

Management Discussion and Analysis

For the second quarter and first half ending June 30, 2016

The Siam Commercial Bank Public Company Limited

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Siam Commercial Bank PCL reported (audited) consolidated **net profit** of Baht 12,818 million for the second quarter of 2016 – a 3.0% yoy decrease of Baht 400 million from Baht 13,218 million recorded in 2Q15. The **year-on-year** decrease in net profit was a result of the Bank setting aside higher additional prudential provisions to account for risks inherence in its portfolio, raise its coverage ratio to 130% in 2Q16. Despite the overall decrease, net interest income rose in this quarter and net insurance premium also increased from the reversal of additional policy reserve at SCB Life which was recorded in 1Q16.

This reversal in 2Q16 was a consequence of the rules issued by the Office of Insurance Commission (OIC) regarding the discount rate to be used for the Liability Adequacy Test (LAT) calculation to determine the policy reserve. Specifically, the new regulation allows an "illiquidity premium" to be added on top of the eight-quarter weighted average government bond yields (with a 51% weight on the current quarter and 49% weight on the last 7 quarters) for the discount rate. As of June 30, 2016, SCB Life passed the LAT test under Net Premium Valuation (NPV), resulting in the reversal of the additional policy reserve of Baht 4,300 million, which was previously booked in 1Q16, which is no longer required.

The **operating profits** stood at Baht 24,391 million, an increase of 13.5% from 2Q15 due to higher net interest income and higher net insurance premium as mentioned above.

Because of the decline in net profit, earnings per share (EPS) decreased by 3.0% yoy to Baht 3.77 in 2Q16 from Baht 3.89 in 2Q15. Return on average equity (ROAE) and return on average assets (ROAA) also decreased from 17.9% and 1.9% in 2Q15 to 16.0% and 1.8% in 2Q16, respectively.

On a **quarter-on-quarter** basis, net profit increased by Baht 2,272 million (+21.5% qoq) from Baht 10,546 million in 1Q16 mainly due to higher net insurance premium. Despite the Bank setting aside additional provisions of Baht 3,500 million in this quarter, net profit still grew qoq as a result of the one-time reversal of policy reserve of Baht 4,300 million at SCB Life which was booked in 1Q16.

For the **first half of 2016**, net profit stood at Baht 23,364 million, an 11.4% decrease yoy from Baht 26,369 million recorded in 1H15. This decrease was driven primarily by substantially higher additional provisions and the lower net trading and FX income. At the same time, net interest income, gain on investment and net fee income increased yoy.

Net Profit and Total Comprehensive Income

Unit: Baht Million

Net Profit and Total Comprehensive Income (Consolidated)	2Q16	% qoq	% yoy	1H16	% yoy
Net interest income	21,761	0.4%	4.5%	43,431	5.0%
Non-interest income	15,138	89.8%	22.1%	23,113	-5.2%
Non-interest expenses	12,508	8.4%	6.7%	24,049	-0.5%
Operating profit	24,391	34.7%	13.5%	42,495	2.3%
Impairment loss on loans and debt securities	8,512	69.9%	65.9%	13,522	54.9%
Income tax	3,018	18.0%	-3.6%	5,575	-13.0%
Non-controlling interest	43	NM	209.8%	33	16.9%
Net profit (attributable to shareholders of the Bank)	12,818	21.5%	-3.0%	23,364	-11.4%
Other comprehensive income	(714)	NM	NM	2,981	537.4%
Total comprehensive income	12,104	-15.0%	-2.9%	26,344	-1.8%
EPS (Baht)	3.77	21.5%	-3.0%	6.87	-11.4%
ROAE	16.0%			14.9%	
ROAA	1.8%			1.7%	

NM denotes "not meaningful"

I. Income Statement for 2Q16 and first half ending June 30, 2016 (Consolidated basis)

1. Net interest income

Unit: Baht Million

Net Interest Income and Yield (Consolidated)	2Q16	% qoq	% yoy	1H16	% yoy
Interest income	30,269	-0.5%	-2.5%	60,690	-2.2%
- Loans	23,441	-0.8%	-3.4%	47,082	-2.4%
- Interbank and money markets	904	-17.8%	6.0%	2,004	-1.1%
- Automobile and financial lease income	2,583	-0.2%	1.3%	5,172	2.6%
- Investments	3,320	8.3%	-1.8%	6,386	-5.0%
- Other	21	-19.8%	69.0%	46	105.7%
Interest expenses	8,508	-2.8%	-16.9%	17,259	-16.7%
- Deposits	5,070	-6.2%	-26.4%	10,477	-25.6%
- Interbank and money markets	272	13.3%	-14.2%	512	-20.8%
- Borrowings	981	6.4%	13.9%	1,903	12.6%
- Contribution to the Deposit Protection Agency/FIDF	2,182	0.2%	0.6%	4,360	1.1%
- Other	3	-18.2%	467.0%	7	493.3%
Net interest income	21,761	0.4%	4.5%	43,431	5.0%
Net interest margin	3.24%	0.00%	0.05%	3.29%	0.11%
Yield on earning assets	4.51%	-0.04%	-0.25%	4.60%	-0.17%
Yield on loans	5.63%	-0.08%	-0.28%	5.66%	-0.27%
Yield on interbank	1.42%	-0.20%	0.18%	1.64%	0.24%
Yield on investment	2.30%	0.14%	-0.30%	2.33%	-0.27%
Cost of funds*	1.58%	-0.03%	-0.33%	1.61%	-0.31%
Cost of deposits**	1.52%	-0.06%	-0.40%	1.58%	-0.35%
Spread (yield on earning assets – cost of funds)	2.93%	-0.01%	0.07%	2.98%	0.13%

Note Profitability ratios are calculated by averaging the beginning and ending balance for the period as the denominator.

