

Management Discussion and Analysis

For the third quarter and first nine months ending September 30, 2016

The Siam Commercial Bank Public Company Limited



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Siam Commercial Bank PCL reported (reviewed) consolidated **net profit** of Baht 11,533 million for the third quarter of 2016 – a 27.9% increase from Baht 9,018 million recorded in 3Q15, driven by higher net interest income and higher net fee and service income. Meanwhile, gain on investments and provisions declined significantly due to the fact that in 3Q15 additional provisions were booked for large corporate customers and large gains from the sale of equity investment were realized.

The Bank's **operating profits** stood at Baht 21,434 million, a decrease of 21.7% from 3Q15 due to significantly lower gains on investments despite an increase in both net interest income and net fee and service income.

On a **quarter-on-quarter** basis, net profit decreased by Baht 1,285 million (-10.0% qoq) from Baht 12,818 million in 2Q16 due to a one-time reversal of life insurance policy reserve of Baht 4,300 million at SCB Life booked in 2Q16. However, net fee and service income, net interest income, gain on investments, and net trading and FX income all increased from the previous quarter.

For the **first nine months of 2016** net profit stood at Baht 34,897 million, a 1.4% decrease yoy from Baht 35,388 million recorded in 9M15 due to a sharp drop in gain on investments. This decline outweighed other positive factors in this period, such as higher net interest income, higher net fee and service income, and reduced provisions.

Net Profit and Total Comprehensive Income

Unit: Baht Million

Net Profit and Total Comprehensive Income (Consolidated)	3Q16	% qoq	% yoy	9M16	% yoy
Net interest income	22,214	2.1%	10.7%	65,645	6.9%
Non-interest income	11,975	-20.9%	-37.6%	35,088	-19.4%
Non-interest expenses	12,755	2.0%	7.4%	36,804	2.1%
Operating profit	21,434	-12.1%	-21.7%	63,929	-7.2%
Impairment loss on loans and debt securities	7,012	-17.6%	-56.2%	20,534	-17.0%
Income tax	2,872	-4.8%	22.6%	8,448	-3.5%
Non-controlling interest	17	-59.4%	19.7%	50	17.9%
Net profit (attributable to shareholders of the Bank)	11,533	-10.0%	27.9%	34,897	-1.4%
Other comprehensive income	(1,124)	NM	NM	1,857	NM
Total comprehensive income	10,409	-14.0%	387.2%	36,754	26.9%
EPS (Baht)	3.39	-10.0%	27.9%	10.27	-1.4%
ROAE	14.3%			14.7%	
ROAA	1.7%			1.7%	

NM denotes "not meaningful"

I. Income Statement for 3Q16 and first nine months ending September 30, 2016 (Consolidated basis)

1. Net interest income

Unit: Baht Million					
Net Interest Income and Yield (Consolidated)	3Q16	% qoq	% yoy	9M16	% yoy
Interest income	30,422	0.5%	1.7%	91,112	-1.0%
- Loans	23,521	0.3%	0.5%	70,602	-1.5%
- Interbank and money markets	1,049	16.0%	27.8%	3,053	7.2%
- Automobile and financial lease income	2,640	2.2%	4.3%	7,812	3.1%
- Investments	3,194	-3.8%	2.3%	9,580	-2.7%
- Other	18	-11.7%	-31.8%	65	31.2%
Interest expenses	8,207	-3.5%	-16.6%	25,467	-16.7%
- Deposits	4,749	-6.3%	-27.7%	15,227	-26.3%
- Interbank and money markets	291	6.8%	24.6%	803	-8.8%
- Borrowings	993	1.3%	11.3%	2,896	12.1%
- Contribution to the Deposit Protection Agency/FIDF	2,170	-0.6%	1.1%	6,530	1.1%
- Other	4	29.9%	146.0%	11	290.2%
Net interest income	22,214	2.1%	10.7%	65,645	6.9%
Net interest margin	3.33%	0.09%	0.26%	3.29%	0.12%
Yield on earning assets	4.55%	0.04%	-0.02%	4.56%	-0.19%
Yield on loans	5.55%	-0.08%	-0.17%	5.58%	-0.30%
Yield on interbank	1.71%	0.29%	0.59%	1.56%	0.27%
Yield on investment	2.37%	0.07%	-0.08%	2.42%	-0.24%
Cost of funds*	1.54%	-0.04%	-0.29%	1.58%	-0.32%
Cost of deposits**	1.47%	-0.05%	-0.35%	1.53%	-0.36%
Spread (yield on earning assets – cost of funds)	3.02%	0.09%	0.28%	2.99%	0.15%

Note Profitability ratios are calculated by using an average of the beginning and ending balances for the period as the denominator.

