

SCB
ไทยพาณิชย์



Management Discussion and Analysis

For the first quarter ended March 31, 2019

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1. Executive Summary

Siam Commercial Bank and its subsidiaries reported (reviewed) consolidated net profit of Baht 9.2 billion for the first quarter of 2019. Though net profit was down 19% yoy mainly from a one-time increase in personnel-related expenses (severance pay) necessitated by the amended labor law, the qoq change showed a 29% increase driven by improvements in some key areas.

On the back of 3% yoy loan growth, net interest income (NII) grew 6% yoy but decreased slightly by 0.3% qoq to Baht 24.7 billion as a result of the Bank's efforts to rebalance its loan portfolio and expand high margin lending business.

Non-NII improved 10% qoq mainly driven by an increase in trading & FX income. Moreover, resumption of positive net insurance premium also contributed to strong non-NII for this quarter.

Operating expenses rose 10% yoy and 11% qoq to Baht 17.8 billion due to a one-time increase in personnel-related expenses of Baht 1.4 billion to comply with the amended labor law. Excluding the one-time expenses, the cost-to-income ratio would be 47.5% which is lower than 47.7% in the previous quarter. Overall, the Bank's expense growth, excluding the one-time expense, was well contained at merely 1% yoy and 2% qoq.

In the first quarter of 2019, asset quality continued to strengthen with a decline in non-performing loans (NPLs) and further improvement in NPL ratio to 2.77% from 2.85% in the previous quarter. In light of the additional provisions provided in the last quarter, the Bank set aside Baht 5.4 billion of provisions or 102 bps in credit cost to ensure an adequate level of buffer against the current growth momentum. NPL coverage ratio also strengthened to 152.8% compared with 146.7% in the previous quarter and the Bank's capital adequacy ratio remained strong at 17.1%.

2. Thailand's Economic Outlook

The first quarter of 2019 saw deceleration in the overall economic growth owing to a drop in exports. The value of Thai exports in US dollar calculated on the balance of payments basis fell by 3.6% during the first quarter of 2019, compared to the 2.3% growth in the previous quarter. Contraction in exports was caused by global economic slowdown and the US-China trade war tensions. The impact of Thai export slump has already been felt on domestic economic activities with manufacturing production and export-related private investment contracting during the first quarter of 2019. In addition, the tourism sector saw waning growth as the number of inbound international tourist arrivals merely increased by 1.5% during the first quarter of 2019, compared to the 4.3% growth in the previous quarter. The small percentage increase was largely due to a high base number of Chinese and European tourist arrivals during the same period the year earlier.

Private consumption also slowed during the first quarter of 2019 following weak spending in other major categories, despite a boost from the economic stimulus measures. The Bank of Thailand's private consumption index grew at 3.5% in the first quarter of 2019, down from 4.5% in the previous quarter, following weakened demand for durable goods, non-durable goods, and service. The main reasons for slower consumption growth were continuing decline in farm income which fell further by 0.3% from 0.7% in the previous quarter as well as high household debt levels at 78.6% of GDP at the end of 2018. As such, private consumption has not picked up even with the support from the government's economic stimulus measures, especially the welfare card money transfer scheme valued at Baht 20 billion in addition to pre-election spending.

Siam Commercial Bank's Economic Intelligence Center (SCB EIC) revises its forecast for Thai economic growth in 2019 down to 3.6% from the previous forecast of 3.8% to reflect the negative pressure from weaker exports. Global economic growth fell short of expectation with heightened risk of a synchronized slowdown. Trade wars and tightening global financial conditions, especially during the latter half of 2018, continued to hamper trade and foreign investment. Given these factors, SCB EIC revises its forecast for Thai export growth in 2019 down to 2.7% from the previous estimate of 3.4% with an expectation that private investment will also show sign of a further slowdown. Furthermore, domestic political uncertainty could put additional pressure on private investment as businesses delay investment decisions which in turn affect overall production and private consumption.

Nonetheless, Thai economic growth is expected to improve in the second half of 2019. Exports should gradually pick up once the global economy is on the path of recovery as a result of more accommodative monetary policy in the US, Europe, and Japan in addition to the positive impact from Chinese economic stimulus which will be more evident in the second half of 2019. Similarly, a rebound in the tourism sector is expected to continue with a solid growth forecast for the second half of 2019 given a low base number following the Phuket boat accident last year. Furthermore, the Thai government has planned to implement an economic stimulus measure worth Baht 21 billion during mid-2019 to promote economic recovery. Other positive factors for the second half of 2019 are increasing

likelihood of mega-project public investment and greater political stability, which will increase private consumption and investment.