* Cost of funds = interest expenses (including the contribution to FIDF/DPA) / average interest-bearing liabilities.

** Cost of deposits includes the contribution to the Deposit Protection Agency and FIDF fee.

Net interest income increased by 4.5% **yoy** to Baht 21,761 million in 2Q16 from Baht 20,814 million in 2Q15. The increase in net interest income was mainly driven by the Bank's lower cost of deposits following its strategy to increase the proportion of saving and current accounts. Interest income from loans decreased by 3.4% **yoy** despite a 2.5% **yoy** growth in loan volume due to the lending rate reduction.

On a **quarter-on-quarter** basis, net interest income increased slightly by 0.4% **qoq** to Baht 21,761 million in 2Q16 compared with Baht 21,670 million in 1Q16. This increase can be attributed to the Bank's lower cost of deposit as high-cost deposits matured as well as the Bank's strategy to increase the proportion of current and saving accounts. Meanwhile, interest income from loans decreased **qoq** due to the lending rate cut in April 2016. Interest income from interbank and money markets also decreased **qoq** from lower volume of interbank and money market portfolios in 2Q16 compared to the previous quarter.

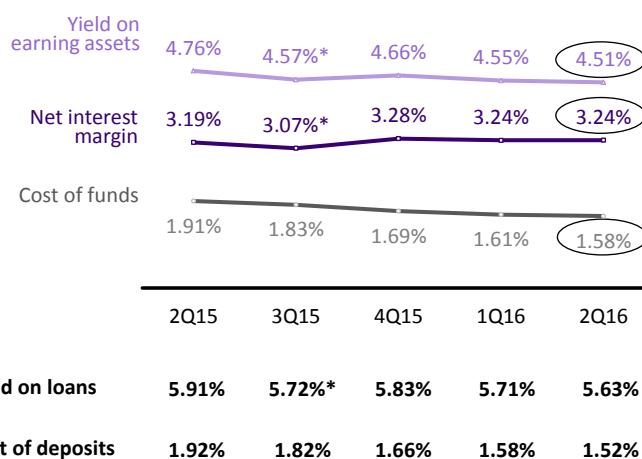
SCB Interest Rates	Mar 12, 15	Mar 25, 15	Apr 29, 15	May 21, 15	Jul 20, 15	Dec 21, 15	Mar 1, 16	Apr 7, 16	Apr 25, 16
Lending rate (%)									
MLR	6.55	6.625	6.625	6.525	6.525	6.525	6.525	6.275	6.275
MOR	7.425	7.425	7.50	7.40	7.37	7.37	7.37	7.37	7.12
MRR	8.10	8.10	8.12	7.82	7.87	7.87	7.87	7.87	7.62
Deposit rate* (%)									
Savings rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-month deposits	0.90-0.95	0.90-0.95	0.90-0.95	0.90	0.90	0.90-1.60	0.90	0.90	0.90
6-month deposits	1.15-1.20	1.15-1.20	1.15-1.20	1.15	1.15	1.15	1.15	1.15	1.15
12-month deposits	1.50	1.50	1.50	1.50	1.50	1.30	1.30	1.30	1.30

	Aug 24, 11	Nov 30, 11	Jan 25, 12	Oct 17, 12	May 29, 13	Nov 27, 13	Mar 12, 14	Mar 11, 15	Apr 29, 15
Policy rate (%)	3.50	3.25	3.00	2.75	2.50	2.25	2.00	1.75	1.50

* Excludes special campaigns which generally offer significantly higher rates but have different terms and conditions from the 3, 6, 12 month term deposits.

In the **first half of 2016**, net interest income increased by 5.0% yoy to Baht 43,431 million in 1H16 from Baht 41,346 million in 1H15 largely due to the Bank's ability to lower its cost of deposits. Interest income from loans decreased by 2.4% yoy mainly from lending rates reduction.

Yield on Earning Assets, NIM and Cost of Funds
(Percentage)



* The drop in yield and NIM was mostly the result of the reversal of accrued interest on two large new NPLs (SSI and SSI-UK).

