

# Management Discussion and Analysis

For quarter 1/2010 ended March 31, 2010

---

The Siam Commercial Bank Public Company Limited



**The Siam Commercial Bank Public Company Limited**

9 Ratchadapisek Road, Jatujak, Bangkok 10900 THAILAND

Tel. +66 2 544-1111, +66 2 937-7777

Website: [www.scb.co.th](http://www.scb.co.th)

Investor Relations Division Email: [investor.relations@scb.co.th](mailto:investor.relations@scb.co.th)

Tel. +66 2 544-4358

Reuter: SCB.BK, SCBf.BK, SCB\_p.BK

Bloomberg: SCB TH, SCB/F TB, SCB/P TB, SCB/Q TB

## Management Discussion and Analysis

For the first quarter ended March 31, 2010

---

Siam Commercial Bank PCL announced reviewed operating results for the first quarter of 2010, with a consolidated net profit of Baht 6,375 million, a 14.9% yoy increase of Baht 828 million from Baht 5,547 million recorded in 1Q09. The year-on-year increase in net profit was mainly attributed to: (1) higher non-interest income, which was driven primarily by strong fee and service income growth, better performance of associated companies and higher gains on investments; (2) higher net interest and dividend income as interest expenses fell by a larger magnitude than interest income; and (3) lower provisions as the Bank's asset quality continued to improve.

Operating profit (excluding allowance for doubtful accounts, income tax and minority interest) increased 10.5% yoy to Baht 9,648 million in 1Q10 from Baht 8,729 million in 1Q09, due principally to robust non-interest income growth and an increase in net interest and dividend income.

Alongside net profit, earnings per share (EPS) rose to Baht 1.88 in 1Q10 from Baht 1.63 in 1Q09. Return on average equity (ROAE) and return on average assets (ROAA) increased to 17.6% and 2.0% in 1Q10 from 17.1% and 1.7% in 1Q09, respectively.

On a quarter-on-quarter basis, net profit rose by Baht 1,595 million (33.4% qoq) to Baht 6,375 million in 1Q10 from Baht 4,780 million in 4Q09, primarily attributable to (1) higher non-interest income, which was propelled by strong fee income growth and higher gains from investments, as well as by the absence of a one-time loss arising from a change in the reference yield curve used in cross currency swap revaluation calculations, which trimmed down gain on exchange in 4Q09; and (2) lower overall non-interest expenses, as a result of seasonality effect and the Bank's continued effort to control costs. Due primarily to the same reasons, operating profit (excluding allowance for doubtful accounts, income tax and minority interest) increased 31.9% qoq to Baht 9,648 million in 1Q10 from Baht 7,317 million in 4Q09. Stripping out a one-time item, operating profit (excluding allowance for doubtful accounts, income tax and minority interest) rose 26.8% qoq.

Unit: Million Baht

(Consolidated)	1Q10	4Q09	% qoq	1Q09	% yoy
Net interest and dividend income	10,916	10,550	3.5%	10,425	4.7%
Non-interest income	7,610	6,612	15.1%	6,425	18.5%
Non-interest expenses	8,878	9,845	-9.8%	8,121	9.3%
<b>Operating profit</b>	<b>9,648</b>	<b>7,317</b>	<b>31.9%</b>	<b>8,729</b>	<b>10.5%</b>
<b>Operating profit excluding non-recurring item*</b>	<b>9,648</b>	<b>7,607</b>	<b>26.8%</b>	<b>8,729</b>	<b>10.5%</b>
Allowance for doubtful accounts	1,143	1,279	-10.6%	1,462	-21.8%
Income tax	2,094	1,221	71.5%	1,686	24.2%
Minority interest in subsidiaries	37	37	0.1%	34	8.5%
<b>Net profit</b>	<b>6,375</b>	<b>4,780</b>	<b>33.4%</b>	<b>5,547</b>	<b>14.9%</b>
EPS (Baht)	1.88	1.41	33.4%	1.63	14.9%
ROE	17.6%	13.8%		17.1%	
ROA	2.0%	1.5%		1.7%	

\* Non-recurring item was a one-time loss from a change in the reference yield curve used in cross currency swap revaluations, which was booked in 4Q09.

## 1Q10 Income Statement (Consolidated basis)

### 1. Net interest and dividend income

Net interest and dividend income rose 4.7% yoy in 1Q10 as interest expenses fell by a larger magnitude than interest income. A sharp decline in interest expenses was primarily a result of (1) the reduction in interest rates in the preceding quarters, the effect of which continued to feed through to interest expenses on deposits in 1Q10; (2) the maturing of floating rate notes (FRNs) and some Bills of Exchange (B/Es) during the course of 2009, which trimmed down the Bank's interest expenses on borrowing.

Unit: Million Baht

(Consolidated)	1Q10	4Q09	% qoq	1Q09	% yoy
Interest and dividend income	13,028	12,968	0.5%	14,645	-11.0%
- Loans	10,349	10,632	-2.7%	11,560	-10.5%
- Interbank and money markets	369	410	-10.1%	589	-37.5%
- Hire purchase and financial lease income	991	982	0.9%	1,161	-14.7%
- Investments	1,320	944	39.7%	1,334	-1.1%
Interest expenses	2,112	2,419	-12.7%	4,219	-49.9%
- Deposits	1,496	1,738	-13.9%	3,247	-53.9%
- Interbank and money markets	162	173	-6.3%	152	7.0%
- Short-term borrowings	217	311	-30.3%	477	-54.6%
- Long-term borrowings	237	197	20.4%	344	-31.1%
<b>Net Interest and dividend income</b>	<b>10,916</b>	<b>10,550</b>	<b>3.5%</b>	<b>10,425</b>	<b>4.7%</b>
<b>Net Interest margin</b>	<b>3.66%</b>	<b>3.45%</b>	<b>0.20%</b>	<b>3.45%</b>	<b>0.21%</b>
Yield on earning assets	4.36%	4.24%	0.12%	4.84%	-0.48%
Yield on loans	4.99%	5.05%	-0.06%	5.81%	-0.82%
Yield on interbank	1.10%	1.08%	0.03%	1.69%	-0.58%
Yield on investment	3.28%	2.37%	0.91%	3.25%	0.03%
Cost of funds*	0.81%	0.90%	-0.09%	1.60%	-0.78%
Cost of deposit	0.64%	0.73%	-0.09%	1.39%	-0.75%
Spread (yield on earning assets–cost of funds)	3.55%	3.34%	0.21%	3.25%	0.30%

