

# Management Discussion and Analysis

For the second quarter and first half ended June 30, 2017

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The Siam Commercial Bank Public Company Limited



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## Management Discussion and Analysis

For the second quarter and first half ended June 30, 2017

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Siam Commercial Bank PCL reported (audited) consolidated **net profit** of Baht 11,911 million for the second quarter of 2017, a 7.1% yoy decrease from Baht 12,818 million in 2Q16. The yoy decrease in net profit was primarily driven by SCB Life’s reversal of additional policy reserve of Baht 4.3 billion in 2Q16, causing non-interest income (Non-NII) to fall by 26.1% yoy. Excluding this item, both Non-NII and net interest income (NII) would have increased by 3.3% yoy and 4.7% yoy, respectively and total income would have increased by 4.2% yoy. However, operating expenses increased by 14.0% yoy, mainly from higher staff costs and higher other expenses. As a result, operating profits slightly decreased by 1.8% yoy.

On a **quarter-on-quarter** basis, net profit remained roughly unchanged from 1Q17. NII and Non-NII increased by 1.0% qoq and 5.3% qoq, respectively while operating expenses increased by 5.9% qoq.

For the **first half of 2017**, net profit stood at Baht 23,823 million, a 2.0% yoy increase from Baht 23,364 million in 1H16. This increase was mainly driven by higher net interest income, higher net fee income, and lower provisions.

## Net Profit and Total Comprehensive Income

Unit: Baht million

Net Profit and Total Comprehensive Income (Consolidated)	2Q17	% qoq	% yoy	1H17	% yoy
Net interest income	22,788	1.0%	4.7%	45,349	4.4%
Non-interest income	11,192	5.3%	-26.1%	21,816	-5.6%
Non-interest expenses	14,257	5.9%	14.0%	27,719	15.3%
<b>Operating profit</b>	<b>19,723</b>	<b>0.0%</b>	<b>-19.1%</b>	<b>39,446</b>	<b>-7.2%</b>
Impairment loss on loans and debt securities	5,010	0.0%	-41.1%	10,020	-25.9%
Income tax	2,787	-0.1%	-7.7%	5,575	0.0%
Non-controlling interests	15	14.0%	-65.0%	28	-14.5%
<b>Net profit</b> (attributable to shareholders of the Bank)	<b>11,911</b>	<b>0.0%</b>	<b>-7.1%</b>	<b>23,823</b>	<b>2.0%</b>
Other comprehensive income (loss)	1,459	54.9%	NM	2,401	-19.5%
<b>Total comprehensive income</b>	<b>13,370</b>	<b>4.0%</b>	<b>10.5%</b>	<b>26,224</b>	<b>-0.5%</b>
EPS (Baht)	3.50	0.0%	-7.1%	7.01	2.0%
ROAE	13.7%			14.0%	
ROAA	1.6%			1.6%	

NM denotes "not meaningful"

## I. Income Statement for 2Q17 and first half ended June 30, 2017 (Consolidated basis)

### 1. Net interest income

Unit: Baht million

Net Interest Income and Yield (Consolidated)	2Q17	% qoq	% yoy	1H17	% yoy
Interest income	31,097	0.8%	2.7%	61,941	2.1%
- Loans	23,730	-0.2%	1.2%	47,516	0.9%
- Interbank and money markets	1,296	4.4%	43.4%	2,538	26.6%
- Hire-purchase and financial lease income	2,736	2.4%	5.9%	5,408	4.6%
- Investments	3,316	6.2%	-0.1%	6,439	0.8%
- Others	19	-12.6%	-9.5%	40	-13.6%
Interest expenses	8,309	0.3%	-2.3%	16,592	-3.9%
- Deposits	4,829	0.1%	-4.8%	9,655	-7.9%
- Interbank and money markets	267	5.9%	-1.6%	520	1.6%
- Borrowings	833	-7.9%	-15.0%	1,738	-8.7%
- Contribution to the Deposit Protection Agency & FIDF	2,370	3.5%	8.6%	4,659	6.9%
- Others	10	-3.5%	208.2%	20	182.4%
<b>Net interest income</b>	<b>22,788</b>	<b>1.0%</b>	<b>4.7%</b>	<b>45,349</b>	<b>4.4%</b>
<b>Net interest margin</b>	<b>3.18%</b>	<b>-0.03%</b>	<b>-0.06%</b>	<b>3.19%</b>	<b>-0.10%</b>
Yield on earning assets	4.34%	-0.05%	-0.17%	4.35%	-0.25%
Yield on loans	5.40%	-0.04%	-0.23%	5.41%	-0.25%
Yield on interbank	1.59%	-0.23%	0.17%	1.64%	0.00%
Yield on investment	2.28%	0.16%	-0.02%	2.22%	-0.11%
Cost of funds*	1.46%	-0.02%	-0.12%	1.46%	-0.15%
Cost of deposits**	1.41%	0.01%	-0.11%	1.40%	-0.18%
Spread (yield on earning assets – cost of funds)	2.88%	-0.03%	-0.05%	2.89%	-0.09%

**Note** Profitability ratios use the average of the beginning and ending balances as the denominator.

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

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

Net interest income in 2Q17 stood at Baht 22,788 million, a 4.7% yoy increase from Baht 21,761 million in 2Q16. The increase was due to a 5.8% yoy loan growth and higher interest income from interbank and money markets which benefited from both higher transaction volumes and higher yields.