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

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

Net interest income in 3Q16 increased by 10.7% **yoy** to Baht 22,214 million from Baht 20,070 million in 3Q15. The key driver of this increase was the Bank's effort to lower its cost of deposits by implementing a strategy to raise the proportion of savings and current accounts. Moreover, interest income from interbank and money markets also rose as a result of a higher average volume of interbank and money market portfolios along with higher yields on interbank and money markets compared to 3Q15.

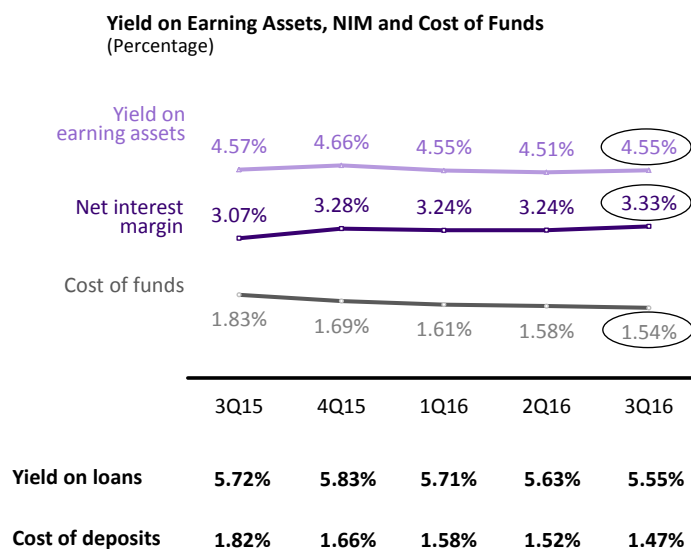
On a **quarter-on-quarter** basis, net interest income in 3Q16 increased by 2.1% qoq to Baht 22,214 million compared with Baht 21,761 million in 2Q16. This increase can be attributed to the Bank's lower cost of deposits. Moreover, interest income from loans increased as loan volume grew by 2.7% qoq.

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 nine months of 2016** net interest income increased by 6.9% yoy to Baht 65,645 million in 9M16 from Baht 61,416 million in 9M15 largely due to the Bank's ability to manage its cost of deposits and 5.3% yoy loan growth.



2. Non-interest income

Unit: Baht Million

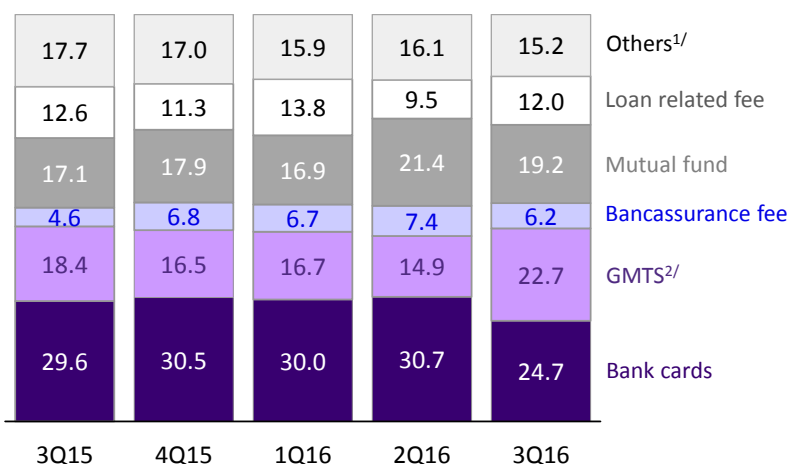
Non-Interest Income (Consolidated)	3Q16	% qoq	% yoy	9M16	% yoy
<i>Fee and service income</i>	9,116	13.0%	11.5%	25,797	5.5%
<i>Less fee and service expenses</i>	1,494	3.0%	6.5%	4,520	6.7%
Net fee and service income	7,622	15.2%	12.5%	21,276	5.2%
<i>Net earned insurance premiums</i>	13,203	-13.5%	-4.8%	42,268	-0.2%
<i>Less net insurance claims</i>	12,025	29.6%	1.8%	36,969	3.1%
Net insurance premiums	1,179	-80.3%	-42.8%	5,299	-18.3%
Net fee and insurance premium	8,800	-30.2%	-0.4%	26,576	-0.5%
Net trading and FX income	1,720	23.4%	9.1%	4,778	-24.5%
Share of profit of associates	(3)	NM	NM	(6)	NM
Dividend income	283	-28.9%	-30.1%	960	-18.3%
Other income	101	3.8%	3.7%	341	-41.9%
Non-interest income excluding gain on investments	10,902	-24.7%	0.1%	32,649	-6.0%
Gain on investments	1,073	64.7%	-87.1%	2,439	-72.4%
Total non-interest income	11,975	-20.9%	-37.6%	35,088	-19.4%