But the Thai economy could still face major risks from global economic uncertainty and domestic political instability. Global economic slowdown may deepen further from various sources of uncertainty and vulnerability, be it a protracted trade war that may intensify, a return of tightening global financial conditions, and high debt burden in some countries, such as business sectors in China and the US. There are also country-specific risks, such as the uncertainty surrounding Brexit which will affect the UK and Eurozone economy along with increasing financial market volatility. Moreover, other key issues to monitor closely are Thailand's political uncertainty and the stability of the new government which will determine success and failure of government policy implementation and influence private investment decisions and consumer spending.

The Monetary Policy Committee (MPC) is expected to maintain policy interest rate at 1.75% throughout 2019. The Thai economy appears to be more sluggish than the MPC has anticipated due to greater external and internal uncertainties. Moreover, headline inflation remained low at an average rate of 0.7% in the first quarter of 2019 with SCB EIC forecast of 0.9% for 2019. Since inflation is expected to be below the lower bound of the monetary policy target, MPC is unlikely to raise policy rate in 2019.

3. Management Discussion and Analysis

For the first quarter ended March 31, 2019

Siam Commercial Bank PCL reported (reviewed) consolidated **net profit** of Baht 9,157 million for the first quarter of 2019, a 19.4% yoy decrease from Baht 11,364 million in 1Q18. Lower net profit was primarily due to one-time employee expenses necessitated by the amended labor law, lower net fee income from the digital transaction fee waiver and higher provisions. **Total operating income** decreased by 2.3% yoy due to lower net fee income and lower net gain on trading despite higher net interest income.

On a **quarter-on-quarter** basis, however, net profit increased 29.3% qoq to Baht 9,157 million in 1Q19 due to provisions reverting to the normal level as the Bank booked additional prudent provisions in 4Q18. Other factors such as higher net insurance premiums and higher net gain on trading also contributed to a qoq rise in net profit despite higher operating expenses. Excluding the one-time expenses, net profit would be Baht 10,277 million in 1Q19, up 45.1% qoq.

Net Profit and Total Comprehensive Income

Consolidated	1Q19	4Q18	% qoq	1Q18	% yoy
Unit: Baht million					
Net interest income	24,713	24,798	-0.3%	23,332	5.9%
Non-interest income	9,857	8,983	9.7%	12,046	-18.2%
Total operating income	34,570	33,781	2.3%	35,378	-2.3%
Operating expenses	17,835	16,129	10.6%	16,230	9.9%
Operating profit	16,735	17,652	-5.2%	19,148	-12.6%
Impairment loss on loans and debt securities	5,420	8,871	-38.9%	5,012	8.2%
Income tax	2,155	1,704	26.5%	2,758	-21.8%
Non-controlling interests	3	(6)	NM	15	-80.5%
Net profit (attributable to shareholders of the Bank)	9,157	7,084	29.3%	11,364	-19.4%
Other comprehensive income (loss)	2,239	220	917.7%	(1,819)	NM
Total comprehensive income	11,395	7,304	56.0%	9,546	19.4%
ROAE	9.5%	7.5%		12.3%	
ROAA	1.1%	0.9%		1.5%	

NM denotes "not meaningful"

Share Information

Unit: Baht	1Q19	4Q18	% qoq	1Q18	% yoy
EPS	2.69	2.08	29.3%	3.34	-19.4%
BVPS	115.15	111.80	3.0%	109.73	4.9%
Closing price	132.00	133.50	-1.1%	143.00	-7.7%
Shares outstanding* (Million shares)	3,399	3,399	0.0%	3,399	0.0%
Market capitalization (Baht billion)	448.7	453.8	-1.1%	486.1	-7.7%

* Include both common and preferred shares

Income Statement for the first quarter ended March 31, 2019 (Consolidated basis)