2. Non-interest income

Unit: Baht Million

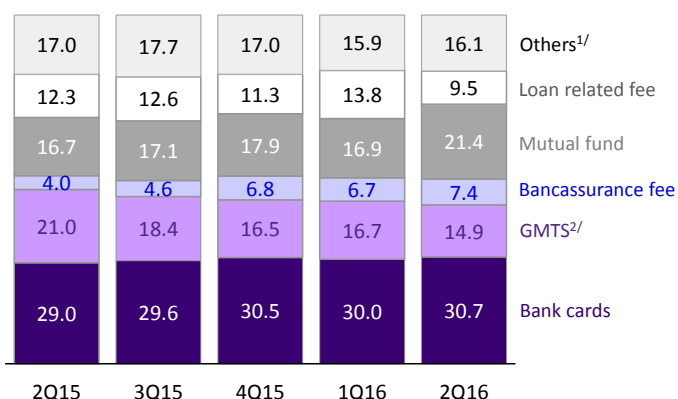
Non-Interest Income (Consolidated)	2Q16	% qoq	% yoy	1H16	% yoy
<i>Fee and service income</i>	8,065	-6.4%	-2.1%	16,681	2.5%
<i>Less fee and service expenses</i>	1,451	-7.9%	2.1%	3,027	6.7%
Net fee and service income	6,615	-6.0%	-2.9%	13,654	1.6%
<i>Net earned insurance premiums</i>	15,262	10.6%	1.9%	29,065	2.1%
<i>Less net insurance claims</i>	9,277	-40.8%	-27.5%	24,944	3.7%
Net insurance premiums	5,985	NM	174.6%	4,121	-6.9%
Net fee and insurance premium	12,600	143.4%	40.1%	17,775	-0.5%
Net trading and FX income	1,394	-16.2%	-42.3%	3,058	-35.7%
Share of profit of associates	(3)	NM	NM	(3)	NM
Dividend income	399	43.5%	-0.4%	677	-12.1%
Other income	97	-31.9%	-72.3%	240	-51.0%
Non-interest income excluding gain on investments	14,487	99.5%	19.6%	21,747	-8.8%
Gain on investments	651	-8.8%	126.8%	1,366	153.4%
Total non-interest income	15,138	89.8%	22.1%	23,113	-5.2%

NM denotes "not meaningful"

Non-interest income increased by 22.1% **yoy** to Baht 15,138 million in 2Q16 from Baht 12,403 million in 2Q15 due to higher net insurance premium (+174.6% yoy) from the reversal of policy reserve at SCB Life of Baht 4,300 million and higher gain on investments (+126.8% yoy).

On a **quarter-on-quarter basis**, non-interest income increased by 89.8% qoq mainly from the reversal of policy reserve at SCB Life while net fee income and net trading and FX income declined qoq.

Net Fee Income Breakdown (Percentage)



^{1/} Others include brokerage fee, fund transfer, remittance, etc.

^{2/} GMTS stands for Global Markets and Transaction Services, which includes cash management, trade finance, corporate finance and corporate trust.

In the **first half of 2016**, non-interest income decreased by 5.2% yoy to Baht 23,113 million, mainly from lower net trading and FX income and lower net insurance premium. On the other hand, net fee income increased by 1.6% yoy.

3. Non-interest expenses

Unit: Baht Million					
Non-Interest Expenses (Consolidated)	2Q16	% qoq	% yoy	1H16	% yoy
Staff costs	6,202	6.0%	10.9%	12,052	9.3%
Premises and equipment expenses	2,631	3.9%	7.3%	5,163	3.4%
Tax and duties	1,027	-6.5%	-3.2%	2,125	-0.8%
Director remuneration	21	-11.9%	-9.5%	45	-3.2%
Other expenses	2,627	28.9%	1.3%	4,665	-21.9%
- Loss on sale of NPA*	159	22.8%	-38.1%	288	-27.8%
- Others	2,468	29.3%	5.6%	4,377	-21.4%
Total non-interest expenses**	12,508	8.4%	6.7%	24,049	-0.5%
Cost to income ratio	33.9%			36.1%	

* Including loss on the sale of repossessed cars of Baht 183 million in 2Q16, Baht 206 million in 1Q16 and Baht 285 million in 2Q15.

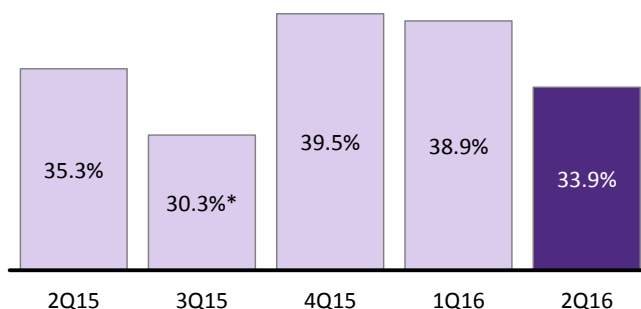
** Excluding loss on the sale of NPA, non-interest expenses growth in 2Q16 would have been increased by 7.7% yoy and 8.2% qoq.

Non-interest expenses increased by 6.7% **yoy** to Baht 12,508 million in 2Q16 from Baht 11,722 million in 2Q15 primarily due to higher staff costs (+10.9% yoy) from annual salary adjustments and higher premises and equipment expenses (+7.3% yoy).

On a **quarter-on-quarter** basis, non-interest expenses increased by 8.4% to Baht 12,508 million in 2Q16 from Baht 11,541 million in 1Q16 due to higher marketing and promotional expenses and higher staff costs.

