

THAILAND

Capital Market Report 2011

The Association of Thai Securities Companies
(ASCO)

Prepared for Presentation at
The 17th Asia Securities Forum
22nd – 24th November 2012
Mumbai, India

Acronyms and Abbreviations

AEC	The ASEAN Economic Community
ASCO	Association of Thai Securities Companies, Thailand
BOT	Bank of Thailand
GMS	the Greater Mekong Region
MAI	Market for Alternative Investment
SEC	Securities and Exchange Commission
SET	Stock Exchange of Thailand
TFEX	Thailand Futures Exchange Public Co., Ltd.
ThaiBMA	Thai Bond Market Association

Review of the Economy, Capital Market and Securities Business in 2011 and the 1st half of 2012

1. Executive Summary

In 2011, Thai economy merely expanded by 0.1%, resulting from the severe impact of the flood that caused the economy to contract by 9.0% in the fourth quarter of last year, as well as the ongoing Eurocrisis and slowing US Economy that hurt export sectors. Export value in terms of US Dollars increased by 16.4%. Private consumption expenditure and private investment grew by 1.3 and 7.2%, respectively. Headline inflation was at 3.8%, while unemployment remained low at 0.7%. Nevertheless, The National Economic and Social Development Board (NESDB) projects Thai GDP growth to pick up to 5.5-6.0% in 2012, boosted by the full recovery in the industrial sector after it was severely hit by the great flood late last year that resulted exports expansion, the increase in number of foreign tourists, public and private investment and household spending.

Despite several negative factors domestically and internationally last year, the SET gained the top share turnover velocity in Southeast Asia and its daily average securities trading volume ranked the second highest in the region, behind Singapore. The SET index outperformed many markets in the region, hitting a 15-year high of 1,144.14 points on August 1, 2011, before the flooding began. For derivative trading, the trading volume of the Thai Futures Exchange also reached a historic high, supported by rising trading of SET50 Index Futures, gold futures, as well as a launch of night trading session. It is expected that the launch of the ASEAN Trading Link in October 2012 will attract more ASEAN investors to the Thai market, while the introduction of new derivative products – Sector Index Futures will continue to boost trading in TFEX.

Paving the way for the ASEAN Economic Community (AEC) in 2015, Thailand as a center of the Greater Mekong Region (GMS) is expecting to play a significant role to link the transportation, trade and investment among countries in the GMS region. As a result, Thai economic growth is likely to benefit from several GMS's megaprojects in basic infrastructure, as well as water management. Regarding the financial sector, the Securities and Exchange Commission (SEC) is planning to promote development of GMS capital markets to enhance mutual economic growth and increase the value of capital investment.

2. The Thai economy

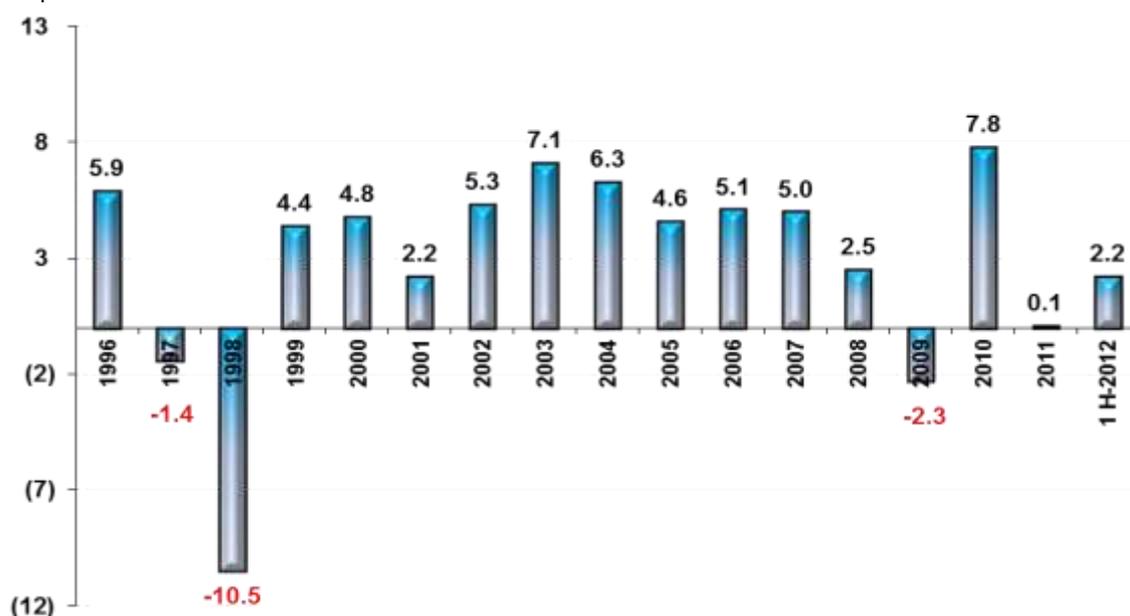
The Thai economy in 2011 grew at a low rate of 0.1% (Figure 1), a drop from 7.8% in 2010, resulting from the severe impact of the flood that caused the economy to contract by 9.0% in the fourth quarter of last year. The flood resulted in a major reduction in demand from both domestic and external. Industrial works had to halt their production, in turn causing serious problems of shortages of inputs and parts used in the production processes of a large number of manufacturers and service providers. The problem led to a decrease of the export volume in the last quarter of the year. Export of goods and services in 2011 grew by 9.5% per year, dropping from the growth rate of 14.7% per year in 2010. Imports of goods and services in 2011 grew by 13.7% per year, dropping from 21.5% per year in 2010, in line with the slowdown of domestic demands and export-oriented production which grew at a lower rate.

The private sector spent less domestically, increased at a mere rate of 1.3% per year, compared with 4.8% of the previous year. The decrease was due to dropping people's incomes caused by the flood and the inflationary pressure, coupled with rising interest rates. Private investment grew by 7.2% per year, decreasing from 13.8% in the previous year, due largely to the production halting at several industrial estates.

The delay of the preparation of the 2012 Annual Budget has led to slow disbursements in the fourth quarter of 2011. Consumption coming from the public sector therefore grew at only 1.1% per year, compared to 6.4% of the previous year. Investment of the public sector, meanwhile, shrank by 8.7%, compared to the shrinking rate of 2.2% in the previous year mainly because of the decreases of the disbursements under the Thai Khem Kaeng B.E. 2555 Scheme.

unit: percent

Figure 1: Real GDP Growth



Source: NESDB

Table 1: Major Economic indicators

	2009	2010	2011	2012f
GDP growth (%)	-2.3	7.8	0.1	5.5-6.0
Investment (%)	-9.2	9.4	3.3	11.3
<i>Private(%)</i>	-13.1	13.8	7.2	12.2
<i>Public(%)</i>	2.7	-2.2	-8.7	8.1
Consumption(%)	0.1	4.8	1.3	4.7
<i>Private(%)</i>	-1.1	4.8	1.3	4.8
<i>Public(%)</i>	7.5	6.4	1.1	3.8
Export volume of goods & services (%)	-12.5	14.7	9.5	7.7
<i>Export value of goods (%)</i>	-14.0	28.4	16.4	7.3
Import volume of goods & services (%)	-21.5	21.5	13.7	10.5
<i>Import value of goods (%)</i>	-25.2	37.0	24.7	13.5
Trade balance (Bil. USD)	32.6	31.8	23.5	12.6
Current Account balance (Bil. USD)	21.9	13.2	11.9	0.3
Current Account to GDP (%)	8.3	4.1	3.4	0.1
CPI (%)	-0.9	3.3	3.8	2.9-3.4

