investment links also have a chance to rise further. The potential of Thailand is incredible," said Mr. Cox.

As evidence, he said while exports to other Asean countries excluding Singapore have increased five-fold over the past decade, shipments to the LVMC group increased seven-fold in that period.

The value of Thai exports to these four developing economies now exceeds major export markets in the EU.

Meanwhile, tourists will likely focus on new destinations in the LVMC group instead of former favourites Malaysia, Thailand and Singapore.

"But Thailand stands to benefit from this change as a potential hub for tourism in the Greater Mekong Subregion," said Mr. Cox.

"We believe in Thailand's potential to lead the rising trend including the coming of the LVMC group and the AEC in the long term."

He said the growth potential in these areas, however, will have no effect on most companies' earnings in the immediate future.

The Thai banking sector is stronger on loan growth than last year, said Asadej Kongsiri, the head of Thailand of Bank of America Merrill Lynch.

Bank of America Corporation, which entered Thailand 60 years ago, currently focuses on Thai conglomerates that are looking for foreign partners, especially in Europe and the US.

The bank provides advisory, financing and cash management.

Mr. Asadej said Thai firms are strong with clean balance sheets, low debts, well-developed technology and abundant liquidity.

However, it is not easy to buy assets in Europe despite it being in the throes of a financial crisis, as those problems are occurring among governments and financial institutions while the real sectors have seen less of an effect.

"Assets are not as cheap as clients expect," said Mr. Asadej.

He suggests buyers focus on strategy rather than price by considering assets that support their existing businesses.

EXHIBIT A-4

BlackRock Bullish on Thai Bonds, Region's Worst: Southeast Asia

By Yumi Teso, Ron Harui and Andrea Wong - Aug 27, 2012 1:37 PM GMT+0700

BlackRock Inc. is bullish on Thai bonds, Asia's worst-performing in 2012, saying the central bank has room to ease monetary policy as a global slump cools demand for exports from Southeast Asia's second-largest economy.

Thai government debt returned 2.1 percent this year, the least among 10 Asian countries tracked by HSBC Holdings Plc together with Taiwan's, compared with 6.1 percent for India and 5.9 percent for Indonesia, the best performances. Consumer-price gains have stayed below 3 percent for the past four months, while the central bank has kept its benchmark interest rate at 3 percent since cutting it by 25 basis points in January.

Prime Minister Yingluck Shinawatra's government has raised minimum wages and pledged to spend more than 2 trillion baht (\$64 billion) on infrastructure and water-management projects over the next seven years to boost growth and minimize the damage from future floods.

"Inflation pressure should remain relatively subdued, providing room for the Bank of Thailand to ease if it needs to do so in response to worsening economic conditions," Christian Carrillo, a senior rates strategist at BlackRock, the world's largest money manager that oversees \$3.56 trillion, said in an Aug. 23 interview. Singapore-based Carrillo said he favors longer-dated debt as "valuations seem to rule out entirely the possibility of monetary easing."

Minutes of the BoT's July 25 policy meeting released Aug. 8 showed policy makers are concerned that external risks threaten growth in exports, which account for about two-thirds of the economy, and may hamper the nation's recovery from last year's worst floods in 70 years. Hana Microelectronics Pcl (HANA), a Bangkok-based maker of parts for Apple Inc., said this month any increase in sales would represent an "achievement."

'Global Headwinds'

The 10-year yield has dropped 13 basis points, or 0.13 percentage point, to 3.35 percent this quarter, while the five-year rate fell 15 basis points to 3.19 percent, according to data compiled by Bloomberg. The Bank of Thailand signaled after its last meeting that it has room to cut borrowing costs, forecasting 2.9 percent inflation this year from an earlier projection of 3.3 percent.

Gross domestic product increased 4.2 percent last quarter from a year earlier after rising 0.4 percent in the previous three months, official data showed Aug. 20, as government spending buoyed the economy. That compared with the median estimate in a Bloomberg survey for a 3.1 percent rise.

The euro-area economies contracted by an average 0.4 percent in the second quarter from a year earlier, official data show. HSBC lowered its 2012 growth forecast for China, Thailand's biggest export market, to 8 percent from 8.4 percent, according to a report released Aug. 24, saying Asia's largest economy is facing "global headwinds" that are much stronger than expected.

‘Expansionary Policies’

Thailand’s government last week cut its expansion estimate for this year to a maximum of 6 percent from 6.5 percent and lowered its export-growth projection to 7.3 percent from 15.1 percent. Overseas sales probably declined 3.8 percent in July from a year earlier, following a 4.2 percent drop in June, according to the median estimate of economists surveyed by Bloomberg before official data due Aug. 29.

“We might see some growth, but it won’t be much,” Hana Microelectronics Chief Executive Officer Richard Han said in an Aug. 17 interview in Bangkok.

Prime Minister Yingluck Shinawatra’s government has raised minimum wages and pledged to spend more than 2 trillion baht (\$64 billion) on infrastructure and water-management projects over the next seven years to boost growth and minimize the damage from future floods.

“We’re bullish on Thailand,” Yichun Shi, a Taipei-based fund manager who helps oversee NT\$109 billion (\$3.6 billion) of assets at Eastspring Securities Investment Trust Co., a unit of Prudential Plc, said in an Aug. 24 interview. “Although we think the central bank probably won’t cut interest rates this year, we think it will continue with its expansionary monetary policies.”

‘Ease in September’

The yield on the 3.65 percent Thai government notes due December 2021 touched 3.22 percent on July 23 and 24, the lowest level since February, according to data compiled by Bloomberg. The rate was 3.37 percent as of 10:39 a.m. in Bangkok. Without a reduction in borrowing costs, the scope for a further decline in bond yields is limited, according to Kokusai Asset Management Co., which oversees about \$43 billion.

“The 10-year yield is unlikely to decline past 3.2 percent, given the policy rate is 3 percent with only a small chance of a rate cut any time soon,” Takahide Irimura, the Tokyo-based head of emerging-market research at Kokusai Asset, said in an Aug. 23 interview. “The yields may stay around the recent range of 3.2 percent to 3.5 percent for a while.”

Interest rates are a maximum 0.5 percent in the U.S., the U.K. and Japan, encouraging investors to shift funds to higher-yielding bonds in emerging markets. Global funds bought \$21 billion more Thai government securities than they sold this year, according to data from the Thai Bond Market Association. The yield on the government’s 3.65 percent note increased 12 basis points in the past two weeks.

“The recent backup in yields seems overdone and they will go lower from here,” Wee-Khoon Chong, a Hong Kong-based strategist at Societe Generale SA, said in an Aug. 23 interview. “The outlook for the second half and possibly 2013 is not great. We see a good chance the central bank will ease in September.”

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Source: <http://www.bloomberg.com/news/2012-08-26/blackrock-bullish-on-thai-bonds-region-s-worst-southeast-asia.html>

EXHIBIT A-5

Thailand all set for big leap

Infrastructure plans to serve as springboard

30-August-2012 at 01:49 AM

Thailand is well placed to boost its economic capacity, considering the government's large budget for infrastructure development and the country's manufacturing strength, says Supachai Panitchpakdi, head of the UN Conference on Trade and Development (Unctad), and government officials.

Speaking at a seminar yesterday, Kittiratt Na-Ranong, a deputy prime minister and finance minister, said the government will push ahead with 2.27 trillion baht worth of investment over the next seven years.

Projects will include road construction; a high-speed train system that links China's Kunming with Singapore from north to south and Vietnam with Myanmar's Dawei from east to west; and more urban mass-transit lines.

Aside from the fiscal budget, a public-private partnership approach will help to finance these projects.

The government will also set up an infrastructure fund to raise money from the Stock Exchange of Thailand.

Mr. Kittiratt said this move is now under consideration by the Securities and Exchange Commission, which is expected to make its decision in the next month or two.

Brushing off criticism that the government's corporate income tax reduction favours only a handful of large businesses, Mr. Kittiratt said it actually attracts foreign direct investment amid closer linkages of Asean economies in trade and investment aside from easing customs procedure.

Arkhom Termpittayapaisith, secretary-general of the National Economic and Social Development Board, said the government has accelerated the planning process for flood-prevention and water-management projects under an executive decree authorising 350 billion baht in off-budget borrowing early this year.

The government has invited foreign and domestic companies to propose designs for the water management network and technology in order to have a conceptual plan before bidding is called.

The government is required by law to approve a construction plan by next June, said Mr. Arkhom.

"We hope to receive conceptual plans from the companies by September," he said.

"We'll have a complete design plan of the water management project in the first half of next year."

The government must draw on the expertise of these companies in examining the various geological conditions of proposed project locations.

It has approved 30 billion baht for the water management plan to date, mostly for road development, said Mr. Arkhom.

He said the country will face shortages of both skilled and unskilled labour over the next decade due to population decline.

As well, there is already a mismatch between the skills of new graduates and market demand, with a shortage of science and technology students.

Meanwhile, Unctad's Dr. Supachai said Thailand has proved its strength in the production of electronics and automobiles.

But the country should not be content to remain a manufacturer of parts, receiving only 2-3% of a product's value, he said.

Rather, it should improve the service side of manufacturing _ design, marketing and R&D.

The Board of Investment and all ministries should be involved in improving human resources rather than leaving it solely to the Education Ministry, said Dr. Supachai.

"We should not get stuck with a neo-colonialism type of manufacturing, with the output being just commodities with no added value," he said. "We should aim to be the designer, marketer and distributor of our own goods."

Dr. Supachai added that the Thai service sector has declined to 40% of gross domestic product from a peak of 50% compared with 60% in most developing Asian economies and 80% in advanced economies.