On a **quarter-on-quarter** basis, net interest income increased by 1.0% qoq to Baht 22,788 million from Baht 22,561 million in 1Q17. The increase was due to higher yields on investments and higher transaction volumes from interbank and money markets.

SCB Interest Rates	Apr 29, 15	May 21, 15	Jul 20, 15	Dec 21, 15	Mar 1, 16	Apr 7, 16	Apr 25, 16	Oct 12, 16	May 16, 17
<b>Lending rate (%)</b>									
MLR	6.625	6.525	6.525	6.525	6.525	6.275	6.275	6.275	6.025
MOR	7.50	7.40	7.37	7.37	7.37	7.37	7.12	7.12	6.87
MRR	8.12	7.82	7.87	7.87	7.87	7.87	7.62	7.62	7.37
<b>Deposit rate* (%)</b>									
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	0.90	0.90-1.60	0.90	0.90	0.90	0.90	0.90
6-month deposits	1.15-1.20	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15
12-month deposits	1.50	1.50	1.50	1.30	1.30	1.30	1.30	1.40	1.40

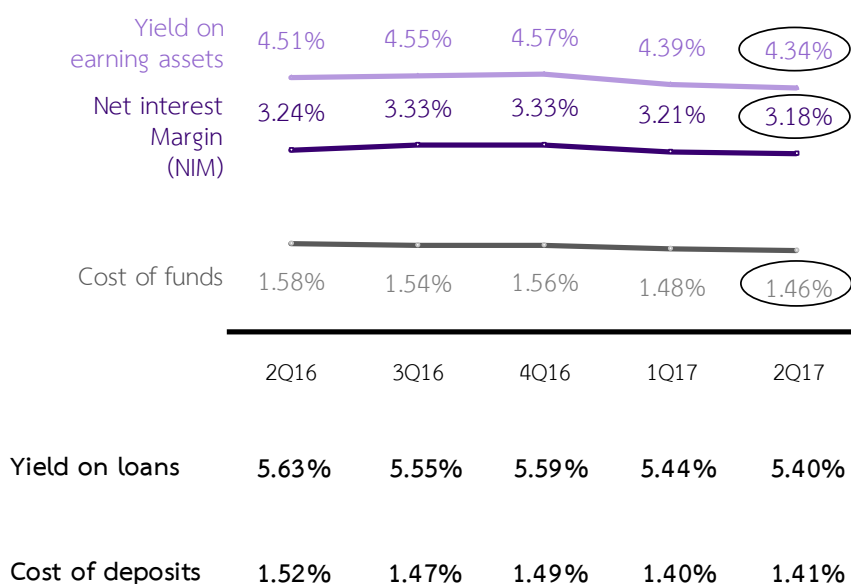
  

	Aug 24, 11	Nov 30, 11	Jan 25, 12	Oct 17, 12	May 29, 13	Nov 27, 13	Mar 12, 14	Mar 11, 15	Apr 29, 15
<b>Policy rate (%)</b>	3.50	3.25	3.00	2.75	2.50	2.25	2.00	1.75	1.50

\* Excluding 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 2017**, net interest income increased by 4.4% yoy to Baht 45,349 million from Baht 43,431 million in 1H16. The increase was due to loan growth of 5.8% yoy, higher interest income from interbank and money markets, and lower interest expenses on deposits compared to 1H16.

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



## 2. Non-interest income

Unit: Baht million

Non-Interest Income (Consolidated)	2Q17	% qoq	% yoy	1H17	% yoy
<i>Fee and service income</i>	8,731	-2.1%	8.2%	17,648	5.8%
<i>Less fee and service expenses</i>	1,589	-2.3%	9.5%	3,214	6.2%
Net fee and service income	7,142	-2.1%	8.0%	14,434	5.7%
<i>Net earned insurance premiums</i>	13,594	2.0%	-10.9%	26,929	-7.3%
<i>Less net insurance claims</i>	12,645	4.2%	36.3%	24,785	-0.6%
Net insurance premiums	949	-20.5%	-84.1%	2,144	-48.0%
<b>Net fee and insurance premium</b>	<b>8,091</b>	<b>-4.7%</b>	<b>-35.8%</b>	<b>16,578</b>	<b>-6.7%</b>
Net trading and FX income	1,774	6.0%	27.3%	3,448	12.7%
Share of loss of associates	(5)	NM	NM	(9)	NM
Dividend income	401	104.8%	0.7%	597	-11.7%
Other income	682	593.5%	601.1%	780	224.8%
<b>Non-interest income excluding gain on investments</b>	<b>10,943</b>	<b>4.7%</b>	<b>-24.5%</b>	<b>21,394</b>	<b>-1.6%</b>
Net gain on investments	249	44.1%	-61.8%	422	-69.1%
<b>Total non-interest income</b>	<b>11,192</b>	<b>5.3%</b>	<b>-26.1%</b>	<b>21,816</b>	<b>-5.6%</b>