f = forecast

Source: NESDB

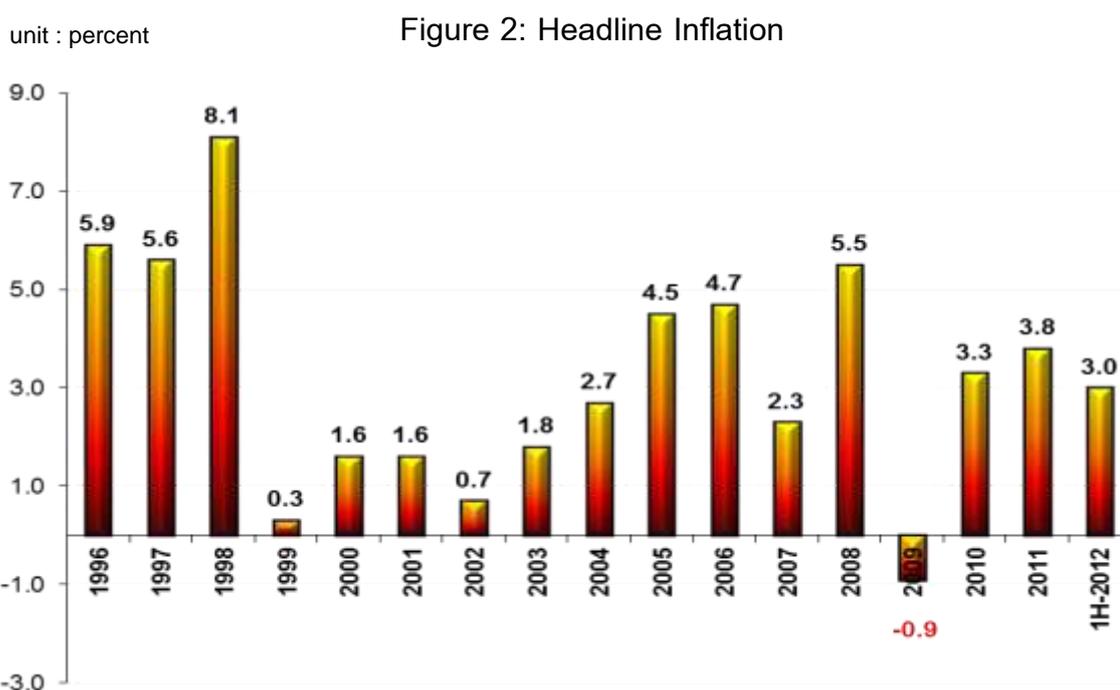
In terms of domestic economic stability, headline inflation in 2011 rose from the previous year to 3.8% (Figure 2), due mainly to the pressure from the prices of oil which followed the direction of the world market prices and the high prices of agricultural products

caused by climate change. Unemployment improved to 0.7% of the total labor force. For external stability, the current account surplus in 2011 decreased from the previous year to USD11.9 billion, or 3.4% of GDP (Figure 3) as a result of the decrease in the trade balance surplus (Figure 4) caused by the value of imports increasing at a higher rate than the value of exports.

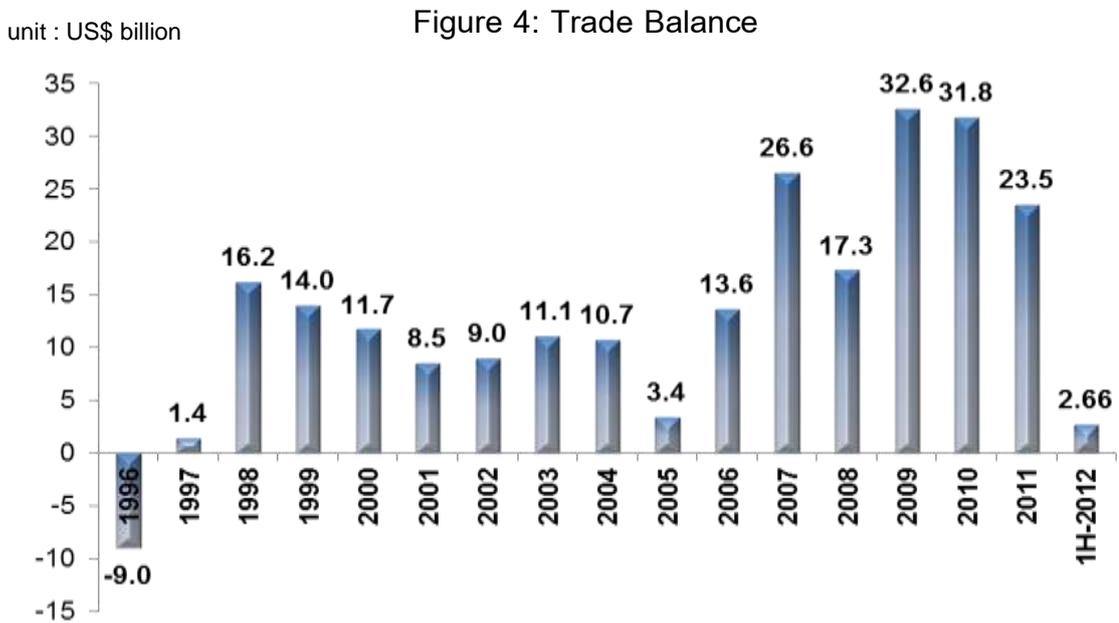
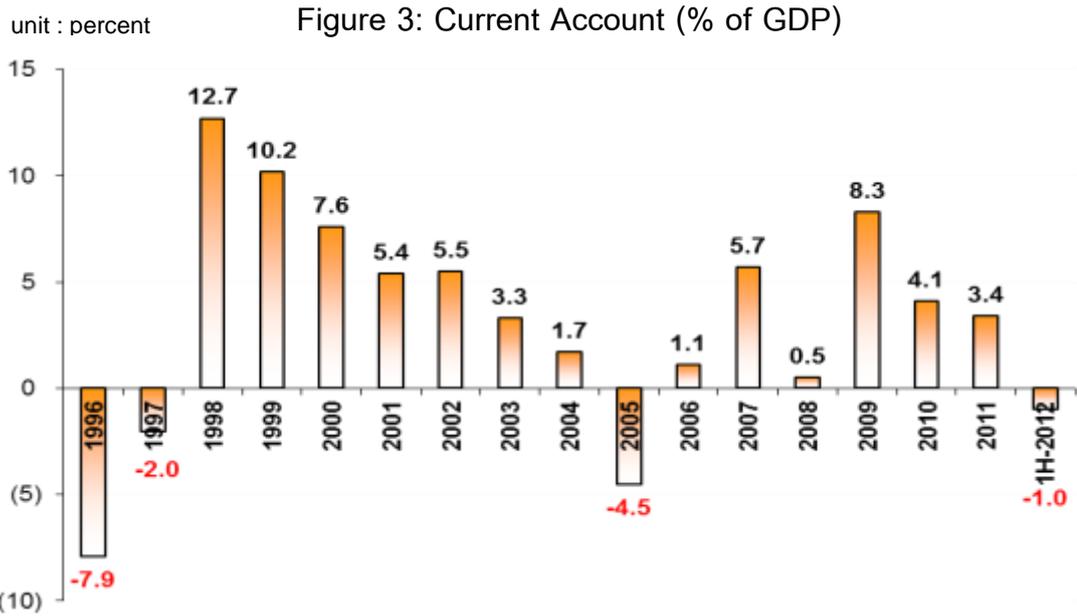
The Thai economy expanded by 4.2% in the second quarter of this year, accelerated from 0.4% in the previous quarter, boosted by domestic demand expansion. Such an increase contributed to various stimulus packages, while manufacturing sectors started to recover and resume their production after flood disaster. As a result, the economy expanded at a rate of 2.2% in the first half of 2012.

For 2012, Thai economy is expected to grow within the range of 5.5 – 6.0%. Exports are expected to expand by 7.7% this year as a result of a slowdown in global demand and slow recovery in some export sectors. Private and public consumption is projected to grow by 4.8 and 3.8%, respectively, while public investment is expected to grow by 8.1% due to accelerating government budget disbursement.

In the first half of 2012, headline inflation was at 3.0% and core inflation (excluding fresh food and energy) was at 2.4%. For 2012, Inflation is forecasted at 2.9 – 3.4%, with unemployment of 0.7%. Lower inflationary pressure is mainly caused by a decrease in food and beverage prices. The current account surplus is expected to trim to 0.1% of GDP, or USD0.3 billion as trade balance is likely to register a smaller surplus of USD12.6 billion.