Source: <http://www.bangkokpost.com/business/economics/309945/thailand-all-set-for-big-leap>

EXHIBIT A-6

Baht Set for Weekly Gain as ECB Bond Plan Increases Risk-Taking

By Yumi Teso - Sep 7, 2012 8:42 AM GMT+0700

Thailand's baht was poised for a weekly advance after the European Central Bank announced a bond-buying plan to tackle the region's debt crisis, increasing demand for emerging-market assets.

The currency touched its strongest level since May today as international investors bought \$35 million more Thai equities than they sold this week through yesterday and pumped a net \$646 million into government bonds, according to data from the stock exchange and the Thai Bond Market Association. ECB President Mario Draghi said yesterday policy makers agreed to an unlimited bond-purchase program to regain control of interest rates in the euro area. The U.S. will release employment data today.

"The ECB taking action leads to optimism about stability in the euro-area financial markets," said Kozo Hasegawa, a Bangkok-based currency trader at Sumitomo Mitsui Banking Corp. "That improved risk sentiment and encouraged fund inflows to riskier assets, supporting emerging currencies. Investors are now waiting for the U.S. jobs data."

The baht, unchanged today, strengthened 0.4 percent this week to 31.21 per dollar as of 8:29 a.m. in Bangkok, according to data compiled by Bloomberg. It touched 31.15 today and on Sept. 4, matching an Aug. 24 level that was the strongest since May 11. One-month implied volatility, a measure of exchange-rate swings used to price options, was steady today and this week at 4.27 percent.

The yield on the 3.25 percent bonds due June 2017 declined one basis point, or 0.01 percentage point, to 3.21 percent, according to data compiled by Bloomberg. The rate was little changed this week.

To contact the reporter on this story: Yumi Teso in Bangkok at yteso1@bloomberg.net, and to contact the editor responsible for this story: James Regan at jregan19@bloomberg.net.

Source: <http://www.bloomberg.com/news/2012-09-07/baht-set-for-weekly-gain-as-ecb-bond-plan-increases-risk-taking.html>

EXHIBIT A-7

RPT-Foreigners flock to Thai bonds as the baht firms - bond group

By Satawasin Staporncharnchai - Wed Jan 16, 2013 7:29pm EST

Jan 16 (Reuters) - Foreign holdings of Thai bonds hit a record high at the end of 2012 and have risen further this year as the baht has jumped, but inflows are likely to slow as economic conditions improve in the West, the Thai Bond Market Association said.

"We often see speculative flows to short-term bonds when the baht has been strengthening," Niwat Kanjanaphoomin, the association's president, told reporters on Wednesday.

According to the association, a net 59 billion baht (\$1.98 billion) has flowed into Thai bonds so far this year, with the bulk of that, 55 billion baht, going into the short end of the market.

In 2012, net foreign holdings of Thai government and corporate bonds rose by 290 billion baht to a record 710 billion, representing 8.3 percent of the total, which was also a record and up from 5.9 percent at the end of 2011.

Despite the strong start to this year, Niwat told a briefing on Tuesday he did not expect foreign holdings to rise by quite so much in 2013.

He forecast they would go up by 100 billion baht, "increasing at a slower speed because of the improving situation in Europe and possibly a gradual cut in the U.S. injection".

If the U.S. Federal Reserve feels able to scale back its injection of liquidity into the American economy, that could reduce the flow of funds looking for higher yields around the globe. There's been a heavy flow into Southeast Asia in particular.

On top of the foreign flows into the bond market, a net \$254 million has been invested in Thai stocks this year. The stock market has risen 1.7 percent this year after 36 percent in 2012, when it was Southeast Asia's best-performing bourse.

Those flows have helped push the baht up to around 29.86 per dollar, its strongest since September 2011, and a gain of 2.5 percent this year.

For all of 2012, the baht strengthened about 3 percent.

OPTIMISTIC OUTLOOK

Dealers said the optimistic outlook for the Thai economy given by Bank of Thailand Governor Prasarn Trairatvorakul in an interview with Reuters on Tuesday had underpinned the rise in the currency.

The governor said that Thailand was likely to see net capital inflows this year, but they should not be excessive.

"Although we expect capital flows from abroad to continue this year, we also expect the continuity of outflows," he said.

Prasarn said "the scenario we are working on is still net inflows. That's why you see the appreciation of the currency. It's a regional phenomenon, in fact."

The Thai bond market association is expecting a steep fall in corporate bond issuance in 2013 compared with 2012, when commercial banks were big issuers of paper because of the need to boost capital to meet Basel Accord rules.

Thai banks sold 180 billion baht of debt in 2012, mostly subordinated debentures.

Overall issuance of corporate bonds hit a record high of 509 billion baht in 2012 but Niwat forecast new issues of just 350 billion this year.

(\$1=29.86 baht) (Additional reporting by Boontiwa Wichakul and Viparat Jantraprap; Writing by Alan Raybould; Editing by Richard Borsuk)

Source: <http://www.reuters.com/article/2013/01/17/thailand-bonds-idUSL4N0AL6YG20130117>

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EXHIBIT A-8

Moody's Investor Service, *Thailand Banking System Outlook*, dated November 21, 2011.

MOODY'S

INVESTORS SERVICE

BANKING SYSTEM OUTLOOK

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Thailand

Our outlook on Thailand's banking system remains stable¹. The outlook expresses our expectations for the fundamental credit conditions in this system over the next 12-18 months.

Summary Opinion

Our outlook for Thailand's banking system is stable, as it has been since October 2010. In coming to a stable outlook, we weighed the impact of the difficult operating environment -- resulting from the recent floods -- against the broadly more positive fundamentals in the economy and banking system.

The floods will have a significant negative impact on the economy over the initial period of our outlook. The latest estimates of flood-related damage have reached as high as 2.3 percentage points of GDP. We also take into consideration the absence of a robust global recovery and assume that the combined effect of these difficult conditions will lead to asset quality deterioration and higher non-performing loans (NPLs) formation in the coming six months, particularly in the agriculture, automobile and electronics sectors.

Nonetheless, we expect the impact from these negative developments to be temporary, and more importantly, without a lasting impact on Thai banks' credit standing.

Our outlook testifies to the strengths of the banks – including their strong capitalization and profit-generating capability – that will help the industry weather the current difficult period, and may even open up opportunities to grow earnings and profitability towards the second half of our 12-18-month horizon.

Our relative optimism, despite current circumstances, is based on three broad considerations.

First, there are strong economic and banking sector fundamentals. From a macro-perspective, while Thailand's trade-dependent economy will continue to face downside risks, posed by the demand weakness from the developed world, we now expect GDP growth to rebound to 4% in 2012 from a flood-hit 1.5% in 2011. Also, we anticipate loan growth to be sustained at an annualized pace of 5%-10% for the coming 12 to 18 months. This will be underpinned by reconstruction as well as calls for better infrastructure (e.g. drainage) following the floods.

¹ Outlooks for industries or sectors present Moody's view on the likely future direction of credit conditions in that sector. They do not represent our projection of rating upgrades versus downgrades.

Second, there is the issue of scale. Despite frequently-reported images of inundated rice fields and city streets, the direct impact of the floods on bank balance sheets is not major. We note that the banking system has an exposure of THB121 billion to firms in the directly-affected areas, and this figure represents just 1.5% of the total outstanding loans in the system. The Thai economy has been resilient to disruptions from multiple political incidents over the years.

Third, there are mitigating measures. Current events will pave the way for the new Pheu Thai Party-led government to push forward its spending policies, as well as more emergency assistance measures and flood rehabilitation packages. Furthermore, recent disasters also bias the Bank of Thailand (BoT) towards a more accommodative monetary stance – through signaled rate cuts -- to support private sector demands in 2012. This is notwithstanding our reservations towards some of the BoT's forbearance measures, which we think could lead to a wider discrepancy between reported NPLs and economic NPLs over the horizon of this outlook.

On balance, we thus expect a pickup in loan growth after an initial drop in lending, driven by stronger performances in the construction and infrastructure sectors. Nevertheless, under these circumstances, banks are likely to see some volatility in their asset quality, and which may test their capital positions. We assessed the probable outcomes in our scenario analysis.

Our initial estimates, based on information received from major Thai commercial banks, suggest that up to 1% of their outstanding loans would be directly affected, and another 5%-8% indirectly affected. There will likely be asset quality deteriorations and higher NPL formation in the coming six months as a result of flood-related disruptions and damages. However, we do not expect this will materially negate the improving asset quality trend of recent years.

Most importantly, we see Thai banks' current capitalization and profitability levels as strong enough to absorb potential credit losses, and maintain the trust of creditors. As at end-1H2011, Thai banks boasted an average Tier I ratio of 11.3%, well above the 4.25% threshold set by BoT. Our analysis shows that a jump in NPLs to 10% of total loans would reduce the Tier I ratio by up to 4.8 percentage points, but which would still leave capital levels well above the regulatory minimum, testifying to the system's high level of loss-absorption capacity.

Incidentally, all Thai commercial banks are currently operating under Basel II requirements. But while there is no timetable for Basel III implementation yet, we consider the banks as well-placed to adopt Basel III requirements in view of the quality of their core capital.

Also, we expect that most banks in Thailand will see pressure on their earnings for at least the next six months due to higher provisioning as well as repair costs to ATMs and other premises. Yet we expect the system to continue to display healthy profit-generating capabilities, driven by interest income, but also augmented by growing non-interest sources, with pre-provision earnings to average asset to reach 2.8% in 2011 and around 3.0% in 2012.

Having said that, we are aware of some areas of potential weakness that pose downside risks to our assessment. Worsening liquidity and structurally high single-party exposures are two concerns that counter our benign view on Thai banks' capital and profitability profiles.