**Note** Profitability ratios are calculated based on monthly average  
 \* Cost of funds = Interest expenses / Interest bearing liability

**Interest and dividend income** in 1Q10 was Baht 13,028 million, an 11.0% yoy decrease of Baht 1,617 million from Baht 14,645 million in 1Q09. Details include:

- **Interest income from loans** fell 10.5% yoy to Baht 10,349 million, due mainly to the reduction in the Bank's interest rates (MLR was cut by 90 bps during 2009-1Q10), although loans grew 4.1% yoy;
- **Interest income from interbank and money markets** declined significantly by 37.5% yoy to Baht 369 million because of a marked fall in interbank interest rates (policy rate was cut by 150 bps during 2009-1Q10) and a sharp decline in the Bank's interbank and money market lending, as some of the excess liquidity seen in 1Q09 was subsequently channeled into lending and higher-yielding investments;
- **Hire purchase and financial lease** income declined 14.7% yoy to Baht 991 million, owing largely to (1) the lower level of loans outstanding, as the Bank continued to adopt more stringent underwriting criteria amidst weak economic conditions during the first nine months of 2009; and (2) the reduction in interest rates.
- **Interest and dividend income from investments** decreased slightly by 1.1% yoy to Baht 1,320 million, primarily as a result of lower interest income from investments in debt securities, the return of which fell alongside overall interest rates, although the dividend income from the Vayupak Fund increased to Baht 374 million in 1Q10 from Baht 160 million in 1Q09.

At the same time, **interest expenses** declined 49.9% year-on-year to Baht 2,112 million in 1Q10. Interest expenses on deposits dropped 53.9% yoy as the effect of deposit rate cuts in the preceding quarters continued to transpire while some long-term deposits were re-priced. Interest expenses from borrowings also fell by 44.7% yoy on the back of the maturing of FRNs and some B/Es during the course of 2009, and the reduction in interest rates.

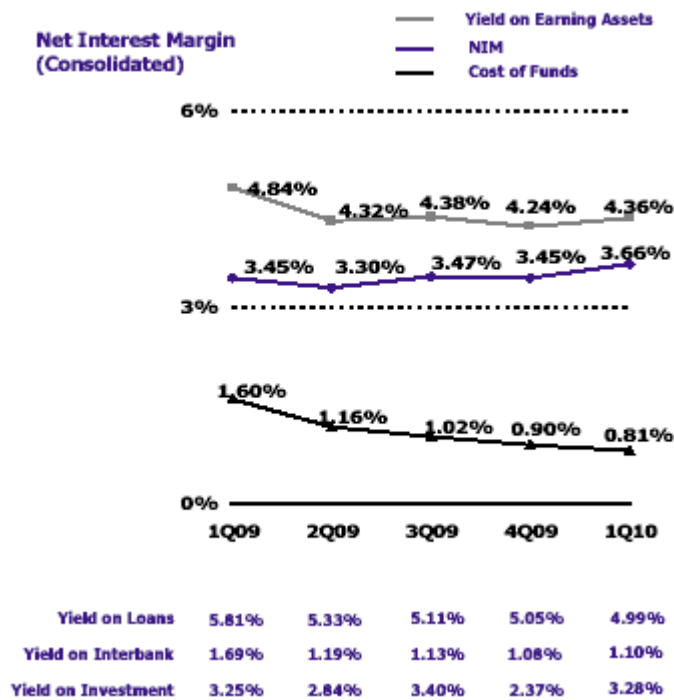
SCB Interest Rates	Jan 21, 09	Feb 27, 09	Mar 24, 09	Apr 20, 09	May 25, 09	Jun 18, 09	Sep 22, 09	Dec 30, 09	Mar 31, 10
<b>Lending Rate</b>									
MLR	6.50%	6.25%	6.25%	6.15%	5.85%	5.85%	5.85%	5.85%	5.85%
Savings Rate	0.75%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
<b>Fixed Deposit Rate</b>									
3-month deposits	1.00-1.25%	0.75-1.00%	0.75%	0.75%	0.75%	0.65-0.85%	0.65%	0.65%	0.65%
6-month deposits	1.25%	1.00%	0.75%	0.75%	0.75%	0.65-0.85%	0.65%	0.65%	0.65%
12-month deposits	1.50%	1.25%	1.00%	1.00%	0.75%	0.65-1.00%	0.65%	0.65%	0.65%
	Jan 14, 09	Feb 25, 09	Mar 31, 09	Apr 8, 09	May 20, 09	Jun 30, 09	Sep 30, 09	Jan 13, 10	Mar 10, 10
<b>Policy Rate</b>	2.00%	1.50%	1.50%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%

On a quarter-on-quarter basis, interest and dividend income rose slightly 0.5% qoq from Baht 12,968 million in 4Q09 to Baht 13,028 million in 1Q10. Details are as follow:

- Interest income from loans fell 2.7% qoq due partly to seasonal repayment of working capital loans;
- Interest income from interbank and money markets dropped 10.1% qoq alongside a reduction in the average interbank and money markets;
- Hire purchase and financial lease income rose slightly by 0.9% qoq as hire purchase loans grew 3.1% in line with the Bank's new growth-oriented strategy in the automobile hire purchase segment;
- Interest and dividend income from investments increased 39.7% qoq primarily as a result of dividend income from the Vayupak Fund booked in 1Q10.