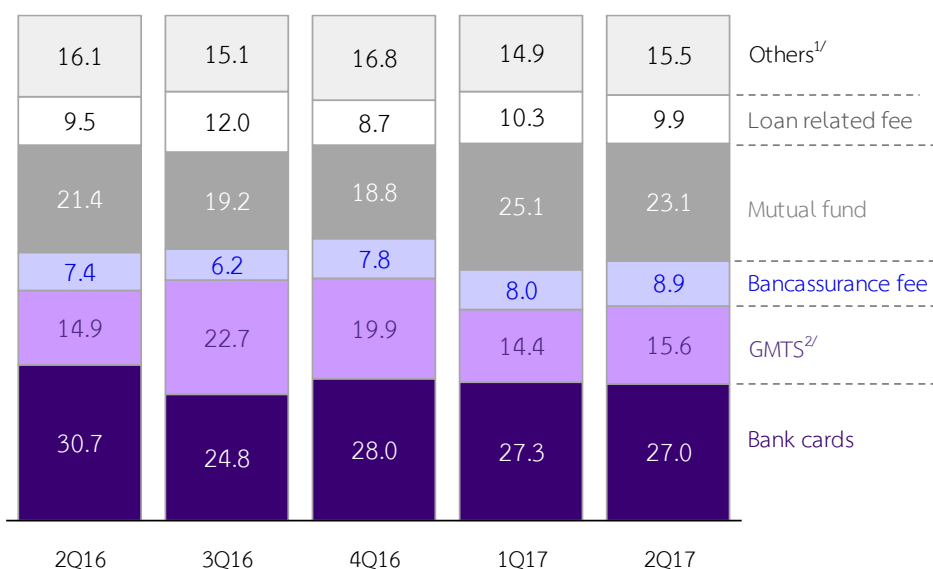
NM denotes "not meaningful"

Non-interest income decreased by 26.1% yoy to Baht 11,192 million in 2Q17 from Baht 15,138 million in 2Q16. This was largely due to the reversal of additional policy reserve recorded at SCB Life in 2Q16. Excluding this item, non-interest income would have increased by 3.3% yoy, largely from 1) higher net fee and service income from mutual fund fees, bancassurance fees, corporate finance fees; 2) higher net trading and FX income; and 3) higher other income from insurance recovery relating to a fraud case in 1Q15.

On a **quarter-on-quarter** basis, non-interest income increased by 5.3% qoq due to an increase in other income, dividend income, and net trading and FX income.

In the **first half of 2017**, non-interest income decreased by 5.6% yoy to Baht 21,816 million. The decline was largely due to lower net insurance premiums and lower gain on investments despite an increase in net fee income and net trading and FX income from 1H16.

Net Fee Income Breakdown (Percentage)



<sup>1/</sup> Others include brokerage fee, fund transfer and remittance.

<sup>2/</sup> GMTS stands for Global Markets and Transaction Services, which includes cash management, trade finance, corporate finance and corporate trust.

### 3. Non-interest expenses

Unit: Baht million

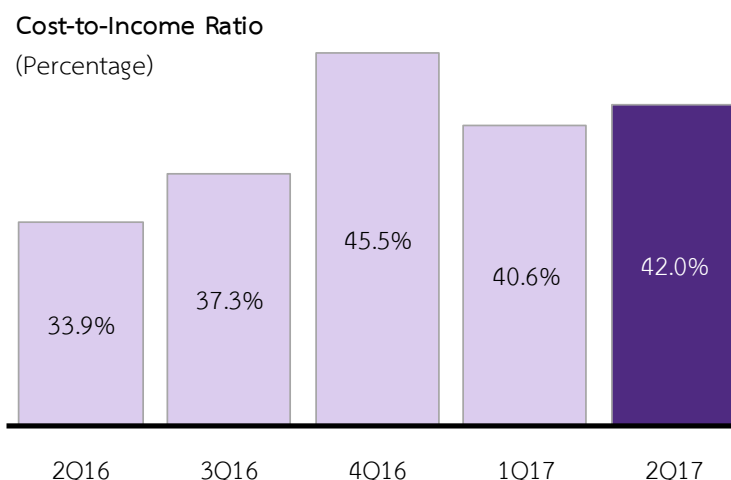
Non-Interest Expenses (Consolidated)	2Q17	% qoq	% yoy	1H17	% yoy
Staff costs	7,017	2.3%	13.1%	13,878	15.2%
Premises and equipment expenses	2,914	9.9%	10.8%	5,566	7.8%
Tax and duties	1,070	-2.3%	4.3%	2,166	2.0%
Director remuneration	22	-15.5%	2.9%	47	5.3%
Other expenses	3,234	14.4%	23.1%	6,061	29.9%
Total non-interest expenses*	14,257	5.9%	14.0%	27,719	15.3%
<b>Cost to income ratio</b>	<b>42.0%</b>			<b>41.3%</b>	

\* Including loss on the sale of repossessed cars of Baht 110 million in 2Q17, Baht 118 million in 1Q17 and Baht 183 million in 2Q16.