Strong credit growth pushed loan-to-deposit ratios to near 105% at the end of June 2011, up from 100% at end-2010. At this point, liquid assets still amount to 28% of total assets, a level that compares well to their regional peers. However, we note that the Thai banks have started to turn to more

expensive and confidence-sensitive funding avenues to support credit growth, and which could become a risk factor if these methods of funding become a permanent feature of the system. During the timing horizon of our outlook, however, this risk remains low as customer deposits still constitute 80%-90% of banks' total funding.

Regarding single-party exposures, the system's top 20 loans amount to between 100% and 200% of its Tier I capital. We expect this level of concentration to remain unchanged, despite the floods, and as it has been over the past five years. But, in the longer term, it still raises concerns that micro-level shocks within a few commercial entities or industries may have an outsized impact on the banks' overall loan portfolio performance.

The banking system's stable outlook is in line with (i) the stable outlook on the standalone ratings of most of our rated Thai banks, and (ii) the stable outlook on their long-term local and foreign currency deposit ratings. The outlook on Thailand's government bond rating of Baa1 is also stable.

Definition of Outlook

Banking system outlook publications represent our view on the broad operating environment in which banks of a given system operate and, more specifically, on the influence that macroeconomic, competitive, and regulatory trends may have on banks' asset quality and capital and, ultimately, on their funding and profitability.

As such, a "stable" outlook is one that implies an environment that favours sustainable profitability and limited volatility for a period of at least four to six quarters (i.e., for the time horizon of our outlooks). A "negative" outlook is one that is characterized by volatility and uncertain conditions. A "positive" outlook is one in which we expect banks to rest on solid ground for the duration of our time horizon and in which we expect banks to grow steadily as a result of a favourable environment during that period. Outlooks for industries or sectors do not represent our projection of rating upgrades or rating downgrades.

Rating Universe

- » We rate 10 banks in Thailand, including 8 commercial banks and 2 policy banks. The 8 commercial banks accounted for approximately 87% of Thai commercial banking system assets at end-2010. The other 2 banks – EXIMT and GHB – are specialized financial institutions and policy banks, with 100% government ownership. Please refer to Figure 1.
- » Their asset-weighted average long-term bank deposit rating is Baa1, while their asset-weighted average BFSR is D+, reflecting two notches of uplift due to our assumptions about external support.

FIGURE 1

Ratings Universe

Rated Thai Banks	Total Assets (THB Bn)	Market Share by Assets end 2010 (1)	Standalone Credit Strength and Outlook (2)	Foreign Currency Long-term Bank Deposit/(Issuer) Rating and Outlook	Notches of Uplift from Parental Support	Notches of Uplift from Systemic Support
Bangkok Bank PCL (BBL)	1,950	14.4%	C- / Baa2 ; Stable	Baa1 / P-2 ; Stable	0	1
Krung Thai Bank PCL (KTB)	1,762	13.1%	D- / Ba3 ; Positive	Baa1 / P-2 ; Negative	0	5
Kasikornbank PCL (KBank)	1,552	11.5%	D+ / Baa3 ; Stable	Baa1 / P-2 ; Stable	0	2
Siam Commercial Bank PCL (SCB)	1,477	10.9%	C- / Baa2 ; Stable	Baa1 / P-2 ; Stable	0	1
Bank of Ayudhya PCL (BAY)	870	6.4%	D+ / Ba1 ; Stable	Baa2 / P-2 ; Stable	0	2
Government Housing Bank of Thailand (GHB)	679	5.0%	E+ / B1 ; Stable	Baa1 / P-2 ; Stable	0	6
TMB Bank PCL (TMB)	590	4.4%	D- / Ba3 ; Stable	Baa3 / P-3 ; Stable	0	3
United Overseas Bank (Thai) PCL (UOBT)	248	1.8%	D / Ba2 ; Stable	Baa1 / P-2 ; Stable	4	0
Standard Chartered Bank (Thai) PCL (SCBT)	281	2.1%	D+ / Baa3 ; Stable	Baa1 / P-2 ; Stable	2	0
Export-Import Bank of Thailand (EXIMT) (3)	68	0.5%	-	(Baa1); Stable	-	-

Notes: (1) Market share is based on the sum of (a) Thai Commercial Banks registered in Thailand (exclude branch offices abroad), and (b) Depository Specialized Financial institutions comprising Government Savings Bank, Government Housing Bank, Bank For Agriculture And Agricultural Cooperatives, Export-Import Bank of Thailand, Small And Medium Enterprise Development Bank of Thailand and Islamic Bank of Thailand; (2) Bank Financial Strength (BFSR) ratings express a bank's standalone credit strength on a scale from A to E, without taking support considerations into account. Foreign currency (FC) Long-Term (LT) Bank Deposit Ratings reflect both a bank's stand-alone credit strength, support considerations and the country ceiling of Baa1; (3) EXIMT has a foreign currency issuer rating of Baa1 with a stable outlook. The principal methodology used in rating EXIMT, a government-related issuer ("GRI") and a government-controlled financial company with specific policy mandates, is "The Application of Joint-Default Analysis to Government Related Issuers".

Source: Company data and Bank of Thailand

Key Developments since Last Banking System Outlook

- » The economy suffered a worse-than-expected slowdown in 2011 due to general weakness in the global economy plus disruptions associated with the March 11 earthquake in Japan and more currently the escalation of the floods crisis at home. The latest estimates of flood-related damage have reached as high as 2.3 percentage points of GDP.
- » The National Economic and Social Development Board, which compiles Thailand's GDP data, expects the Thai economy to grow by 1.5% in 2011 and between 4.5% to 5.5% in 2012. Separately, the central bank also shifted away from its hawkish bias in its latest October monetary policy action, which saw it keep its policy rate at 3.5%, after seven consecutive 25-bps hikes since its December 2010 policy meeting. This is despite the fact that core inflation, at 2.9% in October 2011, remains at the high end of the BoT's target of 0.5%-3%.
- » The country's new Pheu Thai Party-led government took office in August 2011, and has since mooted a number of policy reforms. The floods will lend further support to its expansionary fiscal agenda.

- » At the end of 2010 and through 1H 2011, the BoT took steps to restructure and reduce the fees that Thai banks charge for various types of transactions. The overall objective of the BoT was to protect consumers from being charged unfairly high fees that result from a lack of domestic competition. The impact of the revamp has so far been muted.
- » Implementation of Deposit Protection Agency Act continues. The full deposit guarantee expired on 10 August 2011 and was replaced by a limited THB50million per account coverage until 10 August 2012. Thereafter, coverage will be further curtailed to THB1million per account.

Key Drivers

Strengths

- » Stable asset quality, driven by moderate loan growth in recent years and the industry's strong recovery record on problem loans.
- » Good capitalization buffers with most banks having sufficient capital to absorb losses expected under our base-case scenario.
- » Robust earnings-generating capabilities, supported by healthy interest margins, as well as banks' efforts to grow non-interest income sources such as fees and services, and bancassurance.

Weaknesses

- » Weakening liquidity positions as a result of higher loan growth and intense competition in the deposit market.
- » Credit risk remains high due to elevated single-party exposures, which raises concerns over the vulnerability of loan portfolios to the defaults of large borrowers, or to cyclical movements in certain industries.

Uncertainties

- » Uncertain state of the global recovery, which could directly impact Thailand's trade-dependent economy.
- » It remains to be seen whether the new government can bring lasting stabilization to the political environment, with recent criticism of its handling of the floods constituting a warning of the potential risks. The government's expansionary fiscal stance is another potential risk factor.

Key System Performance Measures

Operating Environment

ECONOMIC GROWTH, DRIVEN BY INCREASED GOVERNMENT SPENDING AND DOMESTIC DEMAND, WILL SUPPORT BANK LENDING AND REVENUE GROWTH

- » Our sovereign team estimates Thailand's real GDP growth to be 1.5% in 2011 and 4.0% in 2012. Growth in 2011 was weakened by the worsening in the European crisis and the disruptions from the floods.
- » Economic growth in 2012 will likely be driven by an increase in domestic investment, and accelerated government spending. While reconstruction will be a key theme, we also expect increased support from both monetary and fiscal policies. Against this backdrop, we expect bank lending to expand by 5%-10% in nominal annualized terms over the next 12-18 months.
- » Inflation continues to be at the high end of the central bank's target 0.5%-3% range, yet the floods may have softened its stance on monetary policy. The BoT had increased its policy rate from a record low of 1.25% to the current 3.5% through nine 25-bps hikes since July 2010, but decided to pause at its October 2011 meeting in view of the floods. We expect inflation to be around 3.6% for 2011 and 3.0% for 2012, compared to 3.0% in 2010.
- » The new government has shown an expansionary bias through fiscal policy initiatives. It has promised tax incentives for first-time home buyers and corporate tax reductions. While these steps may help to stimulate growth, they also raise the risk of a persistent fiscal deficit. Also, some of the proposed measures, like increased rice prices for farmers and higher minimum wages for civil servants, are likely to fuel cost pressures.
- » Total credit to GDP contracted sharply after the Asian financial crisis in 1997, and has been around 100% for the past decade, as illustrated in Figure 2. Such stability supports our assessment that there is no recent evidence of any credit bubble in Thailand. We believe that coming reconstruction demands, plus the pro-growth bias in both monetary and fiscal policies, will support bank lending growth at annualised 5%-10%, thus keeping pace with nominal GDP growth. We expect loan growth to span both the corporate and consumer sectors.