Source: NESDB



Source: NESDB

Fiscal and monetary measures

Fiscal Policy in 2011

The Ministry of Finance has set the Fiscal Sustainability Framework as followed;

- Public Debt per GDP \leq 60%
- Debt Service per Gov. Budget \leq 15%
- Capital Expenditure per Gov. Budget \geq 25%

At the end of FY2011, the outstanding Public Debt per GDP was at 41.7%, the Debt Service per Gov. Budget was 10.0%, while the Capital Expenditure per Gov. Budget was only 19.6%

 Major fiscal measures in 2011 were:

After the general election in July 2011, Thailand had a new administration led by the Pheu Thai Party. According to that, the major fiscal measures in 2011 could be summarized in 2 parts as followed;

- **Measures under the Democrat administration (former government)**
 - 1) The Democrat government had approved the 2-years 0% interest rate for first-time house lending program with a limit of THB2.5 billion to stimulate real estate market. Under this program, the Government Housing Bank (GHB) had issued 30-year loans with the first 2 years being interest free on properties that are priced at THB3 million or less for first-time buyers. Potential clients would also be able to get an exemption from the 1% mortgage fee and 1% transfer fee.
 - 2) The former government had launched THB 5 Billion Pracha Wiwat loan scheme to provide financial help to taxi drivers, street vendors and motorbike-taxi drivers. The Government Savings Bank (GSB), Bank for Agriculture and Agricultural Cooperatives (BAAC), Islamic Bank of Thailand (Ibank), Small and Medium Enterprise Development Bank of Thailand and Krung Thai Bank had joined the loan scheme. Besides all these loan offers, the Pracha Wiwat scheme includes free electricity for low-income households using 90 units or less per month, the capping of diesel price at THB30 per litre and the government's co-payment for informal workers to join the social security fund.
 - 3) The former cabinet had approved the debt refinancing program for those who owe to loan sharks, by mobilizing six state-owned banks to provide credit. Debtors to loan sharks could come to register their debts between December 1 - 30, 2009. The debt must not exceed THB200,000 and must be money that was borrowed before the launch of the program. The interest rate charged by the state-owned banks must not exceed 12 % per annum, or less if the repayment period was more than 8 years.
- **Measures under the the Pheu Thai administration**

The new Pheu Thai-government fiscal measures can be described as;

 - Measures related to the election policies (populist policies)

- 1) The government offered the first-time car buyer tax scheme to offer tax rebates of up to THB100,000 to first-time auto buyers starting from September 16, 2011 to December 31, 2012. To be eligible, participants have to buy a car priced less than THB1 million, and the rebate is made on the excise tax with a ceiling of THB100,000. In addition, the engine must be less than 1,500cc and buyers must be at least 21 years old, while ownership must be held for at least five years. The Excise Department will pay the rebate in the form of a cashier's cheque within one year after the purchase (The rebate begins from October 1, 2012).
- 2) The tax incentives for first-time home buyers, who are eligible for a tax deduction of up to 10 percent of property prices, but not exceeding THB500,000, had been approved. The value of the house must not be more than THB5 million, and the deduction will be applied in the same amount each year for a period of five consecutive years. However, the ownership transfer must be carried out between September 21, 2011 and December 31, 2012. Under the scheme, the home buyers must not own any property for their residence before, and they must hold the ownership of the property for at least five years, starting from the day of ownership registration.
- 3) The cabinet had approved the minimum wage hike in the public sector to THB300 per day and the salary increase for university graduates to THB 15,000 a month, which will take effect on January, 2012. Later on, the Cabinet has postponed the effective date for Bangkok and some major provinces increase in the minimum wage to April, 2012 while the other areas will be in 2013 in order to support the flood-hit companies' rehabilitation project and help the affected employers.
- 4) Tax measures, fees and offering procedures for mobilization of funds for state enterprises' infrastructure funds designed to promote establishment of infrastructure funds in Thailand under the Securities and Exchange Act, B.E.2535, in order to mobilize funds from institutional investors and the general public to finance various types of infrastructure the public.
- 5) Tax measures taken to enhance the country's competitiveness and to prepare it for the Asian Economic Community in 2015 through reduction of corporate income tax, with details as follows:

- The standard corporate income tax rate will drop from 30% to 23% for the year ended December 31, 2012 and on January 1, 2013 will reduce to 20%.
 - Reduction in the corporate income tax rates for SME companies with paid up capital of less than THB5 million and with sales and services income less than THB30 million in an accounting period. The tax exemptions are as follows:
 - a) An exemption from corporate income tax on the first THB150,000 of net profit.
 - b) Corporate income tax at the rate of 15% on the net profit above THB150,000 but under THB1 million (for the accounting period beginning on or after January 1, 2012).
 - c) The portion of net profit that exceeds THB1 million will be taxed at 23% in the accounting period ending on or after December 31, 2012 for the accounting period beginning on or after January 1, 2013, that rate will reduce to 20%.
- 6) The Cabinet has approved the rice-pledging scheme for the 2012-13 harvest year, which would require a budget of THB405 billion. The scheme is aiming to raise incomes of farmers and eventually stimulate the economy. The government expects to spend about THB300 billion on the pledging scheme for the previous 2011-2012 crop season and generate about THB240-250 billion from selling the rice under government-to-government deals.

○ Measures related to the post-flood rehabilitation

- 7) The Thai cabinet had worked out a package of flood rehabilitation in 2011 including;
- Financial institutions include the BAAC, the GSB, the GHB, the Small and Medium Enterprise Development Bank of Thailand, the Islamic Bank of Thailand, the Export-Import Bank of Thailand, the Krung Thai Bank, the Small Business Credit Guarantee Corporation, and Secondary Mortgage Corporation agreed to offer assistances to their flood-hit clients include debt suspension, the extension of the

repayment period, interest reduction, and loan extension for career rehabilitation and housing repairs.

- In terms of tax measures, flood victims were provided with a tax exemption on compensation received from the public sector and from claims received from insurance. Donors from 1 September 2011 to 31 December 2011 also received tax benefits. The affected people would be entitled to tax deductions of up to THB100,000 for repairing homes damaged by floods from July 25 to December 31, 2011 and tax deductions of up to THB30,000 on auto repairs, provided that the owners must be residents in declared disaster areas.
 - The Flood Recovery and Restoration Committee had approved the THB3.1 Billion flood compensation for Bangkok residents and other provinces. According to that, the government would hand out an upfront payment of THB5,000 to each household living in a property that has been flooded for at least seven days given that a house must be used as a permanent residence and located in a natural disaster zone. Later on, the authority had approved the 2nd lot of compensation amount for up to THB10,000 for a partially damaged house and up to THB20,000 for flooded house that has substantial damage.
 - For industrial sectors, The Thai government in early November 2011 had launched several relief measures such as the water-removal action plan to allow effected industrial estates to resume operations swiftly, a new credit line with a special interest rate, tax incentives and various investment privileges to industrial operators whose factories have been flooded.
- 8) The Government has allocated more than THB53 billion in the FY2012 budget to promote integrated water management and water resources management. Out of the amount, THB45.28 billion has been set aside for better and more systematic water management which the government aimed to develop 287 water sources to solve flood and drought problems. In addition, the 4 emergency decrees had been approved by the cabinet in

January this year, which would transfer the Financial Institutions Development Fund's (FIDF) THB1.14 trillion bailout debt from the Ministry to the Bank of Thailand (BoT) allowing government to borrow more to stimulate the economy, as well as establishing a government flood insurance fund with seed money of THB50 billion. Another decree would allow the Finance Ministry to borrow THB350 billion to carry out flood prevention projects. The fourth decree is to authorize the BoT to provide soft loans to flood-damaged businesses.

Monetary Policy in 2011

The BoT has been conducting monetary policy under a flexible inflation targeting framework since May 2000. In 2011, the Monetary Policy Committee (MPC) and the Minister of Finance agreed to maintain the inflation target for the year at 0.5-3.0% per annum, in continuation since 2009, considered this target range was appropriate for economic stability and sustainable economic growth at that time.

Major monetary measures taken in 2011 were:

- 1) Adjustment of the policy interest rate by the Monetary Policy Committee by 1.25% in 2011, from 2.0% in December 2010 to 3.25% in December 2010. The rate was raised for 6 times (in January, March, April, June, July and August) and was cut in October. For the first half of 2011, the policy rate was cut by 0.25% in January and remained at 3.00%.
- 2) A policy guideline was established under the Financial Sector Master Plan, Phase II, allowing foreign banks currently operating a branch to apply for conversion of the branch into a subsidiary, which can have a maximum of 20 branches and 20 off-premise ATM's. The move was aimed at promoting competition and enhancing efficiency of the commercial bank system. Currently, there are 15 foreign bank branches in operation in Thailand. Application for conversion can be made from January 4 to December 28, 2012.
- 3) Measures to accommodate problems arising from the flooding
 - Measures for the payment system. The BoT issued a circular letter to ensure correct understanding of the preparation of the check clearing

system in case of flooding, whereby a backup center has been prepared for the BAHTNET System, the clearing system and the retail fund transfer system.