In the **first half of 2016**, non-interest expenses decreased slightly by 0.5% yoy to Baht 24,049 million from Baht 24,181 million in 1H15 because other expenses in 1Q15 were temporarily inflated by the one-time expenses associated with a fraud case recorded in 1Q15. Excluding this one-time item, non-interest expenses would have increased by 6.0% yoy largely due to higher staff costs (+9.3% yoy).

Cost-to-Income Ratio
(Percentage)



* Includes large investment gains from the sale of equity investment in 3Q15. Excluding this item, cost-to-income ratio would stand at 37.6%.

4. Loan loss provisions

The Bank's provisioning guidance for 2016 was to set aside annualized loan loss provisions of approximately 115-125 bps of total loans outstanding on a bank-only basis to increase the Bank's NPL coverage ratio and provide prudential provisions against future uncertainty. In 2Q16, the Bank has set aside additional loan loss provision of Baht 8,512 million or 184 bps of total loans, an increase from Baht 5,131 million in 2Q15 in order to increase the coverage ratio to 130% from 122.8% in the previous quarter.

II. Balance sheet as of June 30, 2016 (Consolidated basis)

As of June 30, 2016, the Bank's total assets stood at Baht 2,774 billion which was relatively flat compared to Baht 2,779 billion at the end of June 2015. Details on the consolidated balance sheets are provided in the following sections:

1. Loans

As of June 30, 2016, total outstanding loans (net of deferred revenue) stood at Baht 1,862 billion, an increase of Baht 46 billion (+2.5% yoy) from Baht 1,816 billion at the end of June 2015, and an increase of Baht 23 billion (+1.3% qoq) from the end of March 2016. On a yoy basis, the overall loan growth was mainly driven by housing loans and the SME segment, while corporate loan volume slightly declined by 1.0% yoy. On a qoq basis, loan growth was mainly from housing loans and the corporate segment, while SME loan volume remained relatively flat.

The slow loan growth of 2.5% yoy in 2Q16 was partly due to weak loan demand across all sectors as a consequence of a slow economic recovery. But it also reflected a deliberate choice made by the Bank to currently prioritize balance sheet strengthening over asset growth.

1.1 Loans by segment

Unit: Baht Million											
Loans by Segment (Consolidated)	Jun 30, 16	%	Mar 31, 16	%	% qoq	Dec 31, 15	%	% ytd	Jun 30, 15	%	% yoy
Corporate	653,662	35.1%	645,591	35.1%	1.3%	646,255	35.2%	1.1%	660,086	36.4%	-1.0%
SME	364,337	19.6%	362,190	19.7%	0.6%	356,840	19.5%	2.1%	350,471	19.3%	4.0%
Retail	843,720	45.3%	830,833	45.2%	1.6%	830,311	45.3%	1.6%	805,171	44.3%	4.8%
- Housing loans*	596,027	32.0%	582,312	31.7%	2.4%	576,251	31.4%	3.4%	558,372	30.8%	6.7%
- Automobile	166,914	9.0%	168,564	9.2%	-1.0%	169,154	9.2%	-1.3%	167,991	9.3%	-0.6%
- Others loans	80,779	4.3%	79,957	4.3%	1.0%	84,906	4.6%	-4.9%	78,808	4.3%	2.5%
Total loans	1,861,719	100.0%	1,838,614	100.0%	1.3%	1,833,406	100.0%	1.5%	1,815,728	100.0%	2.5%

* Includes all home mortgage loans, some of which are from segments other than retail. This is different from the sectorial loans listed on table VI: Addition Financial Information.

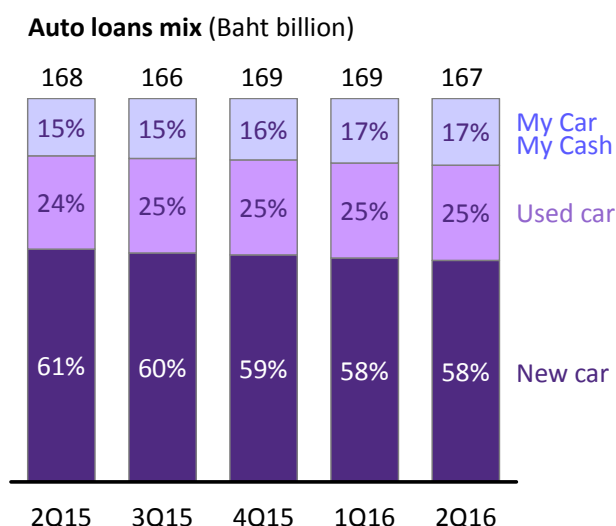
Details on the changes in loan volume by customer segments are as follows:

- **Corporate** loans decreased by 1.0% yoy but increased by 1.3% qoq. The qoq increase was mainly due to an M&A deal of a large corporate customer;
- **SME** loans rose by 4.0% yoy and 0.6% qoq. The yoy increase was a result of the Bank's strategy to broaden its customer base in the SME segment by linking with the value chain of corporate customers, better leveraging its nation-wide branch network to provide a seamless service to SME customers, and actively participating in the Government's soft loan scheme for this segment;
- **Retail** loans grew by 4.8% yoy and 1.6% qoq:
 - **Housing loans** grew by 6.7% yoy and 2.4% qoq. The yoy growth was driven by SCB's strong presence in the housing loan market and an effective marketing strategy using a customer segmentation approach. The qoq growth was partly due to a spike in the housing

loan demand before the expiration of the government's scheme to reduce transfer and mortgage fees in April 2016.