NM denotes "not meaningful"

Non-interest income decreased by 37.6% **yoy** to Baht 11,975 million in 3Q16 from Baht 19,181 million in 3Q15 as the Bank booked large gains from the sale of equity investment in 3Q15. Excluding the large gains on investment in 3Q15, non-interest income would have increased by 4.3% **yoy** because of higher net fee and service income from corporate finance and mutual fund business as well as higher net trading and FX income.

On a **quarter-on-quarter basis**, non-interest income decreased by 20.9% **qoq** mainly from the reversal of policy reserve at SCB Life in 2Q16 while net fee and service income, gain on investments, and net trading and FX income increased **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 nine months of 2016**, non-interest income decreased by 19.4% yoy to Baht 35,088 million from Baht 43,555 million in 9M15, mainly from lower gains on investments due to large gains from the sale of equity investment recorded in 3Q15, lower net trading and FX income, and higher net insurance claims. On the other hand, net fee and service income increased by 5.2% yoy.

3. Non-interest expenses

Unit: Baht Million					
Non-Interest Expenses (Consolidated)	3Q16	% qoq	% yoy	9M16	% yoy
Staff costs	6,303	1.6%	10.8%	18,355	9.8%
Premises and equipment expenses	2,667	1.4%	6.1%	7,830	4.3%
Tax and duties	1,084	5.6%	3.9%	3,209	0.8%
Director remuneration	27	26.8%	4.6%	72	-0.4%
Other expenses	2,674	1.8%	2.7%	7,339	-14.4%
- Loss on sale of NPA*	145	-8.8%	-19.2%	433	-25.2%
- Others	2,529	2.5%	4.3%	6,906	-13.6%
Total non-interest expenses**	12,755	2.0%	7.4%	36,804	2.1%
Cost to income ratio	37.3%			36.5%	

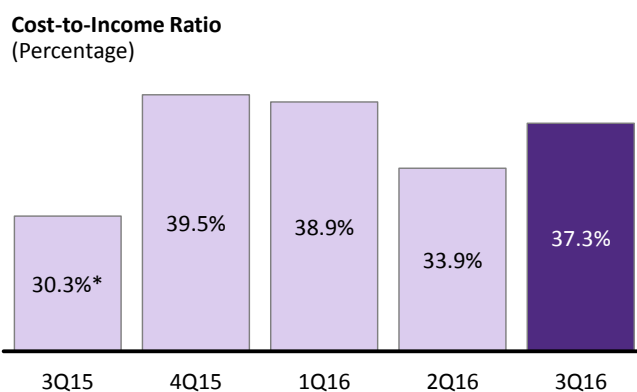
* Including loss on the sale of repossessed cars of Baht 183 million in 3Q16, Baht 183 million in 2Q16 and Baht 291 million in 3Q15.

** Excluding loss on the sale of NPA, non-interest expenses would have increased by 7.8% yoy and 2.1% qoq in 3Q16.

Non-interest expenses increased by 7.4% **yoy** to Baht 12,755 million in 3Q16 from Baht 11,875 million in 3Q15 due primarily to higher staff costs (+10.8% yoy) from annual salary adjustments as well as higher premises and equipment expenses (+6.1% yoy).

On a **quarter-on-quarter** basis, non-interest expenses increased by 2.0% to Baht 12,755 million in 3Q16 from Baht 12,508 million in 2Q16 due to higher staff costs, higher tax and duties, and higher other expenses (mainly from advisory services).