- Measures for preparation of cash to prevent problems of cash shortage during the flooding. The Bank of Thailand prepared cash supply for three months, or THB570 billion, for withdrawal by the people during the flooding in several locations. Bank notes were reserved at Bank Note Operation Centers.
- Measures taken to assist debtors The Bank of Thailand issued a circular note on October 6, 2011 and October 19, 2011, with important contents as follows:
 - Financial institutions and non-banks are allowed to maintain the debtor classification at the pre-flooding levels. Extension of new loans at special interest rates, reduction of the principal and/or interest and extension of the repayment period shall be considered general debt restructuring under the policy guideline for debt restructuring of the BoT.
 - Payment of credit card debt of flood victims can be lower than 10% of the outstanding debt, until June 30, 2012.
- Relaxation of the regulation governing housing loans
 - Extension of the LTV (Loan to Value) requirement for low-rise houses with sales prices lower than THB10 million by one year. (The effective date has been postponed to January 1, 2013.)
- The Thai Bankers' Association, the Specialized Financial Institutions and non-banks announced their criteria to assist their debtors who were affected by the flooding. Relaxation will be made to payment of the principal and/or interest by 6-12 months; the repayment period will be extended; and loans will be extended for business recovery at special interest rates.
- The National Credit Bureau (NCB) relaxed the requirements for debtor and credit reporting. A letter was issued to the members, allowing them to not put in the records of debtors whose debts were restructure or loan

repayment period extended. The deadline for submission of the credit reports for October 2011 was also extended by one month.

- According to the fourth emergency decree approved by the cabinet, The BoT has launched the low-interest loans scheme or soft loans to financial institutions in order for them to provide loans to flood-affected entrepreneurs since February this year. The soft loans, with a budget of THB300 billion, will carry 0.01% interest for commercial banks, both in and outside of the country, and six state-owned financial enterprises. The financial institutions will then offer the money as loans for flood rehabilitation. Qualified loan seekers are SMEs and individuals whose houses or workplaces were in the flooded areas. They have to directly be affected by the flood. The maximum loan amount for each SME is THB30 million and THB1 million for individuals, carrying an interest rate of not more than 3% per year, for a borrowing period up to 5 years. Loans are valid until December 31, 2013 or until the funds have been completely allocated.

3. Thai Capital market in 2011 and 1st half of 2012

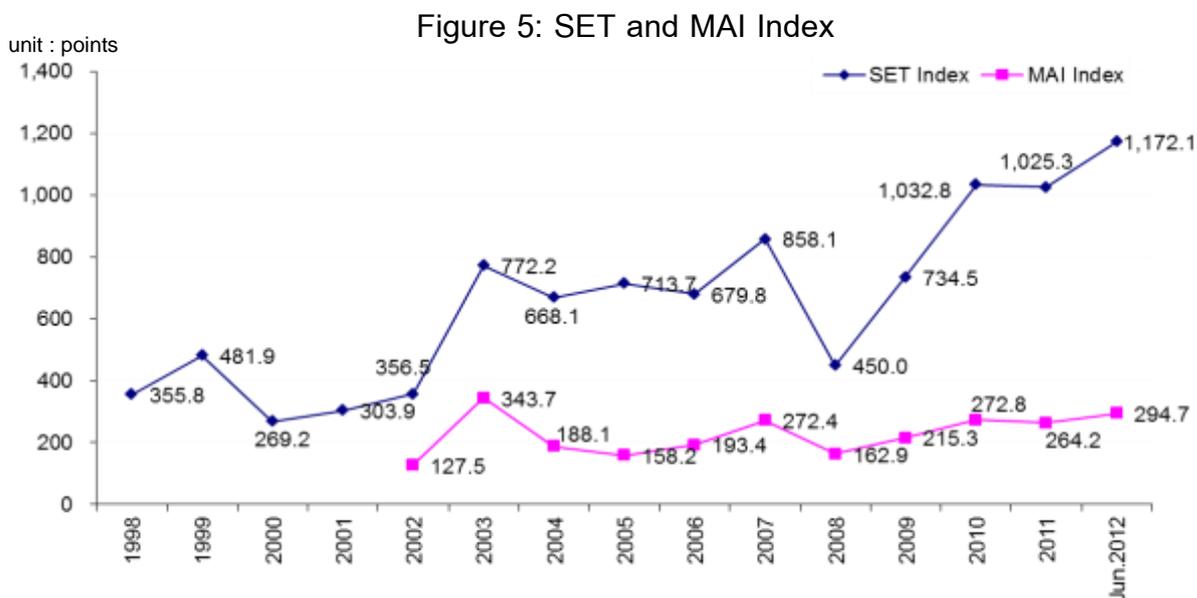
3.1 Overview of the Stock Market

As at the end of 2011, the SET index closed at 1,025.32 points, fell 0.72% from the end of 2010 (Figure 5), due to several negative factors domestically and internationally such as the Eurozone debt crisis, the weakening U.S. economy, the tsunami in Japan and, especially, the flooding during 4th quarter in Thailand. However, the country's national election helped boosting investment sentiment. The lowest point was 855.45 points in October and the highest was 1,144.14 points – a new 15-year high in August. The SET index edged down at a considerably lower rate, compared with most of the emerging stock markets in Asia¹ which fell by more than 10% in 2011.

The SET Index at the end of June 2012 finished higher at 1,172.11 points, rallied 14.32% from the end of last year, becoming one of the top indices performer among Asia's main stock markets.

¹ In Comparison with Vietnam, India, China, Taiwan, Hong Kong, Singapore, Korea, Malaysia, Indonesia and Philippines

The MAI index closed at 264.23 points at the end of 2011, 3.14% lower than the previous year. Nevertheless, the index resumed its strength during the first half of this year to finish at 294.65 points, 11.5% higher from the end of 2011.



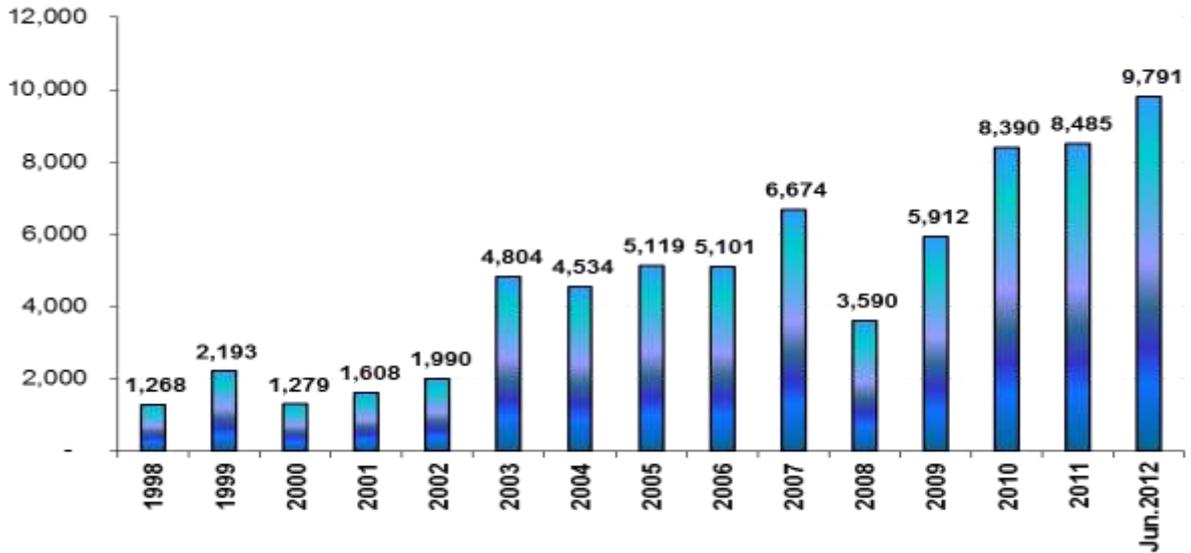
Source: SET

Market capitalization of SET and MAI combined at the end of 2011 totaled THB8,485 billion, increasing by 1.13% from the end of 2010 (Figure 6), due mainly to the rise of the SET index. At the end of June 2012, the Market capitalization rose to THB9,791 billion following the rise of both indices.

The total number of listed companies in the SET at the end of 2011 and at the end of June 2012 remained at 472, down from 474 companies in 2010. For the MAI, the number of MAI listed companies at the end of 2011 and June 2012 stood at 73, increased from 66 companies in 2010. As a result, total number of listed companies in the SET and the MAI were at 545 at the end of last year and June 2012 (Figure 7).

unit : Billion Bt.