- **Automobile loans** decreased by 0.6% yoy and 1.0% qoq, following a decline in car sales as well as the Bank's adoption of more stringent underwriting criteria.

Furthermore, the Bank has focused on growing automobile loans by expanding the "My Car, My Cash" loan segment which has a higher yield than new car loans but a lower credit risk than the used car segment. ("My Car, My Cash" is a personal loan product which is structured as a hire-purchase contract, using the borrower's automobile as the underlying collateral). This shift is evident from the historical trend of auto loans by segment as shown below.



- **Other loans** (largely personal loans and credit cards receivables) increased by 2.5% yoy and 1.0% qoq, mainly driven by an increase in personal loans and credit card business.

2. Deposits

Unit: Baht Million

Deposits (Consolidated)	Jun 30, 16	%	Mar 31, 16	%	% qoq	Dec 31, 15	%	% ytd	Jun 30, 15	%	% yoy
Demand	59,121	3.2%	60,845	3.1%	-2.8%	57,136	3.0%	3.5%	61,544	3.2%	-3.9%
Savings	1,109,532	59.3%	1,154,289	59.2%	-3.9%	1,106,016	58.5%	0.3%	1,043,718	54.8%	6.3%
Fixed	702,429	37.5%	735,822	37.7%	-4.5%	727,577	38.5%	-3.5%	800,068	42.0%	-12.2%
- Less than 6 months	185,486	9.9%	173,333	8.9%	7.0%	221,323	11.7%	-16.2%	209,551	11.0%	-11.5%
- 6 months and up to 1 year	347,534	18.6%	330,607	16.9%	5.1%	300,657	15.9%	15.6%	183,057	9.6%	89.9%
- Over 1 year	169,409	9.1%	231,882	11.9%	-26.9%	205,597	10.9%	-17.6%	407,460	21.4%	-58.4%
Total deposits	1,871,082	100.0%	1,950,956	100.0%	-4.1%	1,890,729	100.0%	-1.0%	1,905,330	100.0%	-1.8%
Gross loans to deposits ratio	99.5%		94.2%			97.0%			95.3%		
CASA - Current & Savings Accounts (%)	62.5%		62.3%			61.5%			58.0%		

As of June 30, 2016, total **deposits** stood at Baht 1,871 billion, fell by 1.8% yoy from Baht 1,905 billion at the end of June 2015 and decreased by 4.1% from Baht 1,951 billion at the end of March 2016. The yoy and qoq decline was mainly from the maturity of high-cost fixed deposits in 2Q16 along with the Bank's strategy to increase low-cost deposits.

Following the Bank's strategy to reduce its cost of deposits relative to its market competitors by increasing the proportion of products with a lower cost of deposits, the Bank has seen a rise in the proportion of low cost deposits (CASA) to 62.5% in 2Q16, up from 58.0% in 2Q15 and 62.3% in 1Q16.

As the yoy loan growth (+2.5% yoy) was larger than the yoy deposit growth (-1.8% yoy), the loan-to-deposit ratio on a consolidated basis rose to 99.5% at the end of June 2016 from 95.3% at the end of June 2015. This rise in the loan-to-deposit ratio reflected the Bank's strategy to temporarily relax its loan-to-deposit ratio target amid ample liquidity in the market, in order to improve the cost of deposits.

The Bank's policy on liquidity management, as formulated by the Assets and Liabilities Management Committee, is to source funding to match its loan growth at an acceptable cost. The Bank currently maintains a daily liquidity ratio of 20% or higher as measured by total liquid assets (at a bank-only level) to total deposits. If the ratio falls below 20%, a corrective action will be immediately considered. As of June 30, 2016, the liquidity ratio, on a bank-only basis, was 27.6% compared with 27.9% at June 30, 2015 and 31.9% at March 31, 2016 which gives an assurance that the Bank will have an adequate liquidity to cushion against unexpected shocks and challenges.

3. Shareholders' equity

As of June 30, 2016, shareholders' equity stood at Baht 320 billion, an 8.8% yoy increase of Baht 26 billion from Baht 294 billion at the end of June 2015, mainly as a result of net profit over the year. The shareholders' equity was also reduced by an interim dividend payment of Baht 5.1 billion (Baht 1.50 per share) in accordance with the resolution of the Board of Directors meeting in August 2015 and the dividend payment of Baht 13.6 billion (Baht 4.00 per share) in accordance with the resolution of the Annual General Meeting of Shareholders in April 2016. Shareholders' equity slightly decreased by 0.5% qoq or by Baht 1.5 billion from the end of March 2016, largely attributable to the final dividend payment following the Board's approval in April 2016.

The book value per share as of June 30, 2016 was Baht 94.20 (3,399 million ordinary and preferred shares at the end of June 2016), up 8.8% yoy from Baht 86.58 at the end of June 2015 but slightly dropped by 0.5% qoq from Baht 94.64 at the end of March 2016, for the reasons noted above.