Net interest income

Consolidated Unit: Baht million	1Q19	4Q18	% qoq	1Q18	% yoy
Interest income	33,455	33,331	0.4%	31,288	6.9%
Loans	24,895	25,113	-0.9%	23,761	4.8%
Interbank and money markets	1,542	1,594	-3.2%	1,286	20.0%
Financial leases	3,204	3,125	2.5%	2,848	12.5%
Investments	3,792	3,468	9.3%	3,370	12.5%
Others	22	30	-27.0%	24	-6.4%
Interest expenses	8,742	8,533	2.4%	7,956	9.9%
Deposits	4,703	4,781	-1.6%	4,472	5.2%
Interbank and money markets	417	373	11.7%	402	3.7%
Borrowings	1,073	859	24.9%	618	73.6%
Contribution to the Deposit Protection Agency & FIDF	2,481	2,474	0.3%	2,408	3.0%
Others	67	46	45.6%	56	20.1%
Net interest income	24,713	24,798	-0.3%	23,332	5.9%

- **Net interest income** in 1Q19 increased by 5.9% yoy to Baht 24,713 million due to loan growth of 3.0% yoy and improved yield on loans following the Bank's strategy to grow high margin loans. Furthermore, the Bank's disciplined approach to corporate and mortgage lending also contributed to the increase in net interest income. However, interest expenses also increased by 9.9% yoy from deposit growth and borrowings as the Bank issued senior unsecured notes of USD 1 billion in 1Q19. The bond offering attracted strong demand from foreign institutional investors marking one of the largest orderbooks for Thai financial institutions in the recent years.
- On a **quarter-on-quarter** basis, net interest income decreased slightly by 0.3% qoq due to higher interest expense on borrowings and a 0.7% qoq decrease in loan volume as the Bank maintained discipline on corporate lending while high margin lending only started to gear up.

Yield and cost of funding

Consolidated	1Q19	4Q18	3Q18	2Q18	1Q18
Unit: Percentage					
Net interest margin	3.20%	3.26%	3.26%	3.21%	3.18%
Yield on earning assets	4.33%	4.38%	4.34%	4.31%	4.26%
Yield on loans	5.27%	5.32%	5.30%	5.25%	5.19%
Yield on interbank and money market	1.68%	1.58%	1.30%	1.53%	1.57%
Yield on investment	2.34%	2.68%	2.66%	2.43%	2.42%
Cost of funds*	1.45%	1.44%	1.40%	1.40%	1.39%
Cost of deposits**	1.33%	1.35%	1.30%	1.31%	1.31%

Note Profitability ratios use the average of the beginning and ending balances as the denominator. On a daily average basis, NIM and yield on loans in 1Q19 expanded by 2 bps qoq and 6 bps qoq, respectively, while cost of deposits increased by 2 bps qoq.

* 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.

SCB Interest Rates	May 21, 15	Jul 20, 15	Dec 21, 15	Mar 1, 16	Apr 7, 16	Apr 25, 16	Oct 12, 16	May 16, 17	Jan 4, 19
Lending rate (%)									
MLR	6.525	6.525	6.525	6.525	6.275	6.275	6.275	6.025	6.025
MOR	7.40	7.37	7.37	7.37	7.37	7.12	7.12	6.87	6.87
MRR	7.82	7.87	7.87	7.87	7.87	7.62	7.62	7.37	7.37
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	0.90	0.90-1.60	0.90	0.90	0.90	0.90	0.90	0.90-1.15
6-month deposits	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15-1.40
12-month deposits	1.50	1.50	1.30	1.30	1.30	1.30	1.40	1.40	1.40-1.65
Policy rate (%)									
Nov 30, 11	3.25	3.00	2.75	2.50	2.25	2.00	1.75	1.50	1.75

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

Non-interest income

Consolidated	1Q19	4Q18	% qoq	1Q18	% yoy
Unit: Baht million					
Net fee and service income	6,668	6,700	-0.5%	8,145	-18.1%
Fee and service income	8,956	9,025	-0.8%	10,042	-10.8%
Fee and service expenses	2,288	2,324	-1.5%	1,898	20.6%
Net insurance premiums	274	(273)	NM	606	-54.7%
Net earned insurance premiums	13,544	11,343	19.4%	13,697	-1.1%
Net insurance claims	13,269	11,616	14.2%	13,091	1.4%
Net fee and insurance premium	6,942	6,428	8.0%	8,750	-20.7%
Net gain on trading	1,947	1,462	33.1%	2,582	-24.6%
Share of profit (loss) from investment in associate	31	(120)	NM	0	NM
Dividend income	186	126	47.3%	293	-36.6%
Other income	96	156	-38.6%	90	6.1%
Non-interest income excluding net gain on investments	9,201	8,052	14.3%	11,715	-21.5%
Net gain on investments	655	931	-29.6%	331	97.9%
Total non-interest income	9,857	8,983	9.7%	12,046	-18.2%

NM denotes "not meaningful"

- **Non-interest income** decreased by 18.2% yoy to Baht 9,857 million in 1Q19 mainly due to lower net fee income from the digital transaction fee waiver initiated in late March 2018 and lower net gain on trading. The above decline was partly offset by higher net gain on investments.
- On a **quarter-on-quarter** basis, non-interest income increased by 9.7% qoq mainly due to higher net gain on trading and resumption of positive net insurance premium.