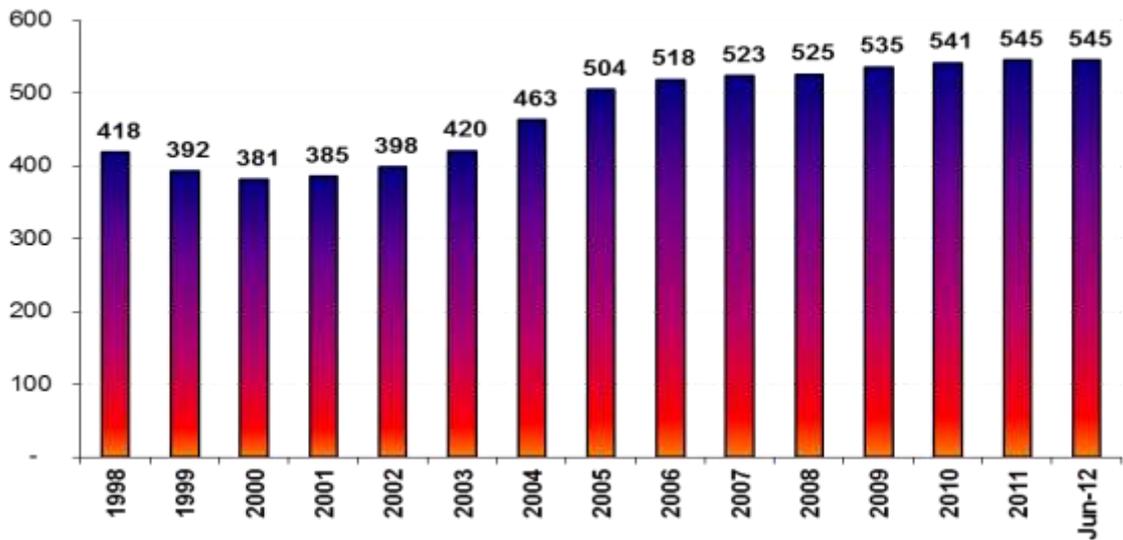
Figure 6: Market Capitalization



Source: SET

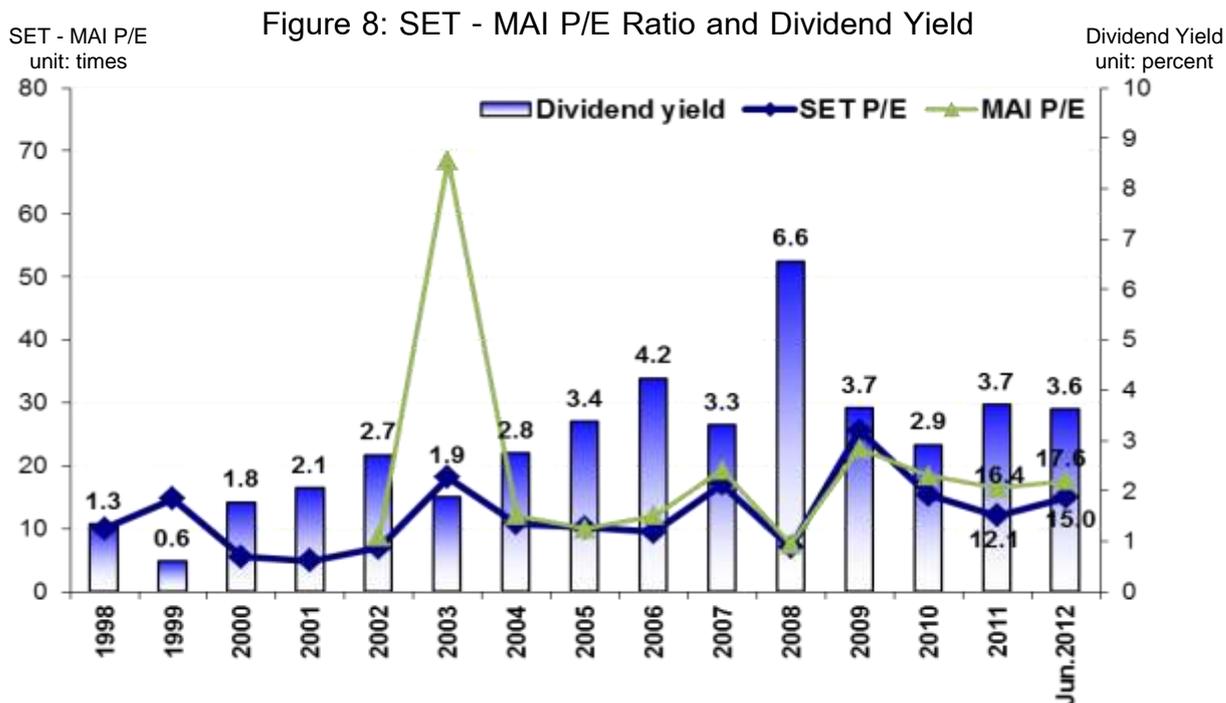
unit : companies

Figure 7: No. of Listed Companies



Source: SET

The P/E ratio of the SET declined from 15.4 times in 2010 to 12.1 times at the end of last year, and then rose again to 15.0 times at the end of June this year. The P/E ratio of the MAI dropped from 18.4 times at the end of 2010 to 16.4 times, before edging up to 17.6 times at the end of June 2012 (Figure 8). Meanwhile, the dividend yield of the Thai bourse rose from 2.9% to 3.7% at the end of 2011, but decreased slightly to 3.6% at the end of June 2012.

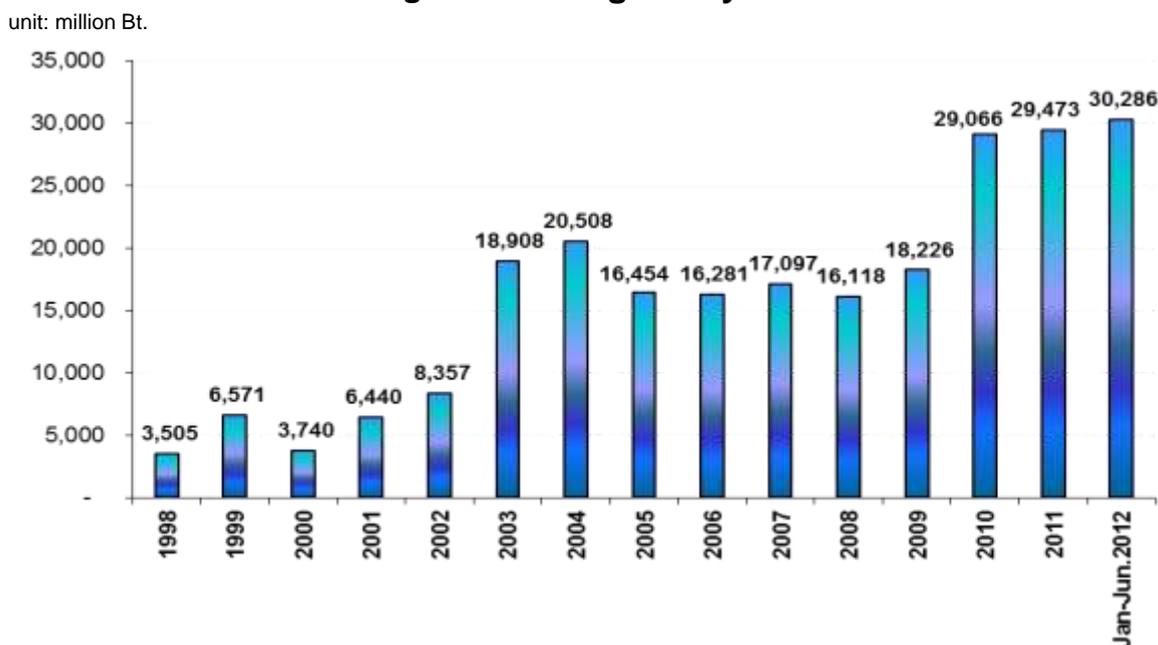


Source: SET

The liquidity of SET and MAI were high compared with that of other stock markets in the region, with an average daily trading value hit a record high of THB29,473 million. Share turnover velocity was at 80.68 percent, the highest in the South East Asia Region. The turnover of the SET and MAI combined totaled THB7,194 billion, increasing by 2.2% from 2010. The average daily turnover increased by 1.4% from 2010 (Figure 9).