Interest expenses fell 12.7% qoq from Baht 2,419 million in 4Q09 to Baht 2,112 million in 1Q10 as a result of the re-pricing of some long-term deposits. Interest expenses on borrowings also fell 10.7% qoq owing mainly to the maturing of some B/Es during 1Q10.

With interest expenses declining by 12.7% qoq and interest income increasing slightly by 0.5% qoq, net interest and dividend income expanded 3.5% qoq to Baht 10,916 million in 1Q10.



Net interest margin (NIM) widened to 3.66% in 1Q10 from 3.45% in 4Q09 and 3.45% in 1Q09, primarily the result of a notable decline in cost of deposits, alongside the reduction of deposits rates, and an improvement in yield on investments, particularly given a significant increase in dividend income from the Vayupak Fund. Going forward, if the gradual pick-up in economic activity continues its course, the Bank's ability to channel some of the excess liquidity into investing in more productive earning assets such as lending and higher-yielding investments, will likely contribute to a continued recovery of net interest margin. Furthermore, the rising interest rate environment is expected to be conducive to such

recovery process, the effects of which will become more pronounced considering the Bank's advantage of having a relatively high proportion of low-cost deposits.

## 2. Non-interest income

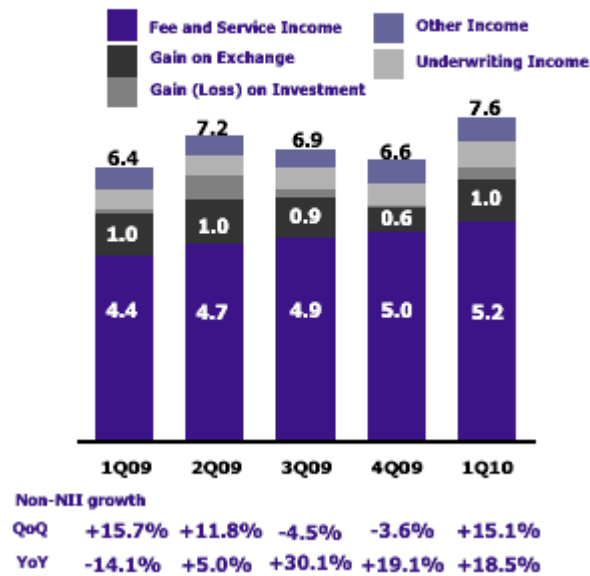
Non-interest income rose 18.5% yoy to Baht 7,610 million in 1Q10 from Baht 6,425 million in 1Q09, principally the result of (1) strong fee and service income growth; (2) better performance of associated companies; and (3) higher gains on investments. Additional details of non-interest income yoy are provided below:

- **Fee & service** income rose 19.2% yoy, mainly owing to higher fee income from card, bancassurance and fund management businesses;
- **Gain on exchange** was flat yoy in line with business transaction volume;
- **Income from equity interests** in associated companies rose 164.8% yoy, in line with the performance of associated companies, particularly the life insurance affiliate;
- **Gross underwriting income** increased 20.0% yoy, in line with business volume of the Bank's non-life insurance subsidiary;
- **Other income** declined by 15.8% yoy owing primarily to lower gains from sale of foreclosed properties;
- **Gain on investments** was Baht 237 million in 1Q10, a marked increase from Baht 90 million booked in 1Q09, due largely to gains on sale of debt securities.

(Consolidated)	Unit: Million Baht				
	1Q10	4Q09	% qoq	1Q09	% yoy
Fee and service income	5,227	4,963	5.3%	4,387	19.2%
- Acceptances, aval, and guarantees	229	213	7.7%	254	-10.0%
- Others	4,999	4,751	5.2%	4,133	20.9%
Gain on exchange	1,001	577	73.4%	1,004	-0.3%
Income from equity interest in affiliated companies	253	198	27.7%	95	164.8%
Underwritings income	598	533	12.3%	499	20.0%
Other income	295	294	0.4%	350	-15.8%
Non-interest income excluding gain on investments	7,374	6,564	12.3%	6,335	16.4%
Gain on investments	237	48	393.4%	90	163.3%
Total non-interest income	7,610	6,612	15.1%	6,425	18.5%
Non-interest income excluding non-recurring item*	7,610	6,902	10.3%	6,425	18.5%

\* Non-recurring item was a one-time loss from a change in the reference yield curve used in cross currency swap revaluations, which was booked in 4Q09.

**Non-interest Income  
(Baht Billion)**



On a quarter-on-quarter basis, non-interest income rose 15.1% qoq from Baht 6,612 million in 4Q09 to Baht 7,610 million in 1Q10. Details include:

- Fee and service income increased 5.3% qoq, driven mainly by fee income from bancassurance and card businesses;
- Gain on exchange rose significantly by 73.4% qoq as a result of a one-time loss arising from a change in the reference yield curve used in cross currency swap revaluation calculations, which was booked in 4Q09;
- Income from equity interests in associated companies rose 27.7% qoq in line with the performance of associated companies, particularly the life insurance affiliate;
- Gross underwriting income increased 12.3% qoq in line with business volume of the Bank's non-life insurance subsidiary;
- Other income was flat qoq;
- Gain on investments rose significantly from Baht 48 million in 4Q09 to Baht 237 million in 1Q10 due largely to gains on sale of debt securities.

In 1Q10, non-interest income accounted for 41% of total income (39% in 2009), while fee income made up 28% of total income (27% in 2009). There is a possibility that the proportion of non-interest income may decline in the coming quarters if loan growth recovers and net interest income revives as a result. Nonetheless, the Bank aims to further expand the income contribution from non-interest income activities with the medium-to-long-term objective of non-interest income accounting for more than 40% of total income. The Bank also expects fee income contribution from corporate banking and business banking (SME) to increase from the current level of below 30% of total fee income.