Non-interest expenses increased by 14.0% yoy to Baht 14,257 million in 2Q17 from Baht 12,508 million in 2Q16 as a result of higher staff costs (+13.1% yoy), higher other expenses (+23.1% yoy), and higher premises and equipment expenses (+10.8% yoy). Higher staff costs were driven by both annual salary adjustments and a larger number of staff. Other expenses increased mainly from higher marketing and promotion expenses and higher advisory service fees, while premises and equipment expenses increased due to higher rental expenses.

On a **quarter-on-quarter** basis, non-interest expenses increased by 5.9% to Baht 14,257 million in 2Q17 from Baht 13,462 million in 1Q17, due to an increase in other expenses and an increase in premises and equipment expenses.

In the **first half of 2017**, non-interest expenses increased by 15.3% yoy to Baht 27,719 million from Baht 24,049 million in 1H16, due to an increase in staff costs and other expenses.



#### 4. Loan loss provisions

The Bank set aside loan loss provisions in 2Q17 in the amount of Baht 5,010 million or 102 bps of total loans which was adequate based on prudential provisions for future uncertainty. Loan loss provisions in 2Q17 were at the same level as in 1Q17 but decreased yoy from Baht 8,512 million in 2Q16 when additional provisions were deemed necessary. The coverage ratio stood at 133.5% in 2Q17, an increase from 130.0% in 2Q16 but relatively stable from 1Q17.



## II. Balance sheet as of June 30, 2017 (Consolidated basis)

As of June 30, 2017, the Bank's total assets stood at Baht 3,003 billion, an increase of 8.3% yoy from the end of June 2016. Details on the consolidated balance sheets are provided in the following sections:

### 1. Loans

As of June 30, 2017, total outstanding loans (net of deferred revenue) stood at Baht 1,970 billion, a 5.8% yoy increase from the end of June 2016 and a slight increase of 0.9% qoq from the end of March 2017. Loan growth, both yoy and qoq, was contributed by the corporate and retail segments despite a decline in SME loans.

At the end of 2Q17, total loan volume grew by 5.8% from 2Q16, which was in line with the Bank's loan growth target for 2017 of 4-6%.

Unit: Baht million

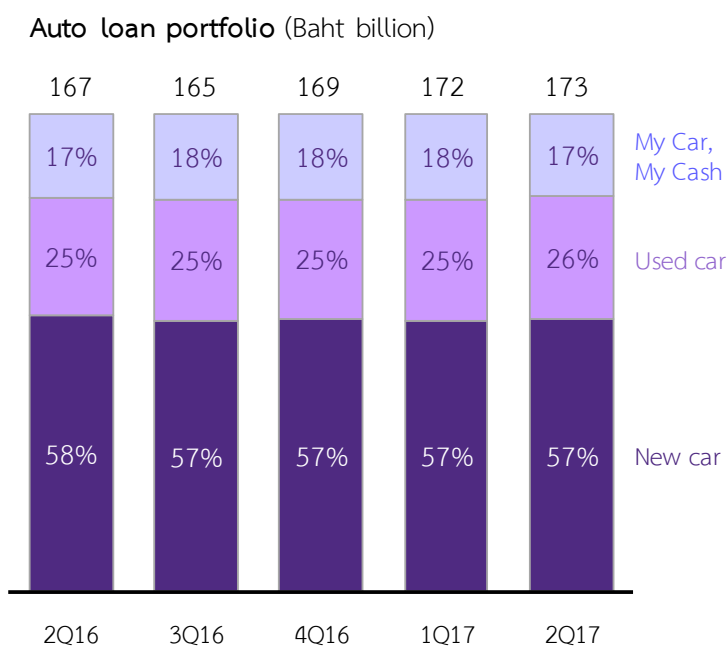
Loans by Segment (Consolidated)	Jun 30, 17	%	Mar 31, 17	%	% qoq	Dec 31, 16	%	% ytd	Jun 30, 16	%	% yoy
Corporate	738,306	37.5%	725,624	37.2%	1.7%	712,272	36.7%	3.7%	653,662	35.1%	12.9%
SME	358,812	18.2%	360,260	18.5%	-0.4%	364,544	18.8%	-1.6%	364,337	19.6%	-1.5%
Retail	873,290	44.3%	866,014	44.4%	0.8%	862,232	44.5%	1.3%	843,720	45.3%	3.5%
- Housing loans*	611,905	31.0%	608,880	31.2%	0.5%	607,439	31.3%	0.7%	596,027	32.0%	2.7%
- Auto loans	173,477	8.8%	171,839	8.8%	1.0%	168,684	8.7%	2.8%	166,914	9.0%	3.9%
- Other loans	87,908	4.5%	85,295	4.4%	3.1%	86,109	4.5%	2.1%	80,779	4.3%	8.8%
<b>Total loans</b>	<b>1,970,408</b>	<b>100.0%</b>	<b>1,951,898</b>	<b>100.0%</b>	<b>0.9%</b>	<b>1,939,048</b>	<b>100.0%</b>	<b>1.6%</b>	<b>1,861,719</b>	<b>100.0%</b>	<b>5.8%</b>