FIGURE 2

Credit/GDP has remained constant in last decade



Source: Bank of Thailand, IMF

Competitive Environment

- » The big four banks – Bangkok Bank, Krung Thai Bank, Kasikornbank and Siam Commercial Bank – still account for almost 60% of system assets, and continue to enjoy strong universal banking franchises. We see no material change in these broad parameters in the competitive landscape in the next 12-18 months.
- » However, amid an environment of tightening liquidity, we expect the banks to see stronger pressure to devise new products to attract and maintain customer deposits.
- » The BoT has over the past year tried to revamp the banks' fee structure – due to the lack of competition in the banking system -- where fees are considered too high, but the results have so far been muted. In the aftermath of the floods, many banks have heeded the central bank's call for relief and temporarily waived fees – a gesture that could push back the need for the BoT to push out other measures in this area.
- » Thailand's ongoing implementation of its Deposit Protection Agency Act could change the country's financial landscape, but we believe the impact will be gradual with no abrupt deposit migration.
- » 2011 saw the completion of the merger between Thanachart Bank (unrated) and Siam City Bank (ratings of Baa2 stable; D-/Ba2 stable have been withdrawn). We view large-scale consolidation, either domestic or overseas, to be unlikely in the coming 12-18 months, as we expect global financial uncertainty to remain and to force banks to focus on organic growth.

Systemic Support

- » We assess Thailand as a high-support environment, as no bank has been allowed to fail on its obligations, at least in the previous three decades. The central bank's resolve to support the system is also evident from the massive liquidity support, measured in trillions of THB, that it provided to financial institutions in the aftermath of the Asian financial crisis.
- » The government has the resources, and has demonstrated its willingness, to extend support to the banking sector, as needed (systemic support uplift reflected in our senior ratings for Thai banks).
- » The authorities' capacity to support the system is based on (i) the government's financial strength, underpinned by a low debt-to-GDP ratio of around 30% at end-2010; and (ii) the country's flexible exchange rate regime, which allows the central bank full monetary autonomy.
- » Separately, prior to the Deposit Protection Agency Act – implemented in August 2008 -- the deposits of commercial banks were 100% protected by the government, in case a bank's license was cancelled, or if the bank went bankrupt. From August 2012, this protection will decrease to THB 1 million per person per bank, from the current THB 50 million. State-owned Specialized Financial Institutions (SFIs), such as GHB (Baa1 stable; E+/B1 stable), do not come under the Act. The phasing out of the Deposit Protection Agency Act may imply a gradual reduction in systemic support towards the end of our outlook.

Asset Quality and Capital

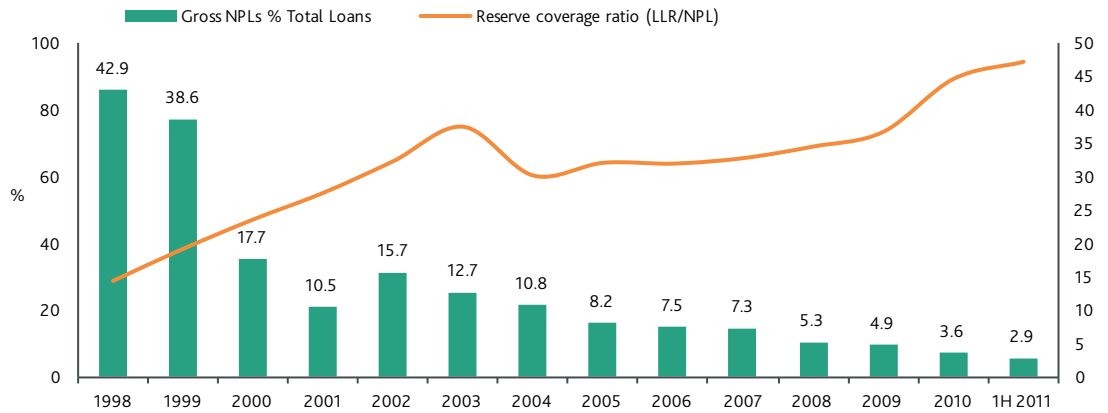
Asset quality

Asset quality indicators have improved, though the floods may prompt a temporary deterioration

- » Asset quality has improved in recent years, driven by credit growth (the denominator effect), recoveries on problem loans exceeding allocated provisions, and a low new NPL formation rate.
- » Data received from the BoT up to end-June 2011 indicates that asset quality has improved across the commercial banking industry, as illustrated in Figures 3 and 4. NPL ratios fell to 3.3% at end-June 2011 from 3.9% at end-2010 and 5.3% at end-2009. In addition, new NPL formation rates have remained low at under 0.5%, thanks to banks' stringent underwriting practices and central bank incentives that encourage prompt NPL write-offs.
- » For the coming six months at least, we expect NPLs to rise as disruptions from the floods have led many commercial and industrial borrowers to delay debt servicing. While no government data has been published, initial estimates from the major Thai commercial banks suggest that up to 1% of their outstanding loans would be directly affected, and another 5%-8% indirectly affected.
- » Also, the BoT has requested that banks assist affected customers through measures such as principal and interest grace periods, and tenor extensions, lower instalments, reconstruction financing, and selected fee and charge waivers. The BoT has also indicated that it will not classify flood-hit accounts as impaired for one year. This signals a higher level of policymaker forbearance, and which could lead to reported NPLs coming below economic NPLs in 2012.
- » Nevertheless, we expect this flood-related deterioration in asset quality to be temporary. Our stable outlook is underpinned by our view that the banking system remains capable of managing, through more stringent underwriting standards, coming incremental losses without compromising its capitalization.
- » While it is an imperfect proxy (since no long-term damage to property resulted), Thai banks' asset quality demonstrated resilience to temporary disruptions to production and transportation facilities during several political events from 2006 to 2010.
- » The government has approved several emergency assistance measures, such as a THB325 billion flood rehabilitation package announced in October, that we believe will mitigate pressure on asset quality.
- » In addition, Thailand's loan growth has been tepid in recent years, with credit relative to GDP displaying none of the strong rises seen in the years preceding the 1997 Asian crisis. This situation helps to isolate Thailand from those of its neighbours subject to rising concerns over credit-driven asset bubbles.
- » Partly offsetting these positive factors, credit risk remains vulnerable to elevated single-party exposures. The system's top 20 loans amount to between 100% and 200% of its Tier I capital. This level of concentration raises concerns that micro-level shocks within a few commercial entities or industries may have an outsized impact on banks' overall loan portfolio performance.

FIGURE 3

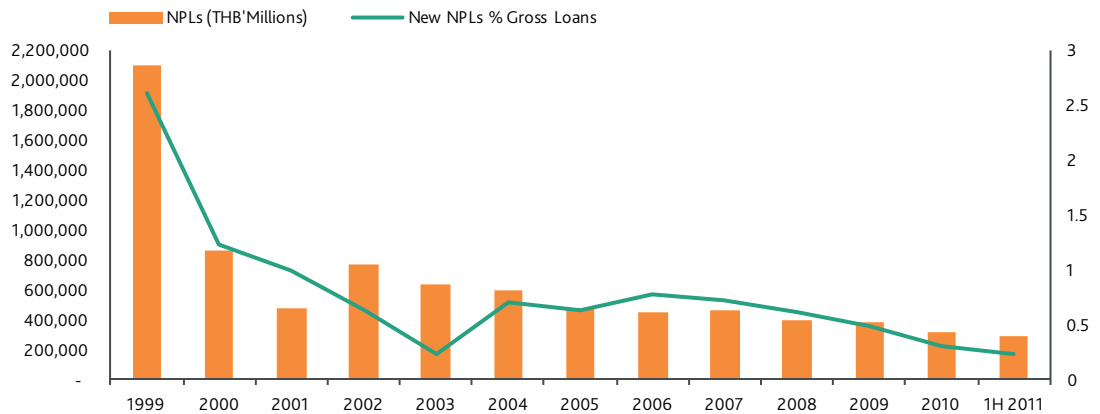
Asset Quality Indicators for the Thai Banking Industry



Source: Bank of Thailand

FIGURE 4

NPL Trends for the Thai Banking Industry



Source: Bank of Thailand

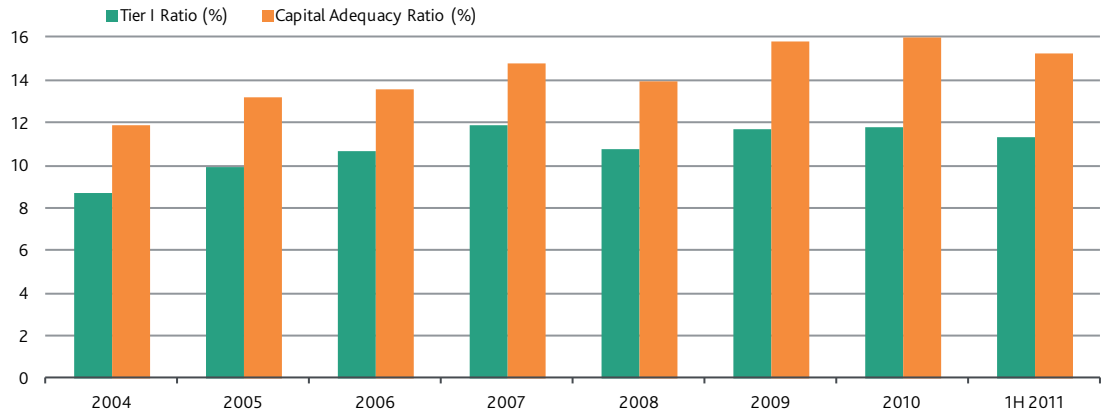
Capital

Bank capitalization is sufficient to absorb expected losses and support future growth

- » The system capitalization level is comfortable. As at end-1H2011, Thai banks boasted an average Tier I ratio of 11% and total capital adequacy ratio (CAR) of 15% (Figure 5), the former well above the 4.25% threshold set by BoT.
- » For 2012, we expect system capitalization to remain broadly at current levels, as the banks continue to generate enough earnings to keep internal capital steady.
- » All Thai commercial banks meet Basel II requirements. There is no timetable for Basel III implementation yet, even though we consider that the banks are well-placed to adopt Basel III requirements in view of their sufficient capital buffers.
- » The current capitalization level ranks Thai banks as average among Asian economies, below the advanced economies of Hong Kong and Singapore but ahead of the Philippines and India (see