### 3. Non-interest expenses

Non-interest expenses increased 9.3% yoy to Baht 8,878 million in 1Q10 from Baht 8,121 million in 1Q09. Key items are explained as follows:

- **Personnel expenses** increased 20.0% yoy mainly as a result of annual salary adjustment, and the partial reversal of accrued performance bonuses in 1Q09;
- **Premises and equipment expenses** dropped 1.9% yoy primarily because of the Bank's well-disciplined cost control measures, despite continued investment in network expansion and on-going systems enhancement initiatives;
- **Taxes and duties** fell 3.2% yoy due mainly to a decline in special business tax on interest income, which fell alongside interest rates;
- **Fee and service** expenses rose 17.3% yoy alongside a pick-up in fee-based activities;
- **Contribution to the deposit protection agency** increased 4.1% yoy alongside the Bank's deposit base;
- **Underwriting expenses** rose 15.6% yoy in line with business volume of the Bank's non-life insurance subsidiary;
- **Other expenses** rose 4.0% yoy due primarily to higher advertising and promotional expenses

(Consolidated)	Unit: Million Baht				
	1Q10	4Q09	% qoq	1Q09	% yoy
Personnel expenses	3,308	3,235	2.3%	2,756	20.0%
Premises and equipment expenses	1,910	2,123	-10.0%	1,948	-1.9%
Tax and duties	484	437	10.7%	500	-3.2%
Fee and service expenses	999	997	0.1%	852	17.3%
Director remuneration	8	36	-78.2%	8	-4.3%
Contribution to the deposit protection agency	934	968	-3.5%	897	4.1%
Underwritings expenses	283	273	3.6%	245	15.6%
Other expenses	953	1,776	-46.4%	916	4.0%
<b>Total non-interest expenses</b>	<b>8,878</b>	<b>9,845</b>	<b>-9.8%</b>	<b>8,121</b>	<b>9.3%</b>
<b>Cost to income ratio</b>	<b>47.9%</b>	<b>57.4%</b>		<b>48.2%</b>	
<b>Cost to income ratio excluding SCB Samaggi Insurance</b>	<b>46.7%</b>	<b>56.2%</b>		<b>47.1%</b>	

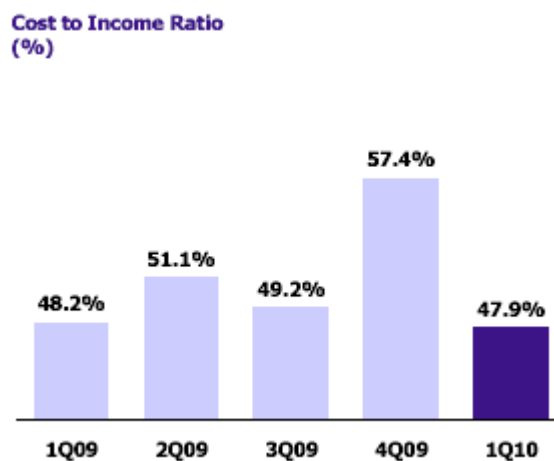
On a quarter-on-quarter basis, non-interest expenses dropped 9.8% qoq to Baht 8,878 million in 1Q10 from Baht 9,845 million in 4Q09 mainly as a result of the seasonality effect, which typically sees relatively high marketing and promotional expenses at year end. Key items are explained as follows:

- Personnel expenses rose 2.3% qoq due in large part to annual salary adjustments;
- Premises and equipment expenses declined 10.0% qoq mainly as a result of the Bank's effective cost control measures, although the Bank continued to invest in network expansion and on-going systems enhancement initiatives;
- Taxes and duties increased 10.7% qoq alongside a pick-up in fee-based activities;

- Fee and service expenses were flat qoq;
- Contribution to the deposit protection agency dropped 3.5% qoq alongside the Bank's deposit base;
- Underwriting expenses increased 3.6% qoq in line with business volume of the Bank's non-life insurance subsidiary;
- Other expenses dropped significantly 46.4% qoq mainly as a result of the seasonality effect, which typically sees relatively high marketing and promotion expenses in the last quarter of the year.

Due to higher income, cost to income ratio fell slightly from 48.2% in 1Q09 to 47.9% in 1Q10, and remains well below the Bank's full-year target of 51%. Compared to the previous quarter, cost to income ratio dropped significantly from 57.4% in 4Q09, as operating expenses fell significantly while total income grew. Note that the consolidated cost to income ratio is distorted by the consolidation of the Bank's non-life insurance subsidiary, SCB Samaggi Insurance. If the non-life insurance subsidiary is excluded, the ratio would further decline to 46.7% in 1Q10.

In subsequent quarters, the Bank expects to sustain its relatively low cost to income ratio compared to sector peers, as long as loan growth continues to recover and fee-income generating capability continues to strengthen. While the Bank has no plan for any major capital expenditures in the near term, it will continue to invest in network expansion and on-going systems enhancement initiatives to keep up with the rapidly changing competitive landscape.



#### 4. Loan loss provision

The Bank's asset quality has been relatively resilient to the weak economic conditions. Its NPLs continued to decline and reserve coverage continued to strengthen, on the back of the Bank's effective debt workout to reduce existing bad loans and its pro-active procedures to prevent new NPL formation. With economic recovery gaining stronger momentum and asset quality becoming less of a concern as a

result, the Bank decided in 4Q09 to ease its provisioning policy down to about Baht 1,200 million per quarter from about Baht 1,500 million per quarter.

On a **bank only** basis, the Bank set aside Baht 1,200 million of loan loss provisions in 1Q10. On a **consolidated** basis, the provision was Baht 1,143 million in 1Q10, which was lower than provisions on a bank only basis, mainly due to the reversal in Siam Commercial Leasing's (SCBL) allowance for doubtful accounts. The Bank's total allowance for doubtful accounts at the end of March 2010 stood at Baht 43,324 million, an increase from Baht 42,894 million at the end of December 2009, reflecting the Bank's conservative stance, while NPLs continued to decrease from Baht 44,958 million at the end of 2009 to Baht 43,811 million at the end of March 2010.