During the **first nine months of 2016**, non-interest expenses increased by 2.1% yoy to Baht 36,804 million from Baht 36,056 million in 9M15, resulting from higher staff costs (+9.8% yoy), and higher premises and equipment expenses (+4.3% yoy). However, other expenses significantly declined yoy because of the one-time expenses associated with a fraud case recorded in 1Q15, prior to any recoveries. Excluding this one-time item, non-interest expenses would have increased by 6.5% yoy.



* 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

At the end of 2015 the Bank estimated that its annualized loan loss provisions would be approximately 115-125 bps of total loans outstanding for 2016 on a bank-only basis. However, in order to maintain the Bank's coverage ratio at around 130%, a prudential level against future uncertainty, actual loan loss provisions may be higher than the above estimates.

In 3Q16, the Bank set aside additional loan loss provision of Baht 7,012 million or 149 bps of total loans, a substantial decrease from Baht 16,002 million in 3Q15 as large provisions were booked in 3Q15 for two large corporate customers. The coverage ratio increased to 128.9% from 109.8% at the end of 2015, but slightly decreased from 130.0% in 2Q16 due to an increase in NPL in 3Q16 (please find further explanation on page 12).

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

As of September 30, 2016 the Bank's total assets stood at Baht 2,806 billion, an increase of 1.6% from the end of September 2015, an increase of 1.2% from the end of June 2016, and an increase of 1.2% from the end of 2015. Details on the consolidated balance sheets are provided in the following sections:

1. Loans

As of September 30, 2016, total outstanding loans (net of deferred revenue) stood at Baht 1,912 billion, a 5.3% increase from the end of September 2015, a 2.7% increase from the end of June 2016, and a 4.3% increase from the end of 2015. On a yoy and a ytd basis overall loan growth was mainly driven by the corporate segment, housing loans, and SME segment, while automobile loans declined. On a qoq basis, the main sources of loan growth were the corporate segment and housing loans, while automobile loans and SME loans contracted.

At the end of September 2016 loans grew by 4.3% from the end of 2015, which was in line with the 2016 loan growth target of 4-6%.

1.1 Loans by segment

Loans by Segment (Consolidated)	Sep 30, 16			Jun 30, 16			Dec 31, 15			Sep 30, 15		
	Value	%	% qoq	Value	%	% qoq	Value	%	% ytd	Value	%	% yoy
Corporate	702,705	36.7%	7.5%	653,662	35.1%	7.5%	646,255	35.2%	8.7%	647,927	35.7%	8.5%
SME	362,765	19.0%	-0.4%	364,337	19.6%	-0.4%	356,840	19.5%	1.7%	353,331	19.5%	2.7%
Retail	846,400	44.3%	0.3%	843,720	45.3%	0.3%	830,311	45.3%	1.9%	813,556	44.8%	4.0%
- Housing loans*	602,319	31.5%	1.1%	596,027	32.0%	1.1%	576,251	31.4%	4.5%	568,849	31.3%	5.9%
- Automobile	164,698	8.6%	-1.3%	166,914	9.0%	-1.3%	169,154	9.2%	-2.6%	166,114	9.2%	-0.9%
- Others loans	79,383	4.2%	-1.7%	80,779	4.3%	-1.7%	84,906	4.6%	-6.5%	78,593	4.3%	1.0%
Total loans	1,911,870	100.0%	2.7%	1,861,719	100.0%	2.7%	1,833,406	100.0%	4.3%	1,814,814	100.0%	5.3%

* 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.

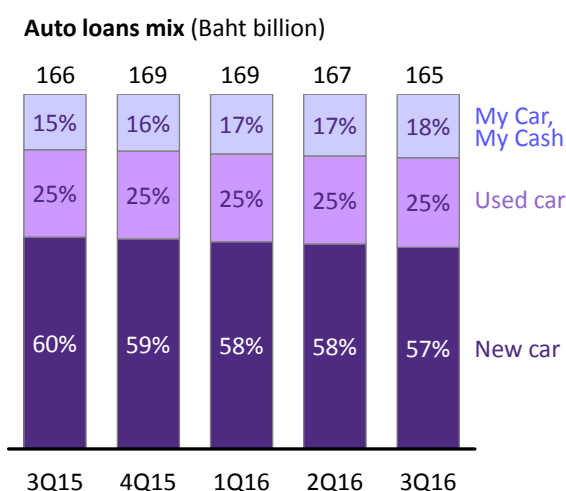
Details on the changes in loan volume by customer segments are as follows:

- **Corporate** loans increased by 8.5% yoy and 7.5% qoq. The qoq increase was mainly due to an M&A deal of a large corporate customer.
- **SME** loans rose by 2.7% yoy but slightly declined by 0.4% qoq. The yoy increase was driven by the Bank's strategy to broaden its customer base in the SME segment by linking with the supply chain of corporate customers, 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. The qoq decrease was mainly due to weak loan demand as a consequence of slow economic recovery.
- **Retail** loans grew by 4.0% yoy and 0.3% qoq.
 - **Housing loans** grew by 5.9% yoy and 1.1% qoq. The yoy growth was driven by SCB's strong presence in the housing loans market, a more effective marketing strategy with a

customer segmentation approach, and partly a spike in housing loans demand before the expiration of the government's scheme to reduce transfer and mortgage fees in April 2016.

- **Automobile loans** decreased by 0.9% yoy and 1.3% 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 offers higher yields than new car loans but 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 card receivables) increased by 1.0% yoy, mainly driven by an increase in personal loans and credit card business. On a qoq basis, other loans fell by 1.7% qoq largely from a decrease in credit card loans.

2. Deposits

Unit: Baht Million

Deposits (Consolidated)	Sep 30, 16	%	Jun 30, 16	%	% qoq	Dec 31, 15	%	% ytd	Sep 30, 15	%	% yoy
Demand	57,746	3.1%	59,121	3.2%	-2.3%	57,136	3.0%	1.1%	53,761	2.8%	7.4%
Savings	1,086,901	57.6%	1,109,532	59.3%	-2.0%	1,106,016	58.5%	-1.7%	1,104,262	57.3%	-1.6%
Fixed	742,643	39.3%	702,429	37.5%	5.7%	727,577	38.5%	2.1%	769,945	39.9%	-3.5%
- Less than 6 months	172,978	9.2%	185,486	9.9%	-6.7%	221,323	11.7%	-21.8%	188,843	9.8%	-8.4%
- 6 months and up to 1 year	353,821	18.7%	347,534	18.6%	1.8%	300,657	15.9%	17.7%	181,087	9.4%	95.4%
- Over 1 year	215,844	11.4%	169,409	9.1%	27.4%	205,597	10.9%	5.0%	400,015	20.7%	-46.0%
Total deposits	1,887,290	100.0%	1,871,082	100.0%	0.9%	1,890,729	100.0%	-0.2%	1,927,968	100.0%	-2.1%
Gross loans to deposits ratio	101.3%		99.5%			97.0%			94.1%		
CASA - Current & Savings Accounts (%)	60.7%		62.5%			61.5%			60.1%		

As of September 30, 2016, total **deposits** stood at Baht 1,887 billion, a 2.1% decrease from the end of September 2015 but an increase by 0.9% from the end of June 2016, and was relatively flat from the end of 2015. The yoy decline was mainly from the maturity of high-cost fixed deposits during the period along with the Bank's strategy to increase low-cost deposits. On the contrary, the qoq increase was mainly driven by the

launches of fixed deposit campaigns in 3Q16. Hence, the proportion of low cost deposits (CASA) was 60.7% in 3Q16, up from 60.1% in 3Q15 but down from 62.5% in 2Q16.

As loans grew 5.3% yoy while deposits fell 2.1% yoy, the loan-to-deposit ratio on a consolidated basis rose to 101.3% at the end of September 2016 from 94.1% at the end of September 2015. Considering the excess liquidity environment, together with the Bank's high liquidity ratio of 25.0% at the end of September 2016, the Bank decided to temporarily relax its loan-to-deposit ratio. Nevertheless, the Bank continues to ensure that there is adequate liquidity to cushion against unexpected shocks and challenges.

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.