III. Statutory Capital

On January 1, 2016, the conservation buffer of 2.5% under Basel III was implemented with a 4-year phase-in period (an additional buffer of 0.625% each year from 2016 to 2019). As a result, the current minimum regulatory capital requirement under Basel III has increased to 'not less than 5.125%' for a Common Equity Tier 1 (CET1) ratio, 'not less than 6.625%' for a total Tier 1 ratio and 'not less than 9.125%' for a total capital ratio.

On a consolidated basis under Basel III, total capital funds (Tier 1 and Tier 2) at the end of 2Q16 stood at 17.5% of total risk-weighted assets, comprising CET1 capital of 14.6% and Tier-2 capital of 2.9%. On a

bank-only basis under Basel III, total capital funds stood at 17.2% of total risk-weighted assets, of which 14.2% was CET1 and 3.0% was Tier-2 capital. The net profit for the period of 1H16 is not included in this computation as per the BOT regulations. If this were included, the total capital ratio and CET1 capital ratio under Basel III on a consolidated basis would have been 18.6% and 15.7% respectively and on a bank-only basis would have been 18.3% and 15.3% respectively. (The Bank's Tier 1 capital comprises, substantially, of tangible equity only).

The Bank believes that its strong capital position, together with adequate loan loss reserve coverage, are sufficient to help it withstand the impact of unexpected adverse events affecting the Bank or the Thai economy. Moreover, with this solid capital position, the Bank is well prepared to take up any future growth opportunities. The Bank expects to maintain its aggregate capital adequacy ratio well in excess of the regulatory minimum throughout 2016.

Statutory Capital (Consolidated)		Jun 30, 16	Dec 31, 15	Jun 30, 15
		(Basel III)	(Basel III)	(Basel III)
Common Equity Tier-1 / Tier 1*	Bt, million	282,959	265,491	253,052
	% of RWA	14.6%	14.1%	13.8%
Tier-2 capital	Bt, million	56,927	59,140	57,970
	% of RWA	2.9%	3.2%	3.2%
Total capital	Bt, million	339,886	324,631	311,022
	% of RWA	17.5%	17.3%	17.0%
Risk-weighted assets	Bt, million	1,939,785	1,880,484	1,834,805
Statutory Capital (Bank only)		Jun 30, 16	Dec 31, 15	Jun 30, 15
		(Basel III)	(Basel III)	(Basel III)
Common Equity Tier-1 / Tier 1*	Bt, million	265,721	257,204	243,976
	(Regulatory minimum Tier 1 of 6.625%)	% of RWA	14.2%	14.0%
Tier-2 capital	Bt, million	56,299	59,140	57,970
	% of RWA	3.0%	3.2%	3.2%
Total capital	Bt, million	322,020	316,344	301,946
	(Regulatory minimum CAR of 9.125%)	% of RWA	17.2%	17.2%
Risk-weighted assets	Bt, million	1,875,997	1,841,506	1,805,264

* CET1 under the Basel III framework was adopted in Thailand from January 1, 2013

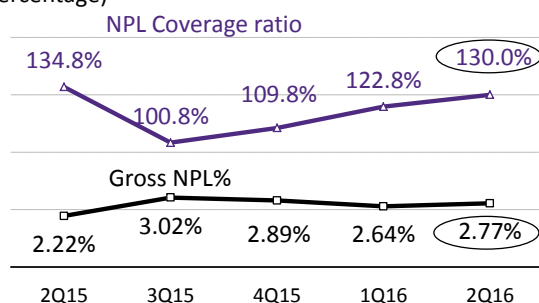
IV. Non Performing Assets

Gross NPLs on a consolidated basis increased to 2.77% of total loans (Baht 57.1 billion) at the end of June 2016, from 2.22% of total loans (Baht 46.0 billion) at the end of June 2015 and 2.64% of total loans (Baht 55.1 billion) at the end of March 2016. The qoq increase was mainly from housing loans. Net NPLs (gross NPL less specific loan loss provisions) rose to 1.28% (Baht 25.9 billion) at the end of June 2016 from 1.09% (Baht 22.4 billion) at the end of June 2015 and 1.14% (Baht 23.4 billion) at the end of March 2016.

Non-Performing Loans and Allowance (Consolidated)		Jun 30, 16	Mar 31, 16	Dec 31, 15	Jun 30, 15
Non-Performing Loans (Gross NPLs)	% of total loans	2.77%	2.64%	2.89%	2.22%
	Bt, million	57,076	55,137	58,996	46,003
Allowance for doubtful accounts and debt restructuring ¹	Bt, million	74,205	67,697	64,777	62,016
Total allowance to NPLs		130.0%	122.8%	109.8%	134.8%

¹ Excluding interbank.