## Balance sheet as of March 31, 2010 (Consolidated basis)

As of March 31, 2010, the Bank reported total assets of Baht 1,311,508 million, a decrease of Baht 29,308 million (-2.2%) yoy from Baht 1,340,816 million at the end of March 2009, and an increase of Baht 17,462 million (1.3%) year to date from Baht 1,294,047 million at the end of 2009. Details of the consolidated balance sheet are as follows:

### 1. Loans and Deposits

As of March 31, 2010, total outstanding loans stood at Baht 939,039 million, an increase of Baht 37,154 million (4.1%) yoy from Baht 901,885 million at the end of March 2009, and a decrease of Baht 1,199 million (-0.1%) year to date from Baht 940,238 million at the end of 2009. Negative loan growth year to date was primarily attributable to loan repayment, which was anticipated following seasonally high working capital loan demand in 4Q09, as well as loans written-off of Baht 689 million during 1Q10.

As part of the Bank's implementation of a new business model and strategies for SMEs, some of the loans which used to be with Business Banking Group (SME customers) were transferred to Corporate Banking Group and Retail Banking Group in 1Q10 and more are to be transferred in 3Q10. The old and new loan classification thresholds are as follow:

Loan Classification	Previous	Current
Corporate Banking	Customers with annual sales higher than Baht 1 billion	Customers with annual sales higher than Baht 500 million
Business Banking (SME)	Customers with annual sales of no more than Baht 1 billion and larger customers in remote geographic locations	Customers with annual sales of Baht 10 million to Baht 500 million and some larger customers in geographic locations
Retail Banking	Customer with credit line of no more than Baht 5 million	Customer with credit line of no more than Baht 5 million and SME customers with annual sales of Baht 10 million or less

Additional details of loan breakdown by business units and loan types according to the new loan classification are as follows:

- **Corporate Banking** loans rose 7.3% yoy in line with the Bank's pro-active strategy to re-capture market share in the blue-chip corporates & public sector segments. Corporate banking loans declined 1.5% year to date partly as a result of the expected loan repayment following the seasonally high working capital loan demand in 4Q09;
- **Business Banking** loans, or loans to SMEs, fell 5.0% yoy and 2.7% year to date largely owing to scheduled loan repayments. However, given the launch of the Bank's new business model

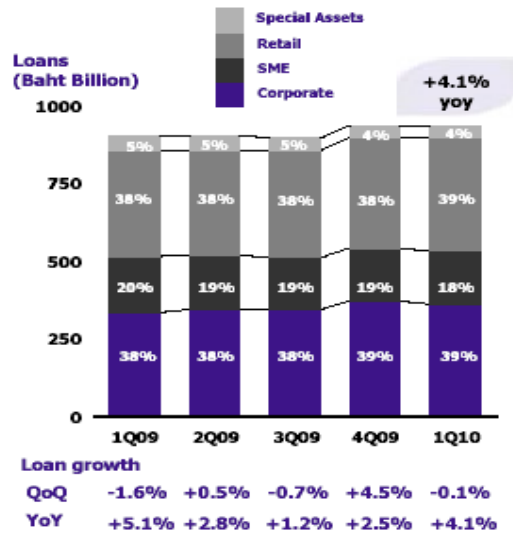
and specific strategies to penetrate the new SME segments, Business Banking loan growth is expected to accelerate in the coming quarters, assuming the macro environment continues to improve;

- **Retail Banking** loans increased 7.6% yoy and 2.6% year to date.
  - **Housing loans** increased 8.3% yoy and 4.0% year to date, partly driven by low interest rate environment and the Government's tax incentives for the purchase of new homes, which was originally scheduled to end in March 2010, but was later extended to the end of May 2010;
  - **Hire purchase loans** declined 4.8% yoy due to the Bank's adoption of more stringent underwriting criteria given deteriorating market conditions in this segment. However, the Bank has enhanced its business and operating model for this product segment and intends to rapidly improve its business volumes and market share on the back of a recovering economy. Such effort began exhibiting initial success, with hire purchase loans rising 1.8% qoq in 4Q09 and another 3.1% qoq in 1Q10;
  - **Other loans** (largely personal and credit card loans) increased 19.1% yoy and fell slightly by 2.3% year to date.

Unit: Million Baht

Loans	Mar 31, 10	Dec 31, 09 (restated)	% ytd	Mar 31, 09 (restated)	% yoy
Good Bank	900,004	901,110	-0.1%	858,328	4.9%
Corporate	365,389	370,832	-1.5%	340,493	7.3%
SME	169,949	174,700	-2.7%	178,869	-5.0%
Retail	364,666	355,579	2.6%	338,966	7.6%
- Housing Loans*	227,235	218,418	4.0%	209,827	8.3%
- Hire Purchase	65,189	63,254	3.1%	68,478	-4.8%
- Others Loans	72,242	73,907	-2.3%	60,661	19.1%
Special Assets Group	39,035	39,127	-0.2%	43,557	-10.4%
Total Loans	939,039	940,238	-0.1%	901,885	4.1%

\* Classified by business units. Covers only housing loans booked under the Retail Banking unit. If classified as a product the total housing loans portfolio at March 31, 2010 stood at Baht 262,448 million.



Loans to manufacturing and commercial sectors continued to account for the largest portion of total loan portfolio while housing loans made up the second largest portion. Loans to utilities and services recorded the highest growth of 17.9% yoy. Note that other loans comprised mainly hire purchase, credit card and personal loans. On a year-to-date basis, loans to agricultural and mining recorded the highest growth of 14.9%, followed by housing loans of 4.2%.

The Bank's overall loan growth will partly depend on the improvement of macro factors going forward. The Bank is implementing new growth-oriented strategies in the automobile hire purchase segment and the small to medium end of SMEs, both of which are expected to contribute to the Bank's lending volume during the remainder of 2010.