3. Shareholders' equity

As of September 30, 2016, shareholders' equity stood at Baht 326 billion, a 5.9% increase from the end of 2015, driven by 9M16 net profit, net of the dividend payment of Baht 4.00 per share in accordance with the resolution of the Annual General Meeting of Shareholders in April 2016, and the interim dividend payment of Baht 1.50 per share in accordance with the resolution of the Board of Directors meeting in August 2016. On a qoq basis, shareholders' equity rose by 1.7%, largely attributable to 3Q16 net profits, which were partially reduced by the interim dividend payment of Baht 1.50 per share following the Board's approval in August 2016.

The book value per share as of September 30, 2016 was Baht 95.76 (3,399 million ordinary and preferred shares at the end of September 2016), up by 5.9% from Baht 90.45 at the end of 2015 and by 1.7% from Baht 94.20 at the end of June 2016, for the reasons noted above.

III. Statutory Capital

From January 1, 2016, the Bank of Thailand (BOT) required a conservation buffer of 2.5%, under Basel III, to be added to Common Equity Tier 1, with a 4-year phase-in period (0.625% p.a. 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, the Bank's total capital funds (Tier 1 and Tier 2) at the end of 3Q16 stood at 17.9% of total risk-weighted assets, comprising CET1 capital of 15.0% and Tier-2 capital of 2.9%.

On a bank-only basis under Basel III, the Bank's total capital funds stood at 17.6% of total risk-weighted assets, of which 14.6% was CET1 and 3.0% was Tier-2 capital. (The Bank's Tier 1 capital comprises mostly of tangible equity only).

The Bank believes that its strong capital position in excess of the regulatory minimum requirement, 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.

Statutory Capital (Consolidated Supervision) (Basel III)		Sep 30, 16	Dec 31, 15	Sep 30, 15
Common Equity Tier-1 / Tier 1**	Bt, million	297,834	265,491	265,112
	% of RWA	15.0%	14.1%	14.3%
Tier-2 capital	Bt, million	57,490	59,140	60,187
	% of RWA	2.9%	3.2%	3.2%
Total capital	Bt, million	355,324	324,631	325,299
	% of RWA	17.9%	17.3%	17.5%
Risk-weighted assets	Bt, million	1,987,426	1,880,484	1,861,515
Statutory Capital (Bank only) (Basel III)		Sep 30, 16*	Dec 31, 15	Sep 30, 15
Common Equity Tier-1 / Tier 1**	Bt, million	281,086	257,204	256,602
(Regulatory minimum Tier 1 of 6.625%)	% of RWA	14.6%	14.0%	14.0%
Tier-2 capital	Bt, million	56,814	59,140	59,888
	% of RWA	3.0%	3.2%	3.3%
Total capital	Bt, million	337,900	316,344	316,490
(Regulatory minimum CAR of 9.125%)	% of RWA	17.6%	17.2%	17.3%
Risk-weighted assets	Bt, million	1,916,852	1,841,506	1,828,566

* Excluding net profit for 3Q16. If included, the CET1/Tier 1 and CAR on bank only basis would stand at 15.2% and 18.1%, respectively.

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

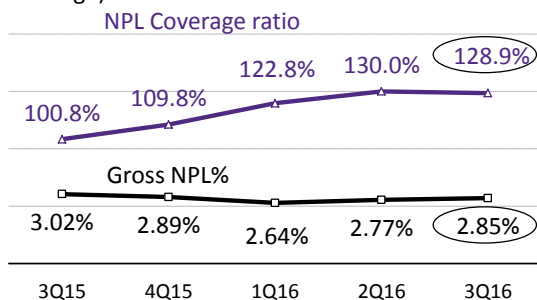
IV. Non-Performing Assets

Gross NPLs on a consolidated basis stood at 2.85% of total loans at the end of September 2016, down from 3.02% of total loans at the end of September 2015 but up from 2.77% of total loans at the end of June 2016.

Non-Performing Loans and Allowance (Consolidated)		Sep 30, 16	Jun 30, 16	Dec 31, 15	Sep 30, 15
Non-Performing Loans (Gross NPLs)	% of total loans	2.85%	2.77%	2.89%	3.02%
	Bt, million	61,370	57,076	58,996	62,250
Non-Performing Loans (Net NPLs)	% of total loans	1.34%	1.28%	1.25%	1.34%
	Bt, million	28,384	25,943	25,069	27,085
Allowance for doubtful accounts and debt restructuring ¹	Bt, million	79,130	74,205	64,777	62,753
Total allowance to NPLs		128.9%	130.0%	109.8%	100.8%

¹ Excluding interbank.