Gross NPL ratio & NPL Coverage ratio (Percentage)

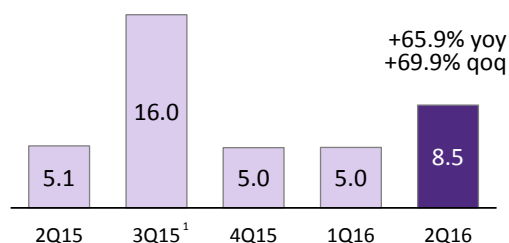


NPL by Segment and by Product

Corporate	1.6%	3.9% ¹	4.0%	3.4%	3.3%
SME	5.0%	5.1%	4.6%	5.0%	5.1%
Retail	2.3%	2.4%	2.0%	1.8%	2.0%
Mortgage	2.4%	2.6%	2.1%	1.9%	2.1%
Auto Loans	2.0%	2.0%	2.1%	1.9%	1.8%

¹ The increase is accounted for mainly by SSI.

Provisions (Consolidated, Baht billion)



Credit Costs (bps) **113** **353** **109** **109** **184**

¹ Includes substantial additional provisions for two large corporates (SSI and SSI-UK) of Baht 11.0 billion in 3Q15. SSI-UK was subsequently written-off in the third quarter of 2015.

Allowance for doubtful accounts as of June 30, 2016 stood at Baht 74.2 billion, an increase of Baht 12.2 billion from Baht 62.0 billion at the end of June 2015 and an increase of Baht 6.5 billion from Baht 67.7 billion at the end of March 2016. The coverage ratio (total allowance to non-performing loans) was 130.0% compared with 134.8% at the end of June 2015 but was up from 122.8% recorded at the end of March 2016.

Gross NPLs on a bank-only basis increased to 2.74% (Baht 56.0 billion) at the end of June 2016 from 2.18% (Baht 44.9 billion) at the end of June 2015 and from 2.61% (Baht 54.1 billion) at the end of March 2016. Net NPLs also increased to 1.27% (Baht 25.6 billion) at the end of June 2016 from 1.08% (Baht 22.0 billion) at the end of June 2015 and from 1.13% (Baht 23.1 billion) at the end of March 2016.

Special mention loans stood at Baht 33.7 billion at the end of June 2016, a decrease of Baht 27.9 billion from the end of June 2015 due to the classification of two large special mention corporate customers (SSI and SSI-UK) as NPLs in 3Q15. Both customers were classified as special mention in 2014.

Unit: Baht Million

Classified Loans and Allowance for Doubtful Accounts (Consolidated)	Jun 30, 16		Dec 31, 15		Jun 30, 15	
	Loan and accrued interest	Allowance for classified loans	Loan and accrued interest	Allowance for classified loans	Loan and accrued interest	Allowance for classified loans
Normal	1,775,038	18,548	1,745,381	18,150	1,712,473	17,583
Special mention	33,718	2,796	33,495	2,325	61,647	2,973
Substandard	11,705	5,295	24,985	14,555	15,786	7,976
Doubtful	20,677	11,983	14,809	7,987	11,811	4,481
Doubtful loss	24,750	14,037	19,281	11,575	18,448	11,316
Total	1,865,888	52,659	1,837,951	54,592	1,820,165	44,329
Allowance established in excess of BOT regulations		21,187		9,831		17,626
Total allowance		73,846		64,423		61,955

In 2Q16, new NPL formation was stable yoy and qoq at 0.40%.

New NPLs by Segment and by Product

	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
Total loans	0.27%	0.35%	0.40%	0.44%	0.44%	0.39%	0.48%	0.44%	0.40%	1.18% ^{3/}	0.50%	0.41%	0.40%
Corporate	0.00%	0.18%	0.01%	0.00%	0.10%	0.01%	0.14%	0.24%	0.05%	2.28% ^{3/}	0.14%	0.05%	0.00%
SME	0.38%	0.41%	0.63%	0.83%	0.82%	0.72%	1.21%	0.78%	1.03%	0.94%	1.04%	0.86%	0.60%
Mortgage ^{1/}	0.33%	0.33%	0.42%	0.45%	0.49%	0.48%	0.39%	0.29%	0.35%	0.68%	0.55%	0.51%	0.65%
Auto loans ^{2/}	0.59%	0.46%	0.43%	0.70%	0.63%	0.57%	0.55%	0.70%	0.60%	0.58%	0.56%	0.41%	0.43%
New NPLs (Baht billion)	5.1	6.4	7.5	8.4	8.8	7.7	9.8	8.8	8.3	24.3 ^{3/}	10.1	8.6	8.2

^{1/} Most of the growth in new NPLs in mortgages arose from customers who are self-employed, have a high level of leverage and a relatively high loan-to-value. The Bank had tightened its underwriting rules in these segments since early 2014.

^{2/} The new NPLs for auto loans in the table above do not include new NPLs where the auto was repossessed before the end of the month in which the customers turned NPL. The loss on sale of repossessed autos is then booked as an expense, as noted under the non-interest expenses section.

^{3/} Excluding new NPL of SSI-UK which was written-off in September 2015. If included new NPL formation for total loans in 3Q15 would be 1.79% and for corporate would be 4.21%.

V. Sources and Uses of Funds

As of June 30, 2016, deposits accounted for 67.5% of SCB's funding base. Other major sources of funds were: 11.5% from shareholders' equity; 7.3% from liabilities under insurance contracts recorded by the Bank's insurance subsidiaries (SCB Life Assurance PCL); 4.8% from interbank borrowings and 4.3% from the issuance of debt instruments. As of June 30, 2016, the funds were deployed as follows: 67.1% for loans; 20.2% for investments in securities; 8.3% for interbank and money markets lending; and 1.3% held in cash.