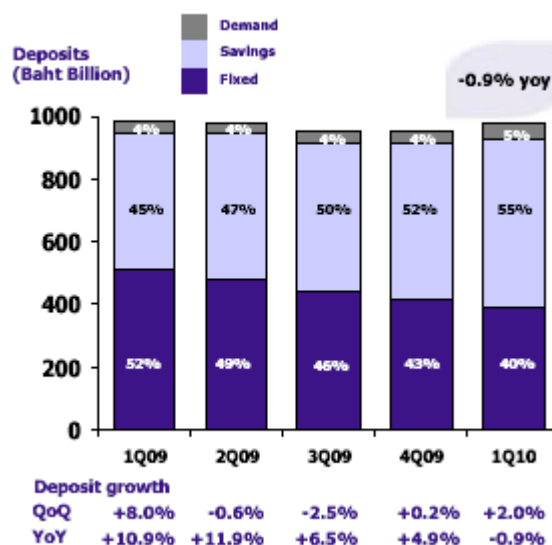
Unit: Million Baht

(Consolidated)	Mar 31, 10	Dec 31, 09	% ytd	Mar 31, 09	% yoy
Agricultural and mining	15,536	13,524	14.9%	13,929	11.5%
Manufacturing and commercial	332,309	343,741	-3.3%	336,587	-1.3%
Real estate and construction	71,854	74,769	-3.9%	75,722	-5.1%
Utilities and services	128,423	126,760	1.3%	108,964	17.9%
Housing loans*	262,448	251,869	4.2%	237,467	10.5%
Others	128,469	129,575	-0.9%	129,216	-0.6%
<b>Total loans</b>	<b>939,039</b>	<b>940,238</b>	<b>-0.1%</b>	<b>901,885</b>	<b>4.1%</b>

\* Classified by sector/product.

As of March 31, 2010, **deposits** stood at Baht 975,351 million, down 0.9% yoy from Baht 984,582 million at the end of March 2009, and up 2.0% year to date from Baht 955,976 million at the end of 2009. The increase in deposit base year to date was partly attributable to the increased activities of the Bank's cash management business.

Demand deposits and savings deposits increased by 16.2% and 7.5%, respectively year to date, while fixed deposits decreased 6.0% year to date. The proportion of savings and demand deposits as a percentage of total deposit base rose significantly to 60.2% at the end of 1Q10 from 56.7% at the end of 2009.



Unit: Million Baht

Deposits	Mar 31, 10	Dec 31, 09	% ytd	Mar 31, 09	% yoy
Demand	47,348	40,760	16.2%	37,888	25.0%
Savings	539,382	501,640	7.5%	438,323	23.1%
Fixed	388,621	413,576	-6.0%	508,370	-23.6%
- Less than 6 months	201,185	199,023	1.1%	271,077	-25.8%
- 6 months and up to 1 year	32,076	27,953	14.7%	56,954	-43.7%
- Over 1 year	155,359	186,600	-16.7%	180,339	-13.9%
Total Deposits	975,351	955,976	2.0%	984,582	-0.9%
Bill of Exchange (B/E) (Bank only)	15,559	18,802	-17.2%	35,489	-56.2%

## 2. Investments

Investments rose 5.4% yoy from Baht 150,083 million at the end of March 2009 to Baht 158,179 million at the end of March 2010, mainly from investment in the BOT bonds. Nonetheless, investments dropped 4.4% year to date in 1Q10 on the back of the reduction in investments in government and BOT bonds during the quarter.

Unit: Million Baht

	Mar 31, 10	Dec 31, 09	% ytd	Mar 31, 09	% yoy
- Short-term investment-net	52,601	57,052	-7.8%	34,055	54.5%
- Long-term investment-net	100,603	103,643	-2.9%	111,711	-9.9%
- Investment in associated companies-net	4,976	4,723	5.3%	4,316	15.3%
Total Investments-net	158,179	165,419	-4.4%	150,083	5.4%

### **3. Borrowings**

Borrowings declined 37.6% yoy to Baht 52,949 million at the end of 1Q10, primarily due to the maturing of floating rate notes (FRNs) of USD 300 million in 2Q09 and the maturing of some B/Es. Borrowings also dropped 7.4% year to date largely due to the maturing of some B/Es. (The B/Es or Bill of Exchange are essentially akin to an uninsured deposit which has gained in popularity in recent years.)

### **4. Shareholders' equity**

As of March 31, 2010, shareholders' equity stood at Baht 148,398 million, a 12.7% yoy increase of Baht 16,767 million from Baht 131,631 million at the end of March 2009, mainly attributable to net profit for the period. This was reduced by dividend payment of Baht 6,798 million (Baht 2 per share or dividend payout ratio of 32%) in accordance with the resolution of the Shareholder's Annual General Meeting in April 2009. Shareholders' equity increased 5.2% year to date or by Baht 7,381 million from the end of 2009, primarily due to the 1Q10 net profit of Baht 6,375 million and an increase of Baht 1,058 million in the revaluation surplus on available-for-sale investments.

Book value per share as of March 31, 2010 was Baht 43.66 (3,399 million ordinary and preferred shares at the end of March 2010), up from Baht 41.49 at the end of 2009.

### ***Off Balance Sheet: Contingencies***

As at March 31, 2010, the Bank and subsidiaries had combined contingencies of Baht 2,188,509 million, up by Baht 316,779 million (16.9% yoy) from Baht 1,871,730 million at the end of March 2009. The increase in contingencies was mainly from the increase in exchange rate contracts and interest rate contracts, both of which are part of the risk management products and services offered to customers, and make up the majority of the Bank's total contingencies.