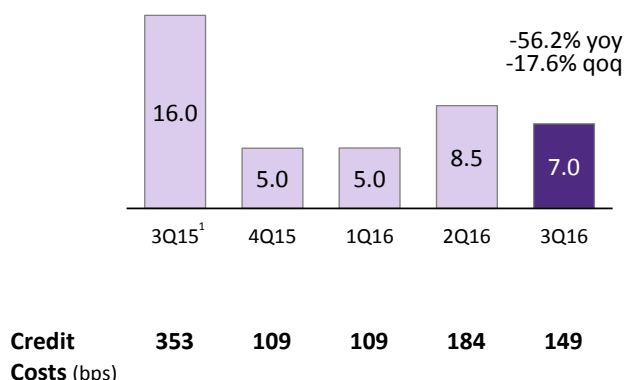
Gross NPL ratio & NPL Coverage ratio (Percentage)



NPL by Segment and by Product

	3Q15	4Q15	1Q16	2Q16	3Q16
Corporate	3.9%	4.0%	3.4%	3.3%	3.4%
SME	5.1%	4.6%	5.0%	5.1%	5.2%
Retail	2.4%	2.0%	1.8%	2.0%	2.2%
Mortgage	2.6%	2.1%	1.9%	2.1%	2.4%
Auto Loans	2.0%	2.1%	1.9%	1.8%	1.9%

Provisions (Consolidated, Baht billion)



Credit Costs (bps)

Period	3Q15	4Q15	1Q16	2Q16	3Q16
Credit Costs	353	109	109	184	149

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 September 30, 2016 stood at Baht 79.1 billion, a 26.1% increase from Baht 62.8 billion at the end of September 2015 and a 6.6% increase from Baht 74.2 billion at the end of June 2016. The coverage ratio (total allowance to non-performing loans) was 128.9%, up from 100.8% at the end of September 2015 but down slightly from 130.0% recorded at the end of June 2016.

Gross NPLs on a bank-only basis stood at Baht 60.3 billion at the end of September 2016, a decline from Baht 61.1 billion at the end of September 2015 but an increase from Baht 56.0 billion at the end of June 2016. The qoq increase was mainly from a few large corporate customers and housing loans. At the end of September 2016, Gross NPL ratio was 2.82% of total loans, down from 2.99% at the end of September 2015 but up from 2.74% at the end of June 2016.

Special mention loans stood at Baht 36.0 billion at the end of September 2016, up by 6.1% from the end of September 2015 and by 6.7% from the end of June 2016. The qoq increase was mainly from a few large corporate customers.

Unit: Baht Million

Classified Loans and Allowance for Doubtful Accounts (Consolidated)	Sep 30, 16		Dec 31, 15		Sep 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	1,818,396	21,564	1,745,381	18,150	1,722,363	17,705
Special mention	35,985	2,799	33,495	2,325	33,911	2,471
Substandard	14,384	6,620	24,985	14,555	29,926	18,222
Doubtful	10,585	3,658	14,809	7,987	12,350	4,992
Doubtful loss	36,443	22,874	19,281	11,575	20,026	12,031
Total	1,915,793	57,515	1,837,951	54,592	1,818,576	55,421
Allowance established in excess of BOT regulations		21,374		9,831		7,273
Total allowance		78,889		64,423		62,694

In 3Q16 new NPL formation was at 0.50%, a sharp drop from 1.79% in 3Q15 but a slight increase from 0.40% in 2Q16.

New NPLs by Segment and by Product

	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16
Total loans	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%	0.50%
Corporate	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%	0.28%
SME	0.41%	0.63%	0.83%	0.82%	0.72%	1.21%	0.78%	1.03%	0.94%	1.04%	0.86%	0.60%	0.70%
Mortgage ^{1/}	0.33%	0.42%	0.45%	0.49%	0.48%	0.39%	0.29%	0.35%	0.68%	0.55%	0.51%	0.65%	0.68%
Auto loans ^{2/}	0.46%	0.43%	0.70%	0.63%	0.57%	0.55%	0.70%	0.60%	0.58%	0.56%	0.41%	0.43%	0.40%
New NPLs (Baht billion)	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	10.8

^{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 September 30, 2016, deposits accounted for 67.3% of SCB's funding base. Other major sources of funds were: 11.6% from shareholders' equity, 7.5% from liabilities under insurance contracts recorded by the Bank's insurance subsidiary (SCB Life Assurance PCL), 5.1% from interbank borrowings, and 4.2% from the issuance of debt instruments. As of September 30, 2016, the funds were deployed as follows: 68.1% for loans, 18.6% for investments in securities, 9.3% for interbank and money markets lending, and 1.2% held in cash.