\* Including 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 changes in loan volume by customer segments are as follows:

- **Corporate** loans increased by 12.9% yoy, mainly due to M&A deals of large corporate customers in 3Q16. On a qoq basis, this segment also grew by 1.7%.
- **SME** loans decreased slightly by 1.5% yoy and 0.4% qoq, mainly due to lower loan demand amid slow economic recovery, and more stringent underwriting criteria.
- **Retail** loans grew by 3.5% yoy and 0.8% qoq.
  - **Housing loans** rose by 2.7% yoy and 0.5% qoq. Growth in this sector was driven by SCB's strong presence in the housing loans market and an effective marketing strategy for each customer segment.

- **Auto loans** increased by 3.9% yoy and 1.0% qoq, as a result of an increase in car sales and an expansion of “My Car, My Cash” loan, which offers higher yields than new car loans with 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).



- **Other loans** (largely personal loans and credit card receivables) increased by 8.8% yoy and 3.1% qoq, mainly driven by an increase in credit card consumption and personal loans.

## 2. Deposits

Unit: Baht million

Deposits (Consolidated)	Jun 30, 17	%	Mar 31, 17	%	% qoq	Dec 31, 16	%	% ytd	Jun 30, 16	%	% yoy
Demand	68,663	3.3%	71,244	3.5%	-3.6%	61,585	3.0%	11.5%	59,121	3.2%	16.1%
Savings	1,246,400	60.6%	1,194,547	59.0%	4.3%	1,148,768	56.7%	8.5%	1,109,532	59.3%	12.3%
Fixed	741,801	36.1%	758,316	37.5%	-2.2%	815,919	40.3%	-9.1%	702,429	37.5%	5.6%
- Less than 6 months	165,632	8.1%	166,488	8.2%	-0.5%	201,141	9.9%	-17.7%	185,486	9.9%	-10.7%
- 6 months and up to 1 year	257,446	12.5%	330,054	16.3%	-22.0%	392,309	19.4%	-34.4%	347,534	18.6%	-25.9%
- Over 1 year	318,723	15.5%	261,774	12.9%	21.8%	222,469	11.0%	43.3%	169,409	9.1%	88.1%
Negotiable Certificate of Deposit	500	0.0%	500	0.0%	0.0%	-	0.0%	100.0%	-	0.0%	100.0%
<b>Total deposits</b>	<b>2,057,364</b>	<b>100.0%</b>	<b>2,024,607</b>	<b>100.0%</b>	<b>1.6%</b>	<b>2,026,272</b>	<b>100.0%</b>	<b>1.5%</b>	<b>1,871,082</b>	<b>100.0%</b>	<b>10.0%</b>
Gross loans to deposits ratio	95.8%		96.4%			95.7%			99.5%		
CASA - Current & Savings Accounts (%)	63.9%		62.5%			59.7%			62.5%		

As of June 30, 2017, total **deposits** stood at Baht 2,057 billion, a 10.0% yoy increase from the end of June 2016. The yoy increase mainly came from higher savings and current deposits, following the Bank’s strategy

to increase the proportion of low cost deposits (CASA). Consequently, the Bank's CASA stood at 63.9% at the end of June 2017 which went up both yoy and qoq.

As loans grew by 5.8% yoy while deposits rose by 10.0% yoy, the loan-to-deposit ratio on a consolidated basis declined to 95.8% at the end of June 2017 from 99.5% at the end of June 2016. Furthermore, the Bank's liquidity ratio stood at a high level of 30.0%. In this regard, 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 find adequate funding sources to facilitate loan growth at acceptable costs. 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 taken.

### **3. Shareholders' equity**

As of June 30, 2017, shareholders' equity stood at Baht 347 billion, an 8.3% yoy increase from the end of June 2016, driven by net profit over the year. Net profit was appropriated for the interim dividend payment of Baht 1.50 per share in accordance with the resolution of the Board of Directors meeting in August 2016, and the dividend payment of Baht 4.00 per share in accordance with the resolution of the Annual General Meeting of Shareholders in April 2017. On a quarter-on-quarter basis, shareholders' equity remained relatively stable, which resulted from net profit over the period after dividend payment in April 2017.