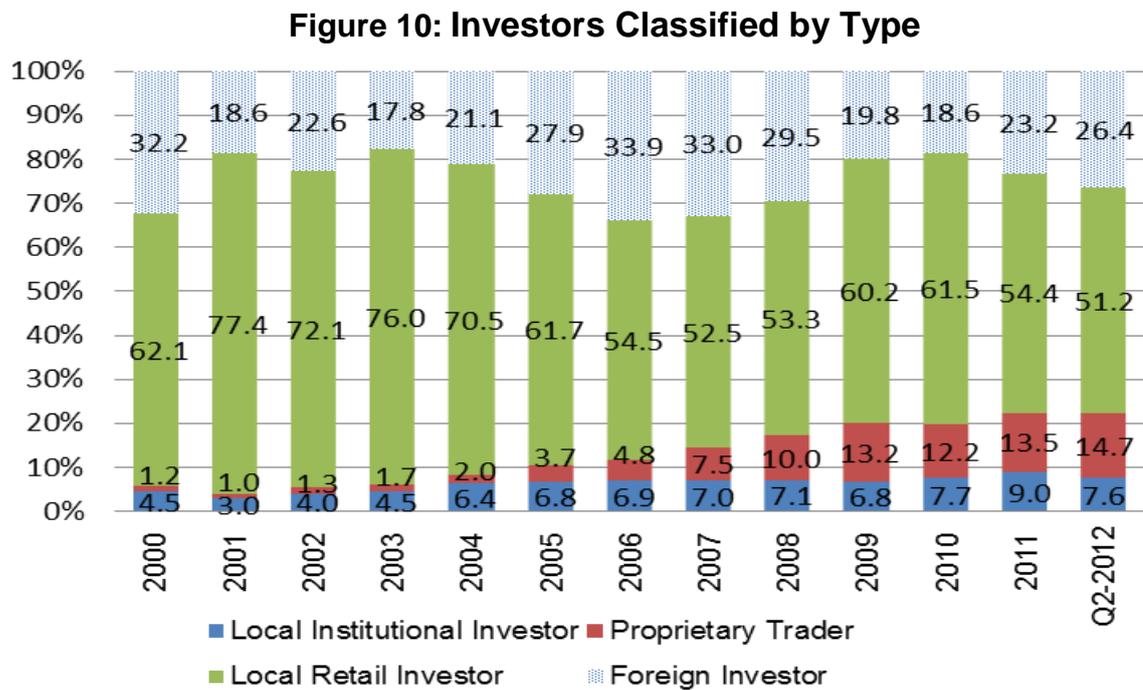
During the first six months of this year, trading volumes of the SET and MAI totaled THB3,634 billion with the average daily turnover of THB30,286 million.

Figure 9: Average Daily Turnover



Source: SET

In 2011, 54.4% of the total turnover came from retail investors, dropped from 61.5% in 2010 while proportion of foreign investors increased from 18.6% to 23.2%, proprietary traders and local institutional traders had a share of 13.5 and 9%, respectively (Figure 10). As of June 2011, the proportion of trading by foreign investors rose further to 26.4%, while the proportion of retail investors trading slowdown to 51.2%.



Source: SET

3.2 Overview of the derivatives market

In 2011, the trading volume of the Thai Futures Exchange (TFEX) reached a historic high of 10.03 million contracts, or a daily average of 41,145 contracts, rising by 120.31% from 2010 when the average daily turnover was 18,676 contracts, supported by rising trading of SET50 Index Futures, gold futures, as well as a launch of night trading session. The underlying product most traded was the SET 50 Index Futures, which accounted for 43% of the total trading volume, followed by 10 Baht Gold Futures and 50 Baht Gold Futures, both constituting around 21.7% and 18.1%, respectively. Domestic Retail investors were the largest group of derivatives players, representing 60% of the total trading, foreign investors accounted for 33.6% and 6.4% came from domestic institutional investors.

As of December 30, 2011, the Thai Futures Exchange had open interest of 56,452 contracts and 62,883 derivatives trading accounts, representing an increase of 50.2% from

2010. In terms of new products, the TFEX launched Silver Futures and Brent Crude Oil Futures in June and October, with daily average trading volume at 236 contracts and 64 contracts, respectively. Moreover, the TFEX introduced the extended trading hours of commodity futures until night to overlap the trading hours of the CME Group and other derivatives markets (night session). Since the launch of the night session in June 2011, the trading volume was at 40.03% of the total trading volume of commodities futures.

For the first six months of this year, the trading volume of the derivatives market increased to 4.87 million contracts, or a daily average of 43,768 contracts, rising 6.4% from the end of 2011. The open interest jumped to 101,679 contracts. Trading volume gained from the introduction of a new product, USD Futures, as well as the trading of SET50Index Futures and 10 Baht Gold Futures.

Table 2: Derivative Trading Volume by instruments

Type of Instruments	2007	2008	2009	2010	2011	Jan - Jun.2012
50 Baht Gold Futures	-	-	311,591	792,960	1,817,483	514,683
10 Baht Gold Futures	-	-	-	178,463	2,171,795	1,261,317
Interest Rate Futures	-	-	-	41	429	27
Single Stock Futures	-	3,838	145,758	969,353	1,578,092	674,564
SET50 Index Futures	1,228,238	2,099,098	2,522,465	2,471,302	4,316,437	2,241,285
SET50 Index Options	8,646	45,684	95,504	107,317	107,993	35,694
Silver Futures	-	-	-	-	31,567	4,209
Brent Crude Oil Futures	-	-	-	-	3,320	66,686
USD Futures	-	-	-	-	-	71,832
Total Trading Volume (contracts)	1,236,884	2,148,620	3,075,318	4,519,436	10,027,116	4,870,297

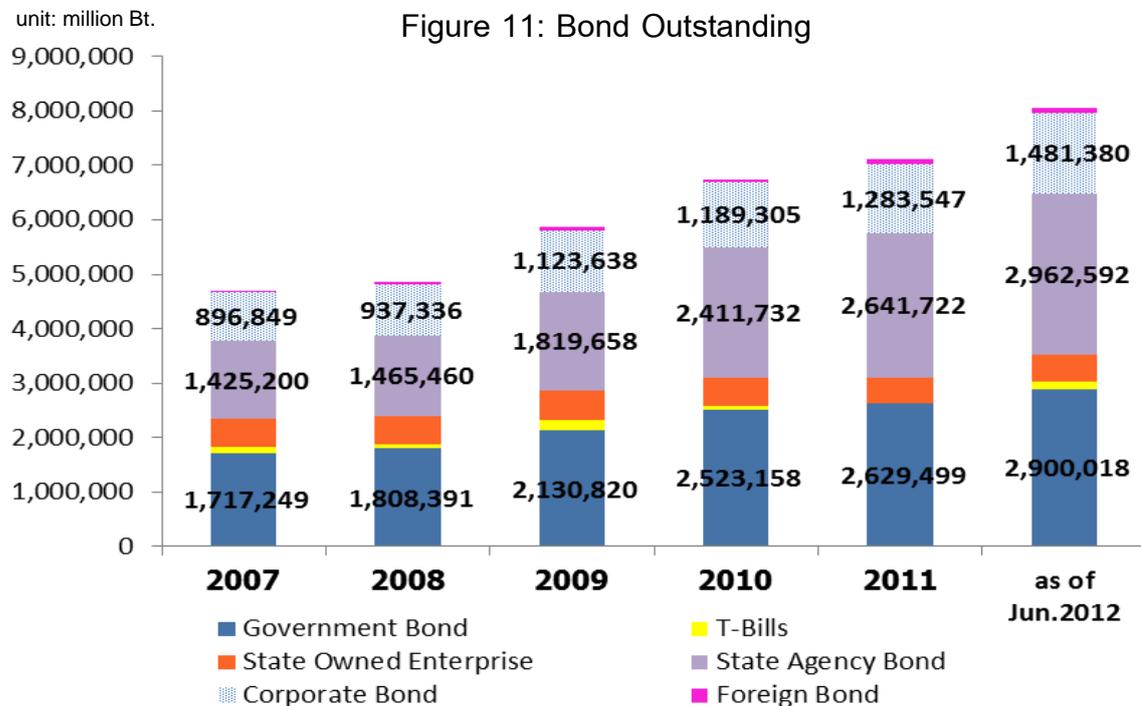
Source: TFEX

3.3 Overview of the bond market

In 2011, a total of THB12.6 trillion of domestic bonds was issued, an increase of 10.2% from the 2010 amount. The outstanding value of Thai bonds also increased. As of December 30, 2011, the outstanding value of bonds registered with the Thai Bond Market Association was THB7.33 trillion, increasing from 2010 by 5.2% (Figure 11).