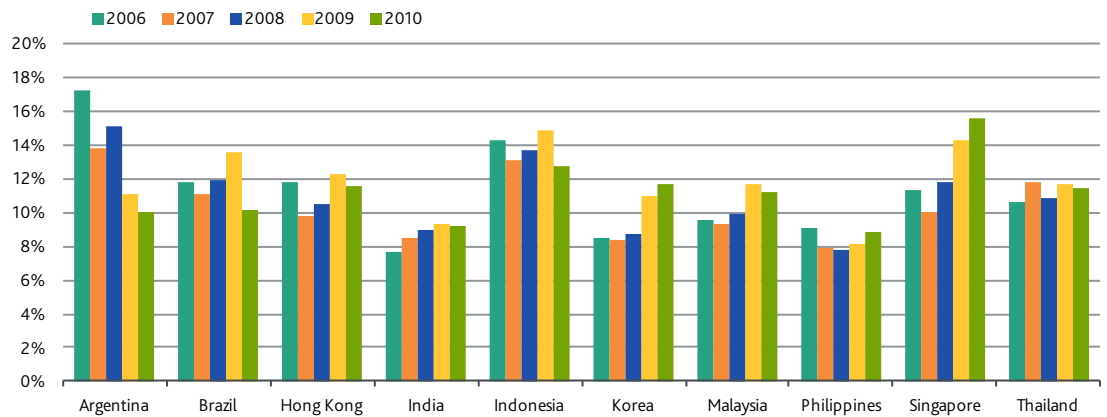
Figure 6). Current capitalization is also slightly ahead of major non-Asia emerging markets like Argentina and Brazil, both with lower credit-to-GDP, but higher GDP per capita than Thailand.

FIGURE 5
Capital Adequacy for the Thai Banking Industry



Source: Bank of Thailand

FIGURE 6
Average Tier I Ratios – Comparison with Emerging and Regional Markets



Source: Moody's Banking Financial Metrics

FIGURE 7

Rated Thai Commercial Banks: Scenario Analysis -- NPL Ratios Rise to 10%

All figures in THB million	BBL	KTB	KBank	SCB	BAY	TMB	UOBT	SCBT
Tier 1: end-2011 estimated (including 100% of 2010 PPP)	209,884	142,267	143,073	161,215	103,230	49,665	29,517	34,685
Loan loss reserves in 2010	72,452	45,126	36,832	41,595	33,953	20,546	6,147	3,262
Capital + Provisions (A)	282,336	187,393	179,904	202,810	137,183	70,211	35,664	37,947
Gross loans: end-2011 estimated -- 10% loan growth	1,384,677	1,376,975	1,189,023	1,166,438	715,753	400,115	179,476	106,424
NPLs: end-2011 estimate -- 10% NPL ratio	138,468	137,697	118,902	116,644	71,575	40,012	17,948	10,642
70% loan loss reserve coverage of NPLs	96,927	96,388	83,232	81,651	50,103	28,008	12,563	7,450
1% general provision on performing loans	12,462	12,393	10,701	10,498	6,442	3,601	1,615	958
Potential loss (B)	109,390	108,781	93,933	92,149	56,544	31,609	14,179	8,408
Tier 1: end 2011 estimated -- (A)-(B)	172,947	78,612	85,971	110,661	80,639	38,602	21,485	29,539
RWA: end-2011 estimated -- 10% credit growth	1,471,907	1,293,814	1,239,311	1,160,498	757,451	439,445	165,056	212,317
Tier 1 ratio: end 2011 estimated	11.7%	6.1%	6.9%	9.5%	10.6%	8.8%	13.0%	13.9%
Tier 1 ratio (%): end 2010	12.51	9.90	9.37	11.60	11.50	11.30	17.80	15.10

Source: Audited Financial Statements of Thai Banks, Moody's assumptions

- » In our scenario analysis, where the NPL ratio rises to 10% of total loans, the estimated Tier I ratio falls by up to 4.8 percentage points (see Figure 7). We have made the following assumptions: (i) 10% loan growth in 2011 from 2010, (ii) 2011 pre-provision profits (PPP) at 100% of 2010 level, taking into account higher loan growth, but also higher funding costs, (iii) 70% loan loss reserve coverage for NPLs, and (iv) an additional 1% general provision for performing loans.
- » Even under this extreme distressed scenario, our results still show Thai bank capitalization with a high level of loss absorption capacity.

Funding and Liquidity

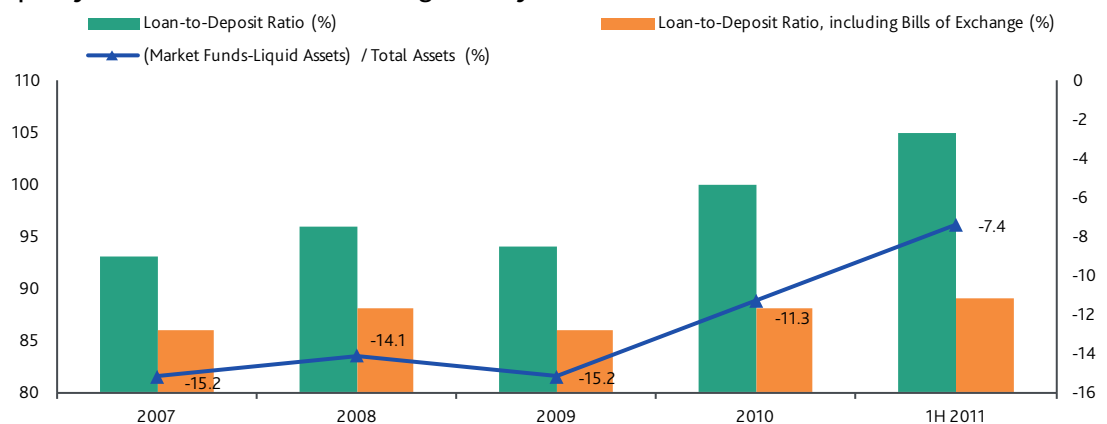
Liquidity to weaken; banks turning to more expensive funding sources

- » Over the next 12-18 months, we expect bank liquidity to tighten, with deposit growth to come below loan growth of 5%-10%.
- » For the six months to end-June 2011, loan growth of 7.1% outpaced deposit growth of 1.7%. This resulted in a jump in the loan-to-customer deposit ratio to 105%, as illustrated in Figure 8.

- » Retail deposits account for 85% of customer deposits and are a major funding source. Most of the banks' short-term deposits are sticky and typically roll over, assuring them a relatively cheap and stable source of funding.
- » Thai banks also maintain solid levels of liquid assets in their books, which provide them with a large cushion to cover short-term liabilities. These liquid assets – which comprise cash, placements with banks, certificates of deposits and other liquid assets – accounted for approximately 28% of total assets at end-June 2011, compared with a low of 16% during the Asian crisis year of 1997.
- » Nonetheless, amid tightening liquidity, the overall system's reliance on market funding remains low, but increasing; take for example the recent rapid increase in the number of bills of exchange (B/E) being issued. B/Es are deposit substitutes – with features close to those of time deposits -- that pay higher interest rates because they are currently exempt from reserve requirements and deposit insurance. Local banks have been popularising the use of B/E as a financial instrument to increase their funding and secure a wider customer base. At present, the ratio of B/E to deposits is 14%-15%, up from only 7% in 2007. Aside from B/E, banks have also turned to new innovative savings products and local currency subordinated debt issuance to secure new funds.
- » While these developments are only at a nascent stage and do not warrant immediate concern, we do recognize that these non-traditional funding resources are typically more expensive to secure and maintain. More importantly, they are also more volatile than customer deposits, susceptible to disruptions in periods of market distress. A lasting and growing dependence on these funding could weaken the banks' deposit franchises, pressure their interest margins, and weaken their structural resilience to liquidity shocks.
- » Recognising the potential risk of banks' accelerated pace of B/E issuance, the BoT has indicated that it may start subjecting B/E to the same insurance and reserving rules as traditional deposit products, and require banks to pay a 0.4% insurance premium on B/E issuance and hold 6% of their issuance proceeds in reserve. In the meantime, the banks are continuing their push to attract more retail customers to invest in their B/E products, with the minimum investment amount coming down to as low as THB100,000. In addition, for this group of investors, their preferred tenor and stickiness are similar to fixed-term depositors with a rollover rate of 80%-90%.