The book value per share as of June 30, 2017 was Baht 102.00 (3,399 million ordinary and preferred shares at the end of June 2017), up by 8.3% yoy from Baht 94.20 at the end of June 2016 but relatively flat from the end of March 2017, for the reasons stated above.

### III. Statutory Capital

From January 1, 2016, the Bank of Thailand (BOT) requires commercial banks to hold a capital conservation buffer according to Basel III. This additional capital requirement is to be added gradually to the Common Equity Tier 1 capital requirement at the rate of 0.625% p.a. until reaching the 2.5% target in 2019.

Minimum regulatory capital requirement (%)	2016	2017	2018	2019
Common Equity Tier-1	5.125%	5.75%	6.375%	7.00%
Tier-1 capital	6.625%	7.25%	7.875%	8.50%
Total capital	9.125%	9.75%	10.375%	11.00%

The Bank's total capital ratios under Basel III at the end of June 2017 are shown in the table below.

Statutory Capital under Basel III* (As of June 30, 2017)	Consolidated	Bank-only
Common Equity Tier-1 / Tier 1	15.3%	14.7%
Tier-2 capital	2.1%	2.1%
Total capital	17.4%	16.8%

\* If net profit for 1H17 was included, the total capital ratio and CET1 capital ratio on a consolidated basis would have been 18.4% and 16.4% and on bank-only basis would have been 17.9% and 15.8%.

The Bank believes that its strong capital position, which is currently well above the minimum regulatory requirement, together with higher loan loss provisions will enable the Bank to withstand any adverse shocks, be it Bank-specific or economy-wide. Also, its strong capital position will facilitate the Bank to pursue any future growth opportunities.

Statutory Capital (Consolidated Supervision)		Jun 30, 17	Dec 31, 16	Jun 30, 16
Common Equity Tier-1 / Tier 1*	Baht million	308,097	294,566	282,959
	% of RWA	15.3%	14.8%	14.6%
Tier-2 capital	Baht million	42,046	57,752	56,927
	% of RWA	2.1%	2.9%	2.9%
Total capital	Baht million	350,143	352,318	339,886
	% of RWA	17.4%	17.7%	17.5%
Risk-weighted assets	Baht million	2,014,257	1,986,927	1,939,785
Statutory Capital (Bank only)		Jun 30, 17	Dec 31, 16	Jun 30, 16
Common Equity Tier-1 / Tier 1*	Baht million	286,268	280,108	265,721
	% of RWA	14.7%	14.5%	14.2%
Tier-2 capital	Baht million	41,334	57,165	56,299
	% of RWA	2.1%	2.9%	3.0%
Total capital	Baht million	327,602	337,273	322,020
	% of RWA	16.8%	17.4%	17.2%
Risk-weighted assets	Baht million	1,951,115	1,933,848	1,875,997

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

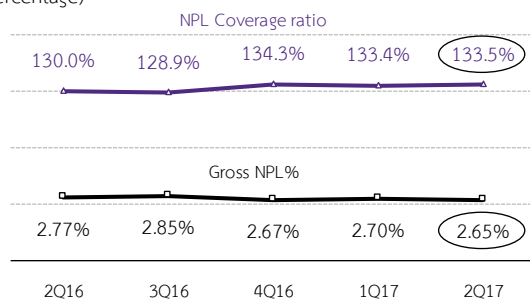
#### IV. Non-Performing Assets

At the end of June 2017, gross NPLs on a consolidated basis stood at 2.65% of total loans, declining from 2.77% of total loans at the end of June 2016, largely from corporate segment. However, NPLs from the SME segment and from housing loans for self-employed borrowers continued to increase given slow economic recovery in Thailand.

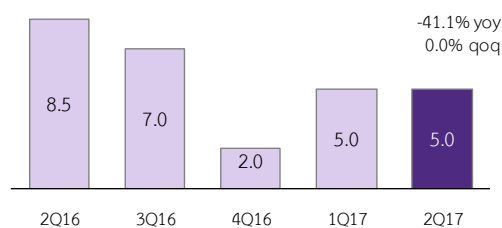
Non-Performing Loans and Allowance (Consolidated)		Jun 30, 17	Mar 31, 17	Dec 31, 16	Jun 30, 16
Non-Performing Loans (Gross NPLs)	% of total loans	<b>2.65%</b>	<b>2.70%</b>	<b>2.67%</b>	<b>2.77%</b>
	Baht million	61,151	59,649	57,593	57,076
Non-Performing Loans (Net NPLs)	% of total loans	<b>1.31%</b>	<b>1.42%</b>	<b>1.38%</b>	<b>1.28%</b>
	Baht million	29,790	30,959	29,309	25,943
Allowance for doubtful accounts and debt restructuring <sup>1</sup>	Baht million	81,663	79,545	77,357	74,205
Total allowance to NPLs		133.5%	133.4%	134.3%	130.0%

<sup>1</sup> Excluding interbank and money market items.