(Consolidated)	Mar 31, 10 (Bt, million)	Dec 31, 09 (Bt, million)	% ytd	Mar 31, 09 (Bt, million)	% yoy
Aval to bills and loan guarantees	3,231	2,391	35.1%	5,732	-43.6%
Liability under unmatured import bills	5,046	5,264	-4.1%	4,417	14.2%
Letters of credit	10,837	11,743	-7.7%	10,001	8.4%
Other contingencies	2,169,395	2,128,042	1.9%	1,851,579	17.2%
Other guarantees	96,742	100,915	-4.1%	98,211	-1.5%
Exchange rate contracts	798,950	879,318	-9.1%	706,798	13.0%
Bought	389,443	428,063	-9.0%	336,754	15.6%
Sold	409,507	451,255	-9.3%	370,044	10.7%
Interest rate contracts	1,173,420	1,049,998	11.8%	955,482	22.8%
Bought	586,560	524,849	11.8%	477,441	22.9%
Sold	586,860	525,149	11.8%	478,041	22.8%
Equity derivatives	1,665	833	99.9%	863	92.9%
Bought	1,043	679	53.6%	704	48.2%
Sold	622	154	303.9%	159	291.2%
Credit derivatives	806	831	-3.0%	1,808	-55.4%
Bought	-	-	-	-	-
Sold	806	831	-3.0%	1,808	-55.4%
Commodity derivatives	16,116	14,842	8.6%	6,998	130.3%
Bought	8,058	7,421	8.6%	3,499	130.3%
Sold	8,058	7,421	8.6%	3,499	130.3%
Amount of unused bank overdraft	81,458	81,061	0.5%	81,158	0.4%
Others	238	244	-2.5%	261	-8.8%
<b>Total contingencies</b>	<b>2,188,509</b>	<b>2,147,440</b>	<b>1.9%</b>	<b>1,871,730</b>	<b>16.9%</b>

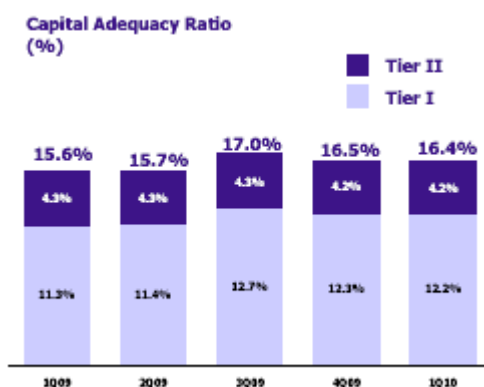
### Statutory Capital (Bank only)

Total capital funds (Tier 1 and Tier 2) as of March 31, 2010 were at a high of 16.41% of total risk-weighted assets, representing Tier-1-capital of 12.23% and Tier-2-capital of 4.19%. The aforementioned ratios have not yet taken into account the 2H09 and the 1Q10 net profit as well as the effect of dividend payment in April 2010. Note that the Bank's Tier 1 capital comprises, substantially, tangible capital only.

In April 2010, the Bank's Annual General Meeting of the Shareholders approved the dividend payment of Baht 8,498 million (Baht 2.50 per share or dividend payout ratio of 40.9%). Should the 2H09 and the 1Q10 net profit together with dividend payment in April 2010 be taken into consideration, total capital ratio and Tier 1 capital ratio would be 17.25% and 13.07%, respectively.

The Bank believes its strong capital position, together with its sound loan loss reserve coverage, are sufficient to withstand the impact of any potential shocks, which may arise if the economic recovery is to be disrupted by any unexpected events. Its solid capital position would also provide the Bank flexibility to grow its business in a timely manner as and when growth opportunities arise in the quarters to come. The Bank expects to maintain its aggregate capital adequacy ratio in excess of the regulatory minimum throughout 2010.

(Bank only)		Statutory Capital				
		Mar 31, 10 (Basel II)	Dec 31, 09 (Basel II)	% ytd	Mar 31, 09 (Basel II)	% yoy
Tier-1 Capital	Bt, million	114,252	114,252	0.0%	101,719	12.3%
	% of RWA	12.23%	12.27%		11.28%	
Tier-2 Capital	Bt, million	39,137	39,118	0.0%	38,657	1.2%
	% of RWA	4.19%	4.20%		4.29%	
Total Capital	Bt, million	153,389	153,370	0.0%	140,376	9.3%
	% of RWA	16.41%	16.47%		15.57%	
Risk weighted assets	Bt, million	934,536	931,337	0.3%	901,623	3.7%



## Non Performing Assets

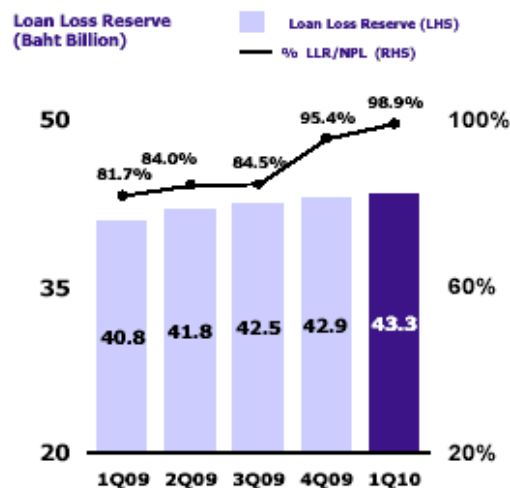
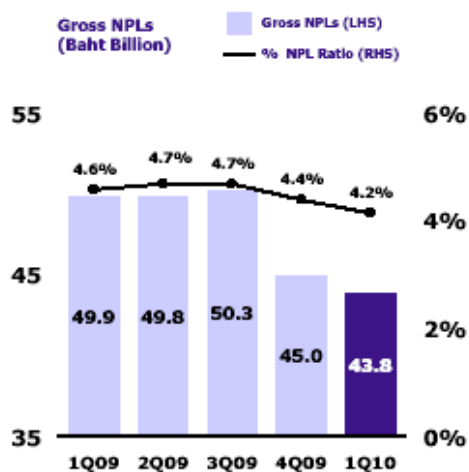
Gross NPLs on a consolidated basis declined to Baht 43,811 million (4.2% of total loans) at the end of March 2010 from Baht 44,958 million (4.4% of total loans) at the end of 2009. Net NPLs also dropped to Baht 21,936 million (2.1%) at the end of March 2010 from Baht 23,203 million (2.3%) at the end of 2009. The group's asset quality continued to improve in 1Q10, in part due to economic recovery, and in part due to the Bank's pre-emptive strategies to prevent new NPLs from emerging, and the better positioning, in leverage terms, of most of its borrowers.