VI. Additional Financial Information

(Baht million, %)

(Consolidated)	Jun 30, 16	Mar 31, 16	% qoq	Jun 30, 15	% yoy
Loans by Sector	1,861,719	1,838,614	1.3%	1,815,728	2.5%
Agricultural and mining	15,752	16,035	-1.8%	16,640	-5.3%
Manufacturing and commercial	591,958	586,606	0.9%	612,265	-3.3%
Real estate and construction	140,303	141,075	-0.5%	143,264	-2.1%
Utilities and services	273,230	267,783	2.0%	239,294	14.2%
Housing loans*	512,071	500,416	2.3%	480,172	6.6%
Other loans	328,405	326,699	0.5%	324,093	1.3%
Investment	559,296	597,636	-6.4%	533,753	4.8%
Trading securities and securities measured at fair value through P/L	36,958	34,449	7.3%	23,681	56.1%
Available-for-sale securities	398,401	429,617	-7.3%	374,772	6.3%
Held-to-maturity securities	123,320	132,950	-7.2%	133,824	-7.8%
General investments	276	276	0.0%	555	-50.3%
Net investment in associated companies	341	344	-0.9%	921	-63.0%
Debt securities in issue and borrowings	119,366	119,571	-0.2%	115,635	3.2%
Bonds	78,495	78,625	-0.2%	75,411	4.1%
Subordinated bonds	40,000	40,000	0.0%	40,000	0.0%
Structured notes	786	854	-7.9%	96	719.1%
Others	85	92	-8.0%	128	-33.8%
NPL breakdown by status (Bank only)					
Restructured and being serviced	64.5%	68.9%	-4.4%	59.2%	5.3%
Under negotiation for restructuring	13.1%	12.4%	0.7%	22.5%	-9.4%
In litigation	11.6%	8.7%	2.9%	10.0%	1.6%
In foreclosure process	10.7%	10.0%	0.7%	8.3%	2.4%
Troubled debt restructured loans	34,393	35,220	-2.3%	31,543	9.0%
Restructured loans which are classified as NPL	6,232	5,872	6.1%	8,341	-25.3%
Restructured loans which are not classified as NPL	28,161	29,348	-4.0%	23,202	21.4%
	2Q16	1Q16	2Q15	1H16	1H15
Yield on loans by segment	5.63%	5.71%	5.91%	5.66%	5.93%
Corporate	4.20%	4.27%	4.55%	4.22%	4.55%
SME	6.28%	6.54%	6.88%	6.42%	7.00%
Retail	6.59%	6.64%	6.79%	6.59%	6.78%
Mortgage	5.58%	5.68%	5.83%	5.61%	5.87%
Auto loans	6.30%	6.28%	6.16%	6.30%	6.09%
NPL reduction methodology					
Repayments, auctions, and foreclosures	44.2%	40.7%	33.4%	41.9%	47.6%
Debt restructuring	10.5%	35.5%	15.4%	26.7%	10.4%
NPL sales***	23.4%	11.6%	16.8%	15.8%	14.9%
Write off	21.9%	12.2%	34.4%	15.6%	27.1%

* Classified by sector/product and excludes retail loans where customers use their home as collateral. (These loans are classified under "Other loans" in accordance with regulatory guidelines). Elsewhere in this report, all housing loans are aggregated under mortgage loans and the balance of these loans at the end of June 30, 2016, March 31, 2016 and June 30, 2015, was Baht 596 billion, Baht 582 billion, and Baht 558 billion, respectively.

** 83% were investments in government and state-enterprise securities. The Bank held a high proportion of government securities to fulfill its goal of maintaining, at a bank-only level, a liquidity ratio (liquid assets/deposits) of at least 20%.

*** The Bank sold NPL of Baht 1.9 billion in 2Q16, Baht 1.8 billion in 1Q16 and Baht 1.3 billion in 2Q15.

VII. Credit Ratings

As of June 30, 2016, the Bank's credit ratings by Moody's Investors Service, Standard & Poor's and Fitch Ratings are shown below.

Credit Ratings of Siam Commercial Bank PCL	June 30, 2016
Moody's Investors Service	
Outlook	Stable
Bank deposits	Baa1/P-2
Senior unsecured MTN	(P) Baa1
Other short term	(P) P2
Standard & Poor's	
Counterparty Credit Rating	BBB+/A-2
<i>ASEAN Regional Scale Rating</i>	axA+/axA-1
Outlook	Stable
Senior Unsecured (Long Term)	BBB+
Senior Unsecured (Short Term)	A-2
Fitch Ratings	
Foreign Currency	
Long Term Issuer Default Rating	BBB+
Short Term Issuer Default Rating	F2
Outlook	Stable
Senior Unsecured	BBB+
Viability Rating	bbb+
National	
Long Term Rating*	AA(th)
Short Term Rating	F1+(th)
Outlook	Stable
Subordinated Debenture*	AA-(th)

* National long term rating and national long term subordinated debt have been upgraded to AA+(th) and AA(th), respectively since August 2, 2016.