FIGURE 8

Liquidity Indicators for the Thai Banking Industry



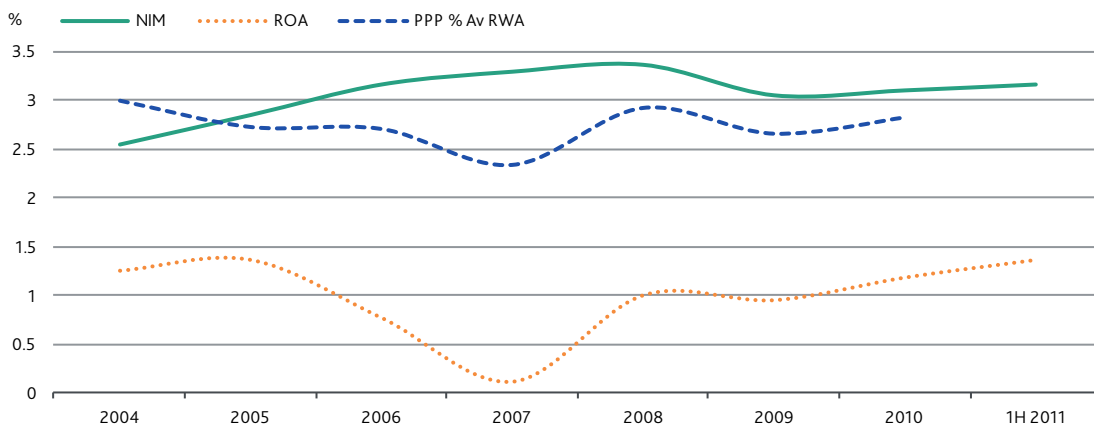
Source: Bank of Thailand

Profitability and Efficiency

Profitability to come under pressure from narrowing margins and higher provisioning costs

- » The banking system enjoyed a recovery in profits in 2010 (see Figure 9), when a rebound in economic growth fuelled stronger loan growth while lowering provision expenses. While the improving trend continued into 1H2011, the worse-than-expected economic slowdown plus the floods point to some deterioration for the rest of the year.
- » For the next 12 to 18 months, we expect profitability to remain under modest pressure, due to (i) narrower interest margins because of tighter liquidity and (ii) higher provisioning costs related to the floods. We expect pre-provision earnings to fall within their historic range of 2.5%-3% of average assets, which still compares well with its peers in the region.
- » Historically, Thai banks have maintained net interest margins (NIM) in the 3%-3.5% range. We expect current tight liquidity and rising deposit competition to translate into NIM pressure, but still see the banks as being able to defend their margins by pursuing improvements in loan pricing, such as by shifting their loan mix to higher-yield assets – for example, small-size SME and retail loans -- and by increasing their penetration of the high-yield low-end market segment.
- » As mentioned, initial estimates suggest that up to 1% of outstanding loans could be directly affected by the floods crisis. Nevertheless, we do not expect related credit charges to start deteriorating. Tepid credit growth in recent years testifies to strong discipline in the underwriting practices of Thai banks. This should keep NPL formation at manageable levels in our base-case scenario.
- » Fee and commission income will likely increase if and when the government's stimulus spending kicks in, supporting lending. Non-interest income has increased in recent years, accounting for 32% of banks' total operating income in 2010, up from 25% in 2007. We believe that fee and insurance income will be a major driver for the banking sector's profitability in the next few years. At the moment, net interest income still constitutes a significant share of operating income, but the banks are starting to push for cross-selling opportunities to both retail and corporate clients in areas like bancassurance and unit trusts. We also believe that sales of insurance products through bancassurance will continue to accelerate as the banks continue to gain market share from agent-base insurers.
- » While the central bank's overhaul of the banks' fee structure has resulted in some permanent loss in earnings, the banks have so far been able to offset the negative impact by broadening the scope on their value-added services, including bancassurance and other investment domains.

FIGURE 9
Profitability Indicators for the Thai Banking Industry

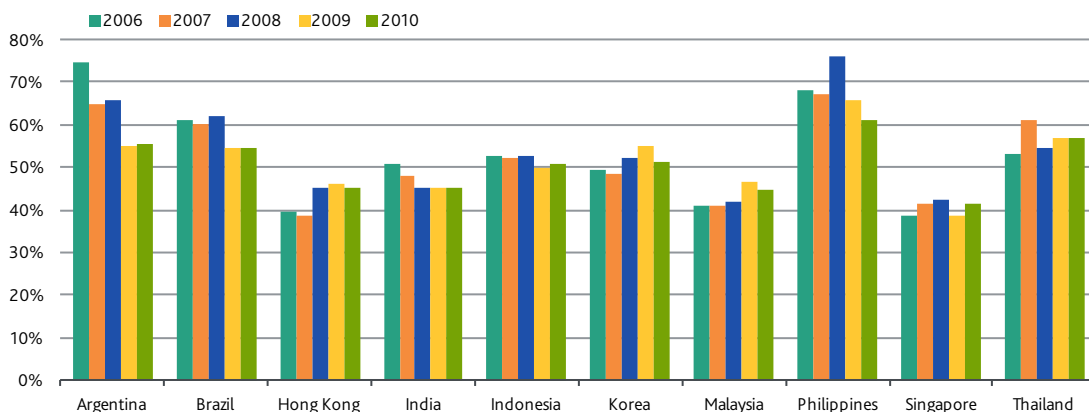


Source: Bank of Thailand

Efficiency

- » Cost-to-income ratios of rated Thai banks are high when compared to regional and developing market peers (except for the Philippines), as illustrated in Figure 10. These costs are mainly related to IT system upgrades, new branch openings, and follow-on costs from large investments in the past few years.
- » Looking ahead, costs may rise further in the immediate aftermath of the floods as the banks pay for the repair and replacement of their infrastructure. Aside from this one-time disturbance, we also expect overhead costs to stay high in coming years as the banks continue to invest to stay ahead in an increasingly competitive market.

FIGURE 10
Efficiency Indicators for the Thai Banking Industry



Source: Moody's Banking Financial Metrics

Moody's Related Research

Credit Opinion:

- » [Thailand](#)

Country Statistics:

- » [Thailand](#)

Sector Comments:

- » [Flood Damage Spreads to Thailand's Banks, a Credit Negative, October 2011 \(137034\)](#)
- » [Margin of Victory in Thailand's National Elections Is Credit Positive, July 2011 \(134326\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Appendices

Appendix 1: Sovereign Credit Opinion: Thailand

Credit Strengths

Support factors for Thailand include:

- » International reserve build up and external debt reduction
- » Export competitiveness
- » Track record of fiscal restraint

Credit Challenges

Areas of concern for Thailand include:

- » Political risks from polarization and regional insurrection
- » Sustaining public debt reduction
- » Improving governance

Rating Rationale

Thailand's Baa1 government ratings reflect medium economic and institutional strength, but receive support from a relatively high level of government financial strength as the post-1997 crisis debt overhang has eased. Vulnerability of the government's balance sheet to external shocks has been reduced by a steady repayment of external debt and accumulation of official foreign exchange reserves. External indicators are considerably stronger than the median values of not only Baa peers but also many A-rated countries. However, Thailand's government debt relative to government revenue is more elevated than its Baa-rated peers, although the debt trajectory at both the general government and public sector levels was on a steady downward trend prior to the global recession.

Susceptibility to event risk is low, despite deep political polarization. The intrinsic strength of the Thai financial system is also weaker than the global norm, but was not destabilized from the global financial crisis. Thailand's income level is also lower than its peers, but this is offset by economic diversity, a high level of national savings, and favorable economic growth prospects.

Rating Outlook

The outlook was changed from negative to stable in October 2010, prompted by the continued robustness of the economic recovery and the post-crisis stabilization of government finances. Despite the lack of a definitive resolution to the underlying tensions between government and anti-government factions, the current administration capably steered the economy through a major external economic shock, as well as a potentially destabilizing domestic political crisis. In 2010, the central government's fiscal position has consolidated largely due to a strong rebound in revenues, while a persistent current account surplus has combined with large capital inflows to result in record levels of foreign exchange reserves.

The foreign currency bond ceiling was also raised to A2 from A3 in October 2010, based on a lower assessment of moratorium risk, taking into account the following factors: the Thai economy's high degree of trade and investment integration into the global system, recent policies aimed at the liberalization of capital outflows, and the government's low reliance on external financing.

What Could Change the Rating - Up

Maintenance of the strong external payments position. Continued progress in strengthening public sector finances, which includes limiting contingent fiscal liabilities from social welfare programs and minimizing the long-term effect on government debt from stimulus measures adopted, and not yet wound down, to counteract the global recession.

What Could Change the Rating - Down

Political instability that leads to a deep weakening of credit fundamentals and competitiveness.