Allowance for doubtful accounts as of March 31, 2010 stood at Baht 43,324 million, an increase of Baht 430 million from the end of 2009. The coverage ratio (total allowance to non-performing loans) improved to 98.9% at the end of March 2010 from 95.4% at the end of 2009.

(Consolidated)		Mar 31, 10	Dec 31, 09	Mar 31, 09
Non-performing loans (Gross NPLs)	Bt, million	43,811	44,958	49,926
	% of total loans	4.2%	4.4%	4.6%
Allowance for doubtful accounts*	Bt, million	42,681	42,142	40,035
Allowance for revaluation of debt restructuring	Bt, million	644	752	763
Total allowance for doubtful accounts and revaluation of debt restructuring	Bt, million	43,324	42,894	40,798
Total allowance to NPLs		98.9%	95.4%	81.7%

\* Excluding Interbank

Gross NPLs on a bank basis decreased to Baht 39,793 million (3.9%) at the end of March 2010 from Baht 40,814 million (4.1%) at the end 2009. Net non-performing loans (net NPLs) also declined to Baht 19,598 million (2.0%) at the end of March 2010 from Baht 20,751 million (2.1%) at the end of December 2009.



Unit: Million Baht

(Consolidated)	Mar 31, 10		Dec 31, 09		Mar 31, 09	
	Loan and accrued interest	Allowance for classified loans	Loan and accrued interest	Allowance for classified loans	Loan and accrued interest	Allowance for classified loans
Classified loans and allowance for doubtful accounts						
Normal	863,190	8,290	864,472	8,244	824,616	8,499
Special mention	33,704	643	32,601	623	29,241	1,248
Substandard	5,173	2,195	6,938	2,503	6,595	2,793
Doubtful	4,409	1,984	5,747	2,884	7,286	2,208
Doubtful loss	34,080	15,509	32,120	14,374	36,095	16,474
Total	940,556	28,621	941,878	28,628	903,833	31,222
Allowance established in excess of BoT regulations		14,060		13,514		8,813
Total allowance		42,681		42,142		40,035

The Bank's foreclosed properties as at March 2010 stood at Baht 12,839 million, a decrease of Baht 151 million (1.2% year to date) from Baht 12,990 million at end-2009.

### Troubled Debt Restructuring

The Bank has implemented various methods for debt restructuring, including transfers of assets and equity securities, changes in repayment conditions, and combinations thereof.

As of March 31, 2010, the Bank and its subsidiaries that are financial institutions have outstanding loans that have been restructured amounting to Baht 39,206 million in the consolidated financial statements and Baht 39,205 million for the Bank only (December 31, 2009: Baht 40,795 million and Baht 40,794 million, respectively). Some of these loans are NPLs and are already included in the NPL level noted above.

In 1Q10, loans amounting to Baht 2,011 million were restructured. The Bank recognized interest income from debt restructuring in the amount of Baht 534 million.

(Consolidated)		Mar 31, 10	Dec 31, 09	Mar 31, 09
Restructured loans	Bt, million	39,206	40,795	39,574
- Restructured loans which are classified as NPL	Bt, million	12,171	13,116	16,763
- Restructured loans which are not classified as NPL	Bt, million	27,035	27,679	22,811
Troubled debt restructuring in the quarter	Bt, million	2,011	1,296	6,340
Interest income recognized from restructured loans	Bt, million	534	710	462

## Liquidity

As of March 31, 2010, the **loan to deposit** ratio on a consolidated basis stood at 96.3%, a decrease from 98.4% at the end of 2009. On a Bank-only basis, the ratio was 93.4% at the end of March 2010, a decrease from 95.4% at the end of 2009. Loan to deposit and Bills of Exchange (BE) ratio was 91.9% at the end of March 2010, falling from 93.5% at the end of 2009. The decreases in the aforementioned ratios were mainly a result of the expansion in deposit base as loan growth remained flat.

As of March 31, 2010, interbank and money market assets stood at Baht 135,571 million, a 35.4% increase from Baht 100,095 million at the end of 2009, although interbank and money market assets dropped significantly from Baht 202,951 million at the end of March 2009.

	Mar 31, 10	Dec 31, 09	Mar 31, 09
Gross loans to deposits ratio (Consolidated)	96.3%	98.4%	91.6%
Gross loans to deposits ratio (Bank only)	93.4%	95.4%	89.5%
Gross loans to deposits and B/E (Bank only)	91.9%	93.5%	86.4%

The Bank's policy on liquidity management is to source the required level of funding at an acceptable cost. The Bank's Assets and Liabilities Management Committee formulates policies on liquidity management. According to the Bank of Thailand's requirements on liquid assets, with which the Bank is in compliance, commercial banks must maintain liquid assets equal to at least 6% of total deposits. At least 0.8% must be in deposits with the Bank of Thailand, and 0.2% as cash at the Cash Center. Interbank deposits must not exceed 2.5%, and the rest must be in clean securities.

For liquidity management of subsidiaries, the Bank maintains the Group's liquidity at the appropriate level by the adherence to certain policies, rules and regulations, especially for lines of business that are involved with lending and asset management activities.

## Sources and Uses of Funds

As at March 31, 2010, deposits accounted for 74.4% of SCB funding base. Other sources of funds included 11.3% from shareholders' equity, 4.0% from the issuance of debt instruments, and 3.2% from interbank borrowings. Of that total, 71.6% was used for loans, while another 12.1% was applied to net investments in securities, and 10.3% was lent in the interbank and money markets.