Gross NPL ratio & NPL Coverage ratio  
(Percentage)



Provisions  
(Consolidated, Baht billion)



NPL by Segment and by Product

	2Q16	3Q16	4Q16	1Q17	2Q17
Corporate	3.3%	3.4%	2.3%	2.3%	2.3%
SME	5.1%	5.2%	6.4%	6.5%	7.2%
Retail	2.0%	2.2%	2.1%	2.3%	2.1%
Housing loans	2.1%	2.4%	2.2%	2.6%	2.3%
Auto loans	1.8%	1.9%	1.8%	1.6%	1.7%

	2Q16	3Q16	4Q16	1Q17	2Q17
Credit Costs (bps)	184	149	41	103	102

Allowance for doubtful accounts (on a consolidated basis) as of June 30, 2017 stood at Baht 81.7 billion, a 2.7% qoq increase from Baht 79.5 billion at the end of March 2017. The coverage ratio (total allowance to non-performing loans) was 133.5%, rising slightly from 133.4% at the end of March 2017 and from 130.0% at the end of June 2016.

Gross NPLs on a bank-only basis stood at Baht 60.1 billion (2.63% of total loans) at the end of June 2017, an increase from Baht 58.6 billion (2.68% of total loans) at the end of March 2017.

**Special mention** loans stood at Baht 45.8 billion at the end of June 2017, a significant increase of 35.8% yoy from the end of June 2016. The yoy increase was mainly driven by one large corporate loan being reclassified from non-performing to special mention loan in December 2016. On a quarter-on-quarter basis, special mention loans increased by 4.7%, mainly driven by housing loans.

Unit: Baht million

Classified Loans and	Jun 30, 17		Mar 31, 17		Dec 31, 16		Jun 30, 16	
	Loan and accrued interest	Allowance for doubtful accounts	Loan and accrued interest	Allowance for doubtful accounts	Loan and accrued interest	Allowance for doubtful accounts	Loan and accrued interest	Allowance for doubtful accounts
Normal	1,867,016	19,369	1,852,387	19,379	1,840,936	19,184	1,775,038	18,548
Special mention	45,805	3,207	43,742	2,962	44,618	3,000	33,718	2,796
Substandard	18,429	8,441	17,463	6,886	20,698	9,654	11,705	5,295
Doubtful	11,356	4,425	14,390	5,949	9,707	3,153	20,677	11,983
Doubtful loss	31,400	18,680	27,824	16,004	27,217	15,641	24,750	14,037
<b>Total</b>	<b>1,974,006</b>	<b>54,122</b>	<b>1,955,806</b>	<b>51,180</b>	<b>1,943,176</b>	<b>50,632</b>	<b>1,865,888</b>	<b>52,659</b>
Allowance established in excess of BOT regulations		23,178		24,359		22,721		21,187
<b>Total allowance</b>		<b>77,300</b>		<b>75,539</b>		<b>73,353</b>		<b>73,846</b>

In 2Q17, new NPL formation was at 0.45%, edging up slightly from 0.41% in 1Q17, which was mainly driven by SME's new NPL.

**New NPLs by Segment and by Product**

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
<b>Total loans</b>	0.44%	0.40%	1.18% <sup>3/</sup>	0.50%	0.41%	0.40%	0.50%	0.52%	0.41%	0.45%
<b>Corporate</b>	0.24%	0.05%	2.28% <sup>3/</sup>	0.14%	0.05%	0.00%	0.28%	0.18%	0.04%	0.03%
<b>SME</b>	0.78%	1.03%	0.94%	1.04%	0.86%	0.60%	0.70%	1.08%	0.60%	1.02%
<b>Housing loans</b> <sup>1/</sup>	0.29%	0.35%	0.68%	0.55%	0.51%	0.65%	0.68%	0.61%	0.76%	0.70%
<b>Auto loans</b> <sup>2/</sup>	0.70%	0.60%	0.58%	0.56%	0.41%	0.43%	0.40%	0.50%	0.41%	0.50%
<b>New NPLs (Baht billion)</b>	8.8	8.3	24.3 <sup>3/</sup>	10.1	8.6	8.2	10.8	11.2	9.1	10.4

<sup>1/</sup> 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.

<sup>2/</sup> 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.

<sup>3/</sup> 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, 2017, deposits accounted for 68.5% of SCB's funding base. Other major sources of funds were: 11.5% from shareholders' equity, 7.8% from liabilities under insurance contracts recorded by the Bank's insurance subsidiary (SCB Life Assurance PCL), 5.0% from interbank borrowings, and 3.3% from the issuance of debt instruments. As of June 30, 2017, the funds were deployed as follows: 65.6% for loans, 19.0% for investments in securities, 12.0% for interbank and money markets lending, and 1.2% held in cash.