Recent Developments

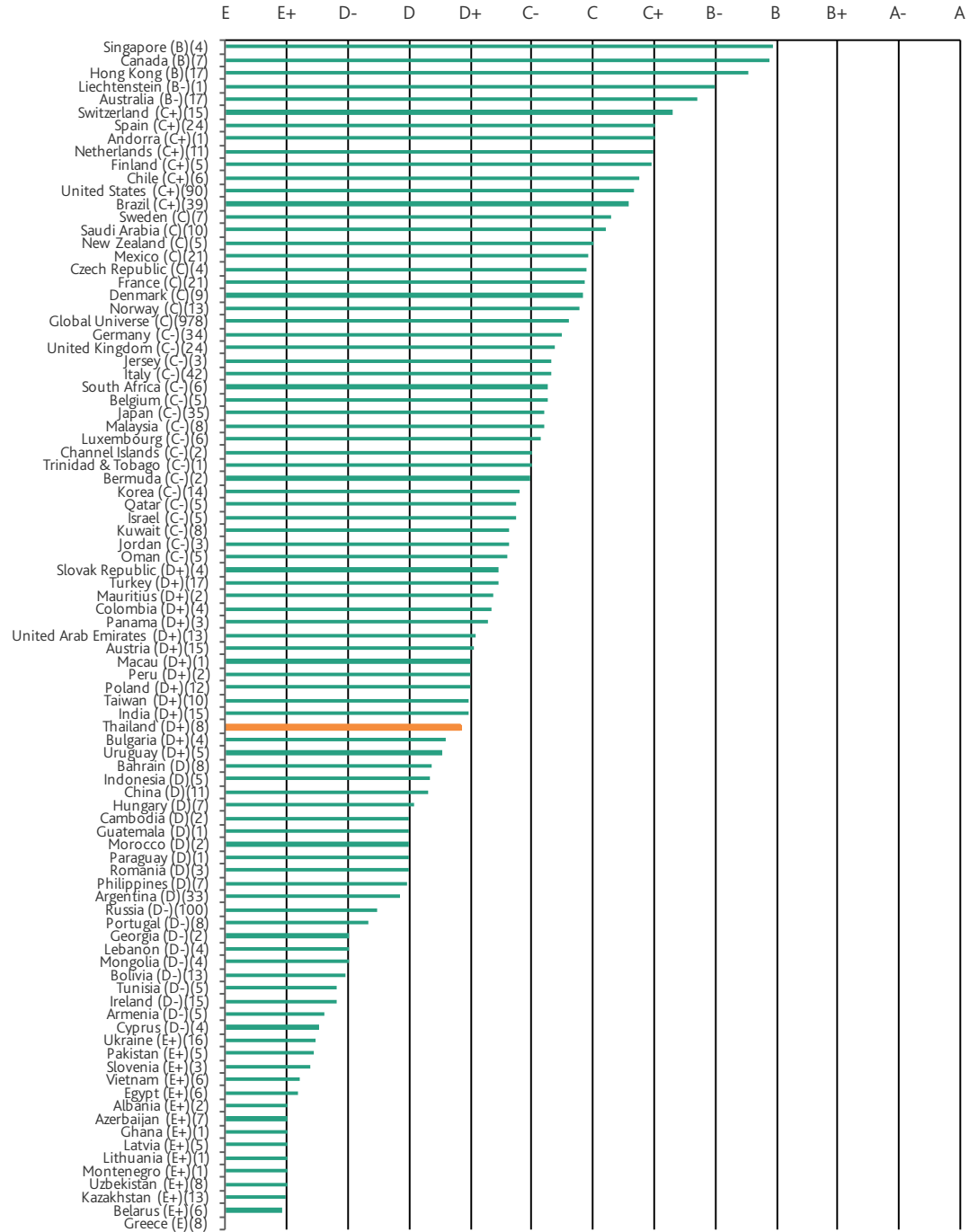
Massive flooding is set to significantly affect agricultural and manufacturing production. Supply chains have been disrupted, notably among automobile manufacturers, while rice crops will be adversely affected. As of mid-October, estimates of damage have reached as high as THB100 bn, or around 1% of GDP; however, the potential for flooding to spread to Bangkok poses upside risk to these projections. Combined with the deterioration in the outlook for external demand, real GDP growth in the second half is likely to slow significantly.

The new Pheu Thai Party-led government passed its FY2012 budget in September, projecting a deficit of THB350 bn (around 3% of GDP) that incorporates many of the ruling party's campaign promises. These include a hike in civil servant wages, a fuel tax cut, subsidies for first-time buyers of cars, and price support scheme for rice. Subsequently, the Cabinet approved a plan to cut corporate tax rates to 23% from the current rate of 30%. More recently, the government maintained its budget projections in the wake of the floods, but has stated that a supplementary mid-year budget that directly provides for aid and reconstruction efforts is likely. In the meantime, the government has directed state agencies to set aside 10% of their investment and operating budgets for recovery efforts.

Since the new government took office in August, a number of policy reforms have been mooted, including the proposed establishment of a sovereign wealth fund and a shift from a core inflation targeting regime to that which focuses on headline inflation. Since the Asian Financial Crisis, macroeconomic management has been relatively successful in anchoring inflation expectations and guarding against external vulnerabilities. As such, it is unclear as to how the proposed reforms can significantly improve upon Thailand's recent track record in these areas.

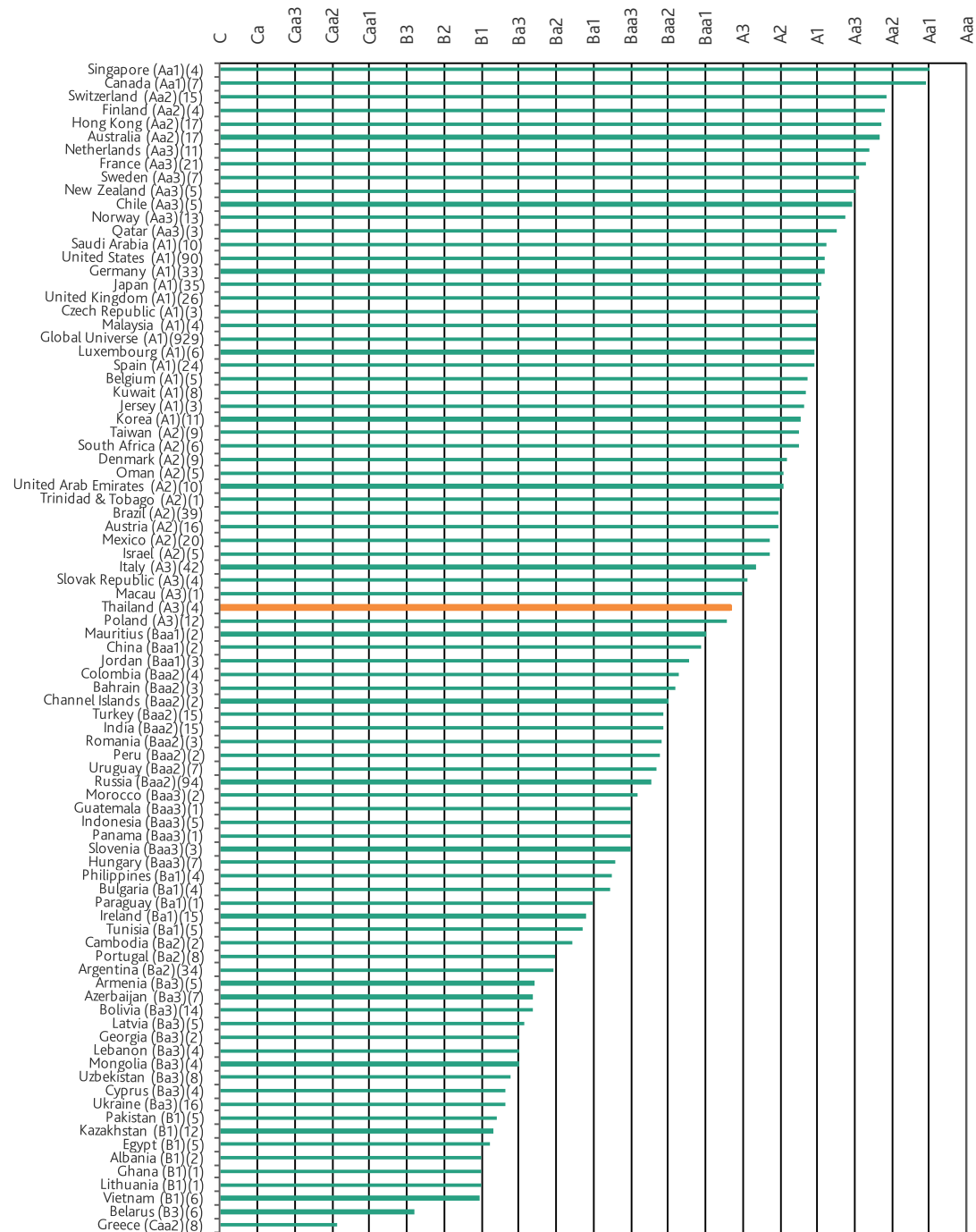
Appendix 2: Global Comparison Charts

Average* Bank Financial Strength Ratings by Country (as of 1 November 2011)



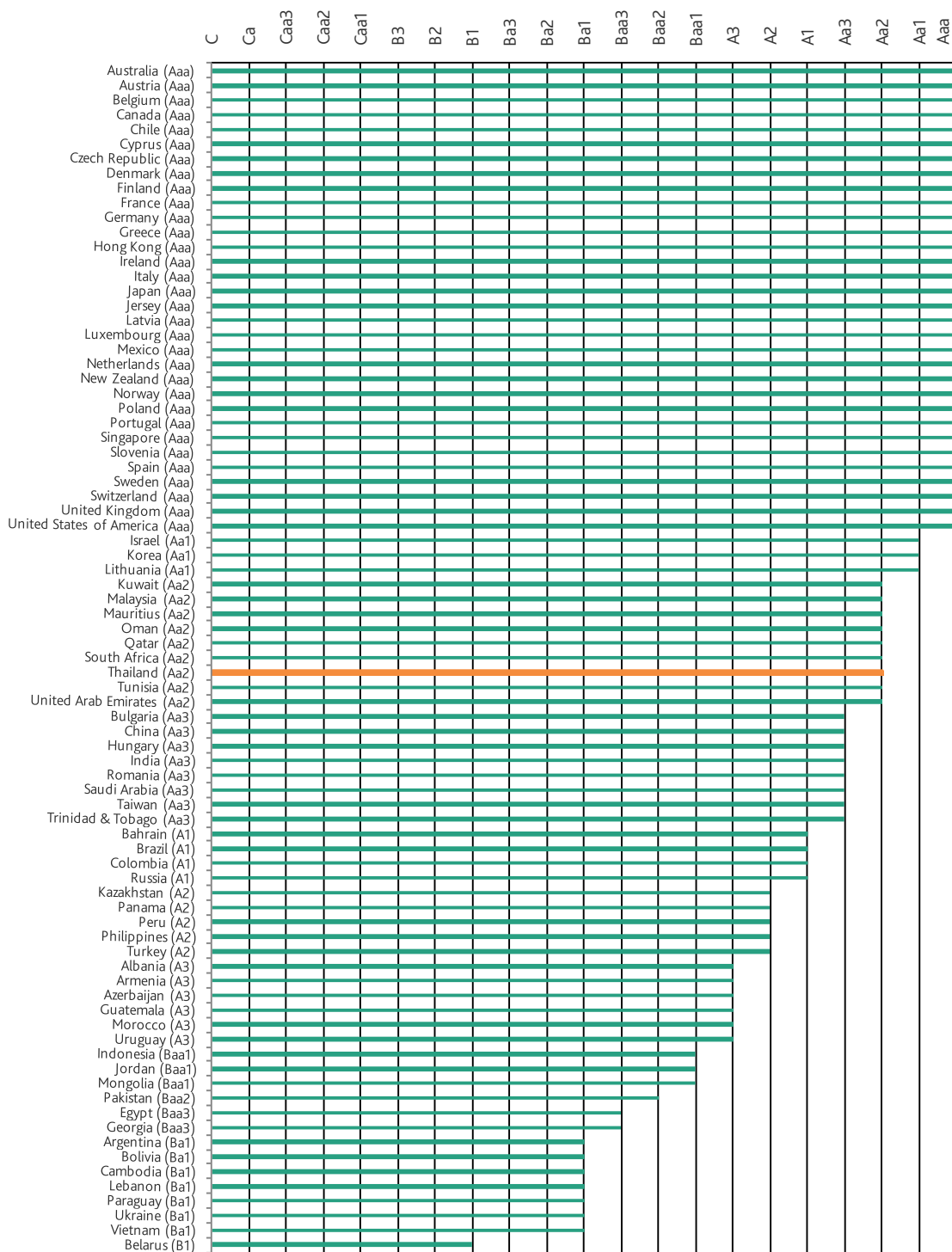
Average* Long-Term Bank Deposit Ratings by Country (as of 1 November 2011)