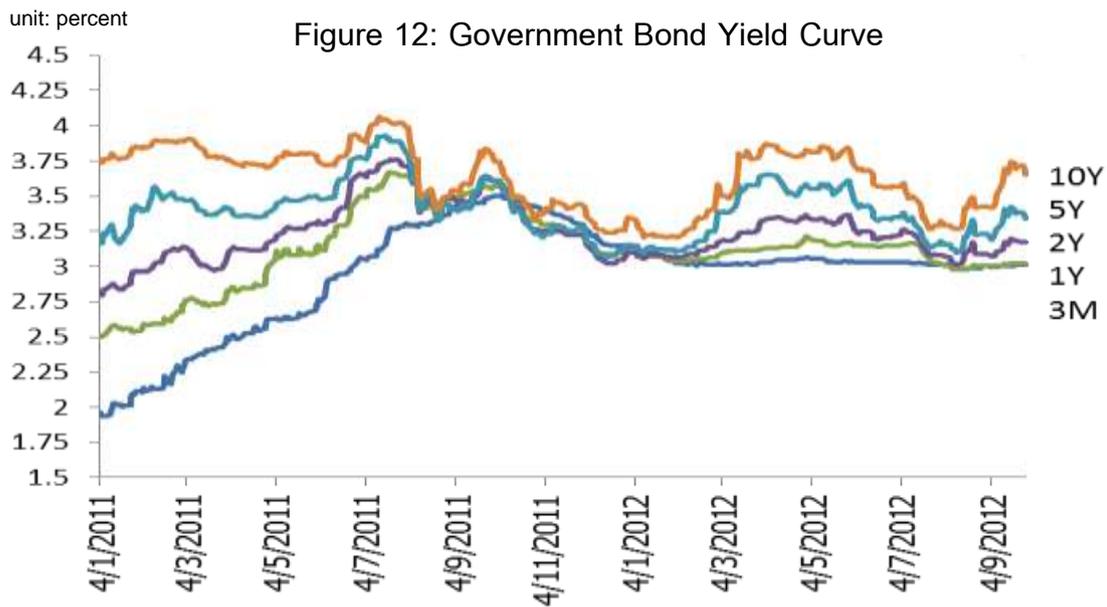
Outright trading on the secondary market in 2011 totaled THB17.58 trillion, or an average of THB72,067 million per day, which represented an increase of 5.88% from the corresponding period of 2010.

During the first half of 2012 a total of THB5.6 trillion of primary market bonds was issued, decreased by 18% from the same period of last year. The outstanding value and outright trading of bonds registered with ThaiBMA was THB8.06 trillion and THB9.84 trillion, or an average trading of THB82,064 million per day.



Source: ThaiBMA

For the movement of Government Bond Yield in 2011, yields of Government Bond with maturity \leq 3- year edged up in every tenor between +72 to +121 bps., while yields of bonds with 3 - year to 10 - year tenors shifted down in the range of - 10 to - 42 bps., compared to the end of 2010 due to the expectation of the BOT's rate cut to boost the economy. The yields curve moved opposite in 2012, when yields of short-term Government Bond (maturity $<$ 1- year) fell slightly from -3 to -11 bps. and middle to long-term Bond increased between +5 to +22 bps. as of the end of June 2012.



Source: ThaiBMA

Capital market developments

Major capital market developments in 2011 – June 2012 can be summarized as follows:

The Office of the Securities and Exchange Commission (SEC)

- 1) Starting from January 2012, the two significant developments in securities business took effect;
 - Liberalization of the licensing regime - before this year, newly established companies were prohibited from applying for a securities business license. Now, these companies are free to apply for a number of different licenses to operate in the industry. Moreover, existing securities companies will be given opportunities to make appropriate adjustments to their business structures. For example, the securities companies will be able to exercise their own judgments whether to operate every type of securities businesses within one entity or among separate subsidiaries depending on types of products or groups of customers.
 - Liberalization of brokerage commission fees - the commission rate is expected to be driven down further by more intense competition.
- 2) The Ministry of Finance had issued ministerial regulation on exemption of capital gain tax from selling of securities listed on exchanges in ASEAN members and

traded through ASEAN Linkage, in order to attract and promote investment in the ASEAN capital markets and equalize tax burden. In addition, for foreign company listed on the Stock Exchange of Thailand (SET), the Revenue Department allows individual investors receiving dividend paid by such foreign company less 10% withholding tax to exclude such dividend from annual tax calculation.

- 3) As the lead of ASEAN Capital Markets Forum (ACMF)'s Working Group on Cross-border Offering of CIS (collective investment schemes) and Debt Securities, the SEC coordinated with ASEAN countries to promote cross-border offerings of securities in the ASEAN region. For instance, CIS permitted to be issued and offered to retail investors in a home country should be allowed for public offering in other ASEAN countries on the expedited basis; meanwhile, multijurisdictional offerings of securities can be done in compliance with the ASEAN Disclosure Standards.
- 4) The SEC approved revision on regulations to allow retail investor to make overseas investment in derivatives traded on foreign derivatives exchange without limiting investment objective, providing that the investment must be made through securities company. The revised regulations aim to provide investors with more variety of investment alternatives and increase experiences in overseas investment while the service provider is required to comply with rules and practices prescribed by the Association of Securities Companies with the SEC approval.
- 5) The SEC revised rules on approval of capital market personnel (investment analysts and consultants) in line with industry practices while increasing flexibility to the working process. In this regard, capital market personnel are required to primarily pass courses on specific product knowledge. Wishing to upgrade their services to cover more products, they must take additional courses and exams on any of the four products comprising equities, debt instruments, mutual funds and derivatives.
- 6) The SEC launched the regulations on establishment and management of infrastructure funds that can help reduce state budgetary and public debt burden while promoting roles of the private sector in operating and/or investing in the state-owned megaprojects in corresponding with the government policy.

The Cabinet then approved tax benefits to promote the establishment and fund raising of infrastructure funds. The SEC also approved the SET requirements on acceptance of investment units of infrastructure funds to be listed on the exchange to boost the fund's liquidity.

- 7) The SEC have approved regulations on establishment and management of Real Estate Investment Trust (REITs) to offer a new investment alternative, develop fund raising framework and investment in real estate to be in line with international practice and facilitate more flexibility for investment in real estate. REIT regulations are partially similar to those governing listed company in the areas of issuance and offer for sale of securities, information disclosure and investor protection. Investment regulations are generally comparable to that of Type 1 property fund but offer more flexibility and impose less restriction; for instance (1) company with expertise in real estate investment and management is eligible to participate in REITs establishment and management, (2) no restriction on type of investment property is imposed while investment overseas is allowed. In addition, up to 10% of total property can be invested in project under construction and (3) loan for investment or improvement of property is permissible up to 35% of NAV or 60% of NAV, if gaining investment grade.
- 8) The SEC and all of the associations related to capital market jointly laid down a framework for upgrading the Association to become a Self-Regulatory Organization (SRO), of which structure would be flexible and conducive for the business sector to create financial innovations. Participation of the business sector would also be offered in order to prepare for the expected integration within the capital market and greater regional economic linkages.

The Stock Exchange of Thailand (SET)

- 1) Four ASEAN Exchange members - Bursa Malaysia (BMB), The Philippine Stock Exchange (PSE), Singapore Exchange (SGX) and the SET had appointed SunGard as the technology provider of the business-to-business intra-ASEAN trade connectivity platform that will facilitate cross-border order routing and trading, thus helping investors and members access multiple ASEAN markets via a single connection. The platform is expected to go "live" in 2012.

- 2) In accordance with the SET IT Master Plan, the bourse signed agreement with Cinnober Financial Technology to deliver trading, market data, and surveillance systems for equities and derivatives markets. The new systems will start to go live in 2012 for equities, and 2013 for derivatives.
- 3) As part of the goal to become the center of post-trade services in Southeast Asia, the SET will introduce new services in the third quarter of 2011 to boost liquidity and increase business opportunity to members of the Thailand Securities Depository Co., Ltd. (TSD) and Thailand Clearing House Co., Ltd. (TCH); for example,
 - Corporate Action News using SWIFT messages for distributing information of listed firms, e.g., dividend payment, recapitalization, or book closing for shareholders' meetings. Receivers can transfer information into their database automatically by a system called Straight – Through Processing (STP).
 - Third Party Clearing allowing brokers which are clearing members to clear and settle securities on behalf of non-member brokers.
- 4) The SET adjusted rules relating to membership admission for securities business by welcoming all qualified applicants based on their financial status, operations, readiness for securities business, and having brokerage license, in line with the liberalization of brokerage licensing by the SEC.
- 5) The TFEX had launched new products - Silver Futures and Brent Crude Oil Futures in June and October, and extend the gold and silver futures trading until 22.30 hours, enabling investors to manage risks and improve their profits.

The Association of Thai Securities Companies (ASCO)

- 1) In preparation to become a full functioned SRO, ASCO had introduced a new organizational structure by adding 2 new functions; Member Supervision function and ASCO Training Institute (ATI), apart from its current Business Development function. The Member Supervision function will be responsible for ASCO's rules making and qualification setting, along with coordinating with regulators in supervising and monitoring business conduct of members. The ATI will organize professional training courses (including refresher course) and examinations for all applicant for investor contacts.

- 2) ASCO had issued the securities business code of ethics for ASCO members, along with several notifications as guidelines as followed;
- Guidelines for paying compensation to investment consultants, branch managers and marketing team leaders
 - Guidelines for organizing sales promotion activities
 - Guidelines for securities company client suitability testing
 - Criteria for identifying quality factors for appraisal of the performance of investment consultants

3.4 Securities industry

At the end of 2011, there were 40 securities companies with brokerage licenses. Of this total, 38 were SET members. As for the derivatives business, 36 companies were licensed as derivatives agents and 6 companies were precious metal related agents, while 41 companies were members of the Thailand Futures Exchange Plc (TFEX).