VI. Additional Financial Information

(Baht million, %)

(Consolidated)	Sep 30, 16	Jun 30, 16	% qoq	Sep 30, 15	% yoy
Loans by Sector	1,911,870	1,861,719	2.7%	1,814,814	5.3%
Agricultural and mining	15,427	15,752	-2.1%	15,931	-3.2%
Manufacturing and commercial	593,573	591,958	0.3%	603,795	-1.7%
Real estate and construction	136,122	140,303	-3.0%	139,950	-2.7%
Utilities and services	323,358	273,230	18.3%	244,474	32.3%
Housing loans*	516,921	512,071	0.9%	488,378	5.8%
Other loans	326,469	328,405	-0.6%	322,286	1.3%
Investment**	521,130	559,296	-6.8%	486,646	7.1%
Trading securities and securities measured at fair value through P/L	37,218	36,958	0.7%	31,339	18.8%
Available-for-sale securities	360,476	398,401	-9.5%	320,666	12.4%
Held-to-maturity securities	122,070	123,320	-1.0%	133,150	-8.3%
General investments	1,029	276	272.8%	555	85.4%
Net investment in associated companies	338	341	-0.9%	936	-63.9%
Debt securities in issue and borrowings	118,640	119,366	-0.6%	121,342	-2.2%
Bonds	77,635	78,495	-1.1%	81,184	-4.4%
Subordinated bonds	40,000	40,000	0.0%	40,000	0.0%
Structured notes	917	786	16.6%	42	2084.6%
Others	89	85	4.4%	116	-23.3%
NPL breakdown by status (Bank-only)					
Restructured and being serviced	68.7%	64.5%	4.2%	72.8%	-4.1%
Under negotiation for restructuring	10.7%	13.1%	-2.4%	14.8%	-4.1%
In litigation	11.4%	11.6%	-0.2%	6.6%	4.8%
In foreclosure process	9.3%	10.7%	-1.4%	5.8%	3.5%
Troubled debt restructured loans	30,900	34,393	-10.2%	31,824	-2.9%
Restructured loans which are classified as NPL	5,495	6,232	-11.8%	8,905	-38.3%
Restructured loans which are not classified as NPL	25,405	28,161	-9.8%	22,918	10.9%
	3Q16	2Q16	3Q15	9M16	9M15
Yield on loans by segment					
Yield on loans	5.55%	5.63%	5.72%	5.58%	5.88%
Corporate	4.14%	4.20%	4.03%	4.10%	4.41%
SME	6.20%	6.28%	6.78%	6.39%	6.95%
Retail	6.53%	6.59%	6.75%	6.58%	6.78%
Mortgage	5.43%	5.58%	5.79%	5.56%	5.85%
Auto loans	6.42%	6.30%	6.21%	6.35%	6.16%
NPL reduction methodology					
Repayments, auctions, and foreclosures	42.8%	44.2%	10.7%	42.2%	28.7%
Debt restructuring	2.2%	10.5%	5.2%	20.4%	7.7%
NPL sales***	32.1%	23.4%	16.2%	20.0%	15.5%
Write off	22.8%	21.9%	67.9%	17.5%	48.0%

* 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 September 30, 2016, June 30, 2016 and September 30, 2015, was Baht 602 billion, Baht 596 billion, and Baht 569 billion, respectively.

** 80.9% 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 NPLs of Baht 2.6 billion in 3Q16, Baht 1.9 billion in 2Q16 and Baht 3.5 billion in 3Q15.

VII. Credit Ratings

As of September 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	September 30, 2016
Moody's Investors Service	
Outlook	Stable
Bank deposits	Baa1/P-2
Senior unsecured MTN	(P) Baa1
Other short term	(P) P-2
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+(tha)
Short Term Rating	F1+(tha)
Outlook	Stable
Subordinated Debenture	AA(thai)