Domestic Currency



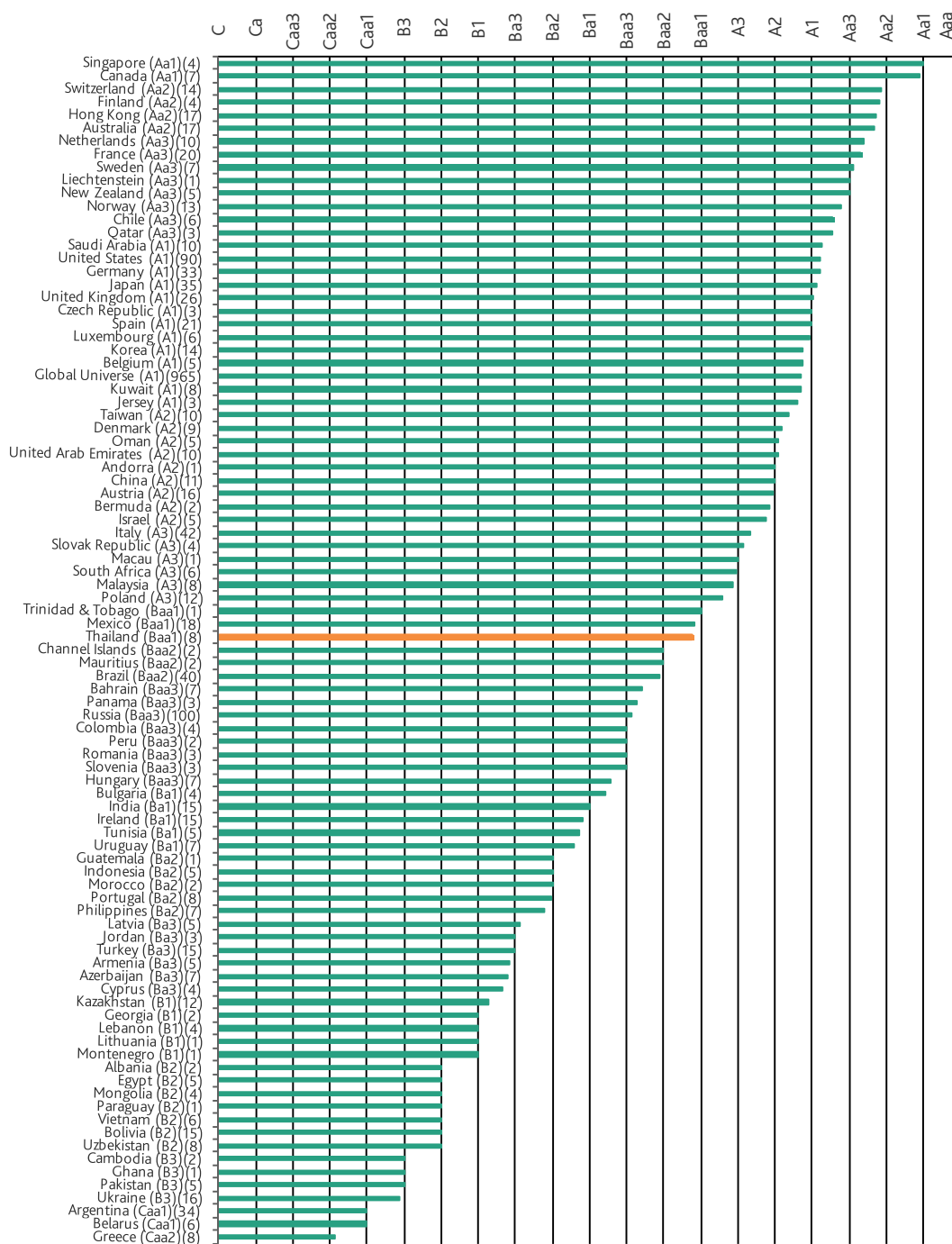
Country Ceilings for Long-Term Bank Deposit Ratings (as of 9 November 2011)

Domestic Currency



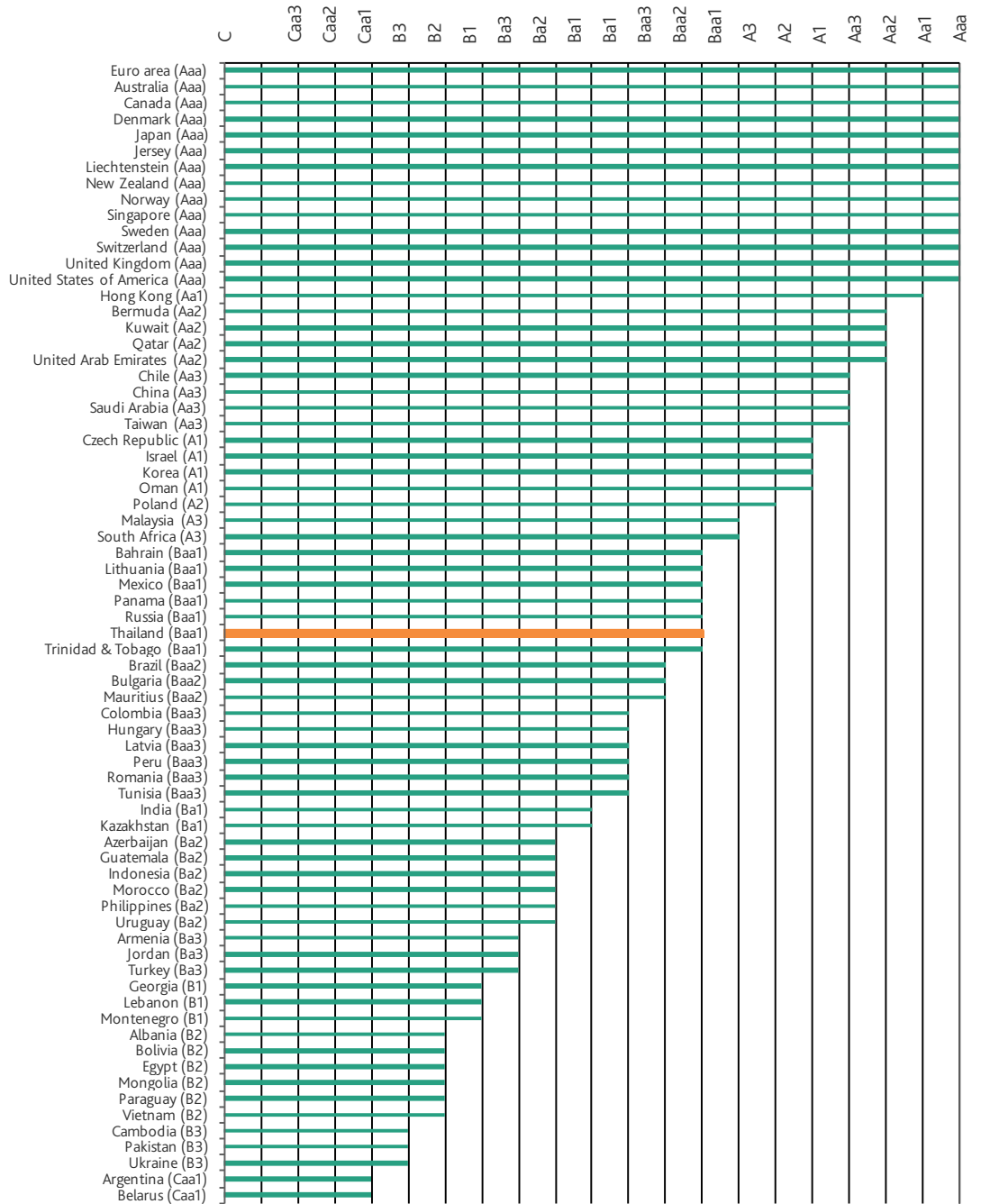
Average* Long-Term Bank Deposit Ratings by Country (as of 1 November 2011)

Foreign Currency



Country Ceilings for Long-Term Bank Deposit Ratings (as of 9 November 2011)

Foreign Currency



Appendix 3: BFSR / BCA Mapping Table

BFSR/Baseline Risk Assessment Mapping Table	
BFSR	Baseline Credit Assessment (BCA)
A	Aaa
A-	Aa1
B+	Aa2
B	Aa3
B-	A1
C+	A2
C	A3
C-	Baa1
C-	Baa2
D+	Baa3
D+	Ba1
D	Ba2
D-	Ba3
E+	B1
E+	B2
E+	B3
E	Caa1
E	Caa2
E	Caa3

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