Performance

The total revenue of the securities industry in 2011 was THB33,461 million, an increase of 0.1 % from THB33,430 million in 2010. Brokerage fees remained the main revenue of the securities business. In 2011 and 2010, the brokerage revenues from securities trading (equities and derivatives) were THB24,701 and 23,668 million or 73.9 and 70.8% of the total revenue respectively.

For the first half of 2012, proportion of brokerage revenue from securities trading fell to 69.8%, followed by interest and dividend, and interest on margin loans at 8.6% and 5.6% of total revenue (Table 3).

Table 3: Revenue of Securities Industry

	2010 (mil. Baht)	2011 (mil. Baht)	1H-2012	
			(mil. Baht)	% of total revenue
Brokerage – Equity	22,147	21,881	10,343	63.0%
Brokerage - Derivatives	1,521	2,822	1,111	6.8%
Underwriting	522	338	372	2.3%
Financial Advisory	1,113	977	315	1.9%
Gains on Equity Trading	4,076	-1,158	575	3.5%
Gains on Derivatives Trading	250	2,734	556	3.4%
Interest and Dividend	1,441	2,502	1,414	8.6%
Interest on Margin Loans	1,254	1,713	916	5.6%
Others	1,106	1,652	1,724	10.5%
Total Revenue	33,430	33,461	16,410	100%

Source: SEC

The expenses of the securities industry in 2011 totaled THB23,473 million, an increase of 8.5% from THB21,643 million in 2010, with the major item being personnel expenses, which, in 2011, totaled THB13,255 million, increasing by 1.0% from 2010 (Table 4). Personnel expenses were also the largest expenses for securities companies during the first six months of 2012, accounting for 54.4% of total expenses,

Table 4: Expenses of Securities Industry

	2010 (mil. Baht)	2011 (mil. Baht)	1H-2012	
			(mil. Baht)	% of total expenses
Expenses on Borrowing	519	1,053	655	5.6%
Fee & Services Expenses	1,975	2,510	1,276	11.0%
Provision for Bad Debts & Doubtful A/C	77	44	-6	-0.1%
Personnel Expenses	13,127	13,255	6,319	54.4%
Premises & Equipment Expenses	2,957	3,136	1,654	14.2%
Other Expenses	2,988	3,474	1,713	14.8%
Total Expenses	21,643	23,473	11,611	100.0%

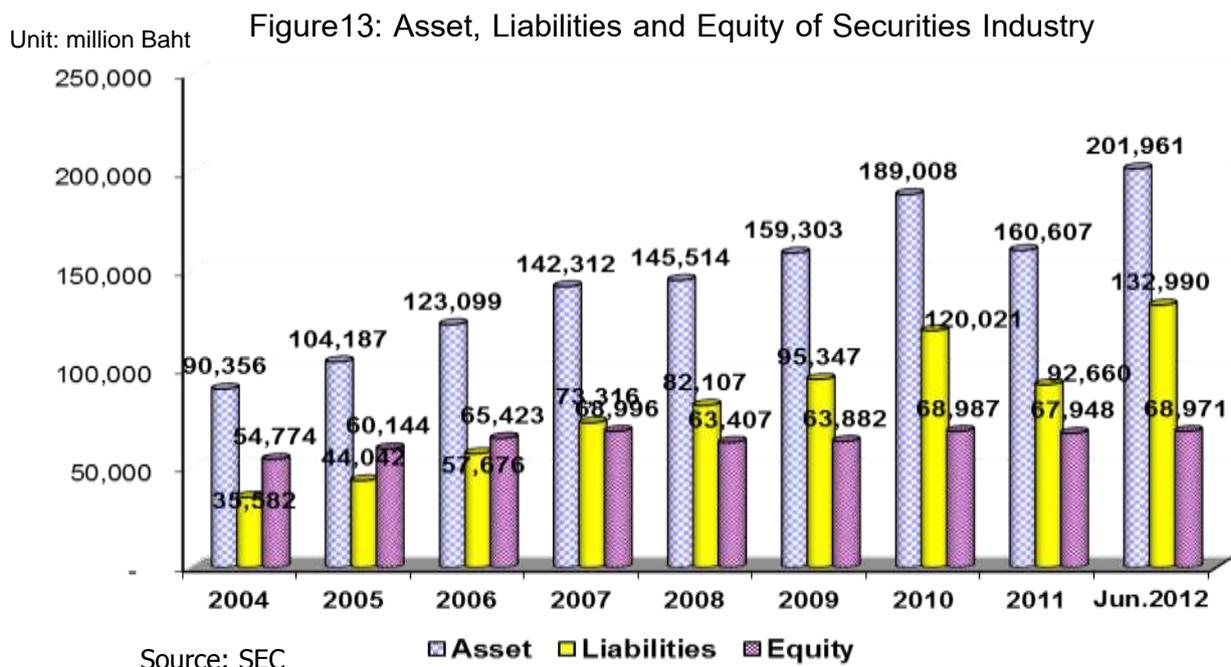
Source: SEC

In 2011, the securities industry reported a decline in net profit by 21.1% from THB8,601 million in 2010 to THB6,784 million. For the first half of 2012, net profit of securities companies were THB3,729 million.

Financial position

The total assets of the securities industry at the end of 2011 stood at THB160,607 million, a decrease of 15% from the end of 2010 when the corresponding figure was THB189,008 million. The sources of funds at the end of 2011 comprised liabilities totaling THB92,660 million and shareholders' equity of THB67,948 million (Figure 13).

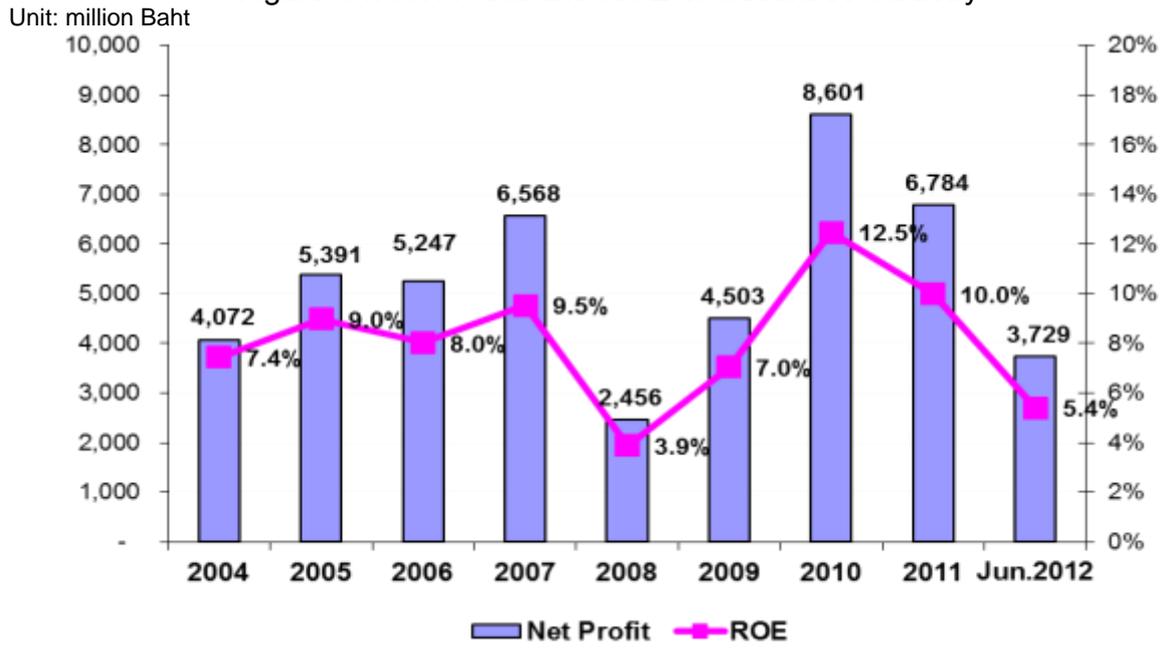
As of June 2012, total assets of securities companies rose by 25.7% from the end of 2011 to THB201,961 million. Meanwhile, liabilities surged by 43.5% to THB132,990 million and shareholders' equity increased slightly by 1.5% to THB68,971 million.



Return on Equity

The ROE of the securities industry in 2011 was 10%, decreasing from 12.5% in 2010, while at the first half of 2012 ROE registered at 5.4%(Figure 14).

Figure 14: Net Profit and ROE of Securities Industry



Source: SEC