## VI. Additional Financial Information

(Baht million, %)

(Consolidated)	Jun 30, 17	Mar 31, 17	% qoq	Jun 30, 16	% yoy
<b>Loans by Sector</b>	<b>1,970,408</b>	<b>1,951,898</b>	<b>0.9%</b>	<b>1,861,719</b>	<b>5.8%</b>
Agricultural and mining	16,397	16,354	0.3%	15,752	4.1%
Manufacturing and commercial	608,839	617,135	-1.3%	591,958	2.9%
Real estate and construction	135,674	133,802	1.4%	140,303	-3.3%
Utilities and services	340,895	323,974	5.2%	273,230	24.8%
Housing loans*	526,673	523,550	0.6%	512,071	2.9%
Other loans	341,930	337,083	1.4%	328,405	4.1%
<b>Investment**</b>	<b>571,933</b>	<b>590,722</b>	<b>-3.2%</b>	<b>559,296</b>	<b>2.3%</b>
Trading securities and securities measured at fair value through P/L	19,066	22,724	-16.1%	36,958	-48.4%
Available-for-sale securities	431,672	445,414	-3.1%	398,401	8.4%
Held-to-maturity securities	119,912	121,149	-1.0%	123,320	-2.8%
General investments	1,283	1,105	16.1%	276	364.9%
Investment in associate	0	330	-100.0%	341	-100.0%
<b>Debt securities in issue and borrowings</b>	<b>98,162</b>	<b>97,984</b>	<b>0.2%</b>	<b>119,366</b>	<b>-17.8%</b>
Bonds	76,659	76,913	-0.3%	78,495	-2.3%
Subordinated bonds	20,000	20,000	0.0%	40,000	-50.0%
Structured notes	1,365	938	45.4%	786	73.5%
Others	138	133	4.4%	85	61.9%
<b>NPL breakdown by status (Bank-only)</b>					
Restructured and being serviced	61.2%	69.5%	-8.3%	64.5%	-3.3%
Under negotiation for restructuring	9.5%	8.3%	1.2%	13.1%	-3.6%
In litigation	11.7%	10.6%	1.1%	11.6%	0.1%
In foreclosure process	17.6%	11.6%	6.0%	10.7%	6.9%
<b>Troubled debt restructured loans</b>	<b>39,169</b>	<b>39,457</b>	<b>-0.7%</b>	<b>34,393</b>	<b>13.9%</b>
Restructured loans which are classified as NPL	11,124	10,257	8.4%	6,233	78.5%
Restructured loans which are not classified as NPL	28,045	29,200	-4.0%	28,160	-0.4%
	<b>2Q17</b>	<b>1Q17</b>	<b>2Q16</b>	<b>1H17</b>	<b>1H16</b>
<b>Yield on loans by segment</b>					
<b>Yield on loans</b>	<b>5.40%</b>	<b>5.44%</b>	<b>5.63%</b>	<b>5.41%</b>	<b>5.66%</b>
Corporate	4.13%	4.14%	4.20%	4.12%	4.22%
SME	5.97%	6.05%	6.28%	6.02%	6.43%
Retail	6.42%	6.45%	6.59%	6.42%	6.59%
Housing loans	5.26%	5.33%	5.58%	5.29%	5.61%
Auto loans	6.37%	6.30%	6.30%	6.35%	6.30%
<b>NPL reduction methodology</b>					
Repayments, auctions, and foreclosures	36.5%	39.0%	44.2%	37.6%	41.9%
Debt restructuring	6.7%	4.7%	10.5%	5.8%	26.7%
NPL sales***	40.1%	39.4%	23.4%	39.8%	15.8%
Write off	16.7%	16.9%	21.9%	16.8%	15.6%

\* 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, 2017, March 31, 2017 and June 30, 2016, was Baht 612 billion, Baht 609 billion, and Baht 596 billion, respectively.

\*\* 81.6% 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 4.6 billion in 2Q17, Baht 4.0 billion in 1Q17 and Baht 1.9 billion in 2Q16.



## VII. Credit Ratings

Credit Ratings of Siam Commercial Bank PCL	June 30, 2017
<b>Moody's Investors Service</b>	
Outlook	Stable
Bank deposits	Baa1/P-2
Senior unsecured MTN	(P) Baa1
Other short term	(P) P-2
<b>S&amp;P Global Ratings</b>	
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
<b>Fitch Ratings</b>	
<b>Foreign Currency</b>	
Long Term Issuer Default Rating	BBB+
Short Term Issuer Default Rating	F2
Outlook	Stable
Senior Unsecured	BBB+
Viability Rating	bbb+
<b>National</b>	
Long Term Rating	AA+(tha)
Short Term Rating	F1+(tha)
Outlook	Stable
Subordinated Debenture	AA(th)
<b>Capital Intelligence</b>	
Long Term Issuer Default Rating	BBB+
Short Term Issuer Default Rating	A2
Financial Strength	A-
Outlook	Stable