Net fee income breakdown

Consolidated	1Q19	4Q18	% qoq	1Q18	% yoy
Unit: Baht million					
Net Fee and Service Income	6,668	6,700	-0.5%	8,145	-18.1%
Bank cards	2,051	2,112	-2.9%	1,955	4.9%
GMTS*	1,194	1,182	1.0%	1,435	-16.8%
Bancassurance fee	616	623	-1.2%	750	-17.9%
Mutual fund	1,336	1,357	-1.6%	1,872	-28.6%
Loan related fee	651	674	-3.3%	794	-18.0%
Others**	820	752	9.1%	1,339	-38.8%

* GMTS stands for Global Markets and Transaction Services, which includes cash management, trade finance, corporate finance and corporate trust.

** Others include brokerage fee, fund transfer and remittance.

Operating expenses

Consolidated	1Q19	4Q18	% qoq	1Q18	% yoy
Unit: Baht million					
Employee expenses	9,209	7,290	26.3%	7,448	23.6%
Premises and equipment expenses	3,313	3,549	-6.7%	3,138	5.6%
Taxes and duties	1,153	1,153	-0.1%	1,099	4.9%
Directors' remuneration	26	26	0.1%	26	3.1%
Other expenses	4,134	4,111	0.6%	4,518	-8.5%
Total operating expenses	17,835	16,129	10.6%	16,230	9.9%
Cost to income ratio	51.6%*	47.7%		45.9%	

* Excluding one-time expenses, the cost-to-income ratio would be 47.5%.

- **Operating expenses** increased by 9.9% yoy to Baht 17,835 million in 1Q19 primarily due to one-time employee expenses (Baht 1.4 billion) necessitated by the amended labor law, higher staff costs from annual salary adjustments as well as higher premises and equipment expenses reflecting higher depreciation from the Bank's transformation program. Excluding the one-time expenses, the operating expenses would increase by 1.3% yoy.
- On a **quarter-on-quarter** basis, operating expenses increased by 10.6% qoq due to a one-time increase in employee expenses as mentioned earlier. Excluding the one-time expenses, the operating expenses would be higher by 1.9% qoq.

As a result of higher OPEX, cost-to-income ratio increased to 51.6% in 1Q19. If the one-time expenses from the new labor law were excluded, the cost-to-income ratio would be 47.5%, a decline from the levels seen in 4Q18 which is an indication that the Bank's expense growth was well contained and the Bank has entered a lower investment cycle of the Transformation Program starting in 2019.

As the Bank continues to reap the benefits from investments in the Transformation Program including the ongoing migration of transactions to digital channels, the cost-to-income ratio is expected to improve further with branch network redesign and people reallocation to revenue generating roles.

Impairment loss on loans and debt securities

Consolidated	1Q19	4Q18	% qoq	1Q18	% yoy
Unit: Baht million					
Impairment loss on loans and debt securities	5,420	8,871	-38.9%	5,012	8.2%
Credit cost (bps)	102	167		98	
Coverage ratio	152.8%	146.7%		141.9%	

- In 1Q19, **impairment loss on loans and debt securities** was set at Baht 5,420 million or 102 bps of total loans, which was lower than the Bank's 2019 target of 115-135, given that high margin lending only started to ramp up in 1Q19. Higher level of provisions and lower NPLs raised the Bank's coverage ratio to 152.8% in 1Q19 from 146.7% in 2018.

Balance sheet as of March 31, 2019 (Consolidated basis)

As of March 31, 2019, the Bank's total assets stood at Baht 3,200 billion, an increase of 4.7% yoy. Details on the consolidated balance sheets are provided in the following sections:

Loans

By Segment (Consolidated) Unit: Baht million	Mar 31, 19	Dec 31, 18	% qoq	Mar 31, 18 (Restated)	% yoy
Corporate*	797,283	830,586	-4.0%	804,068	-0.8%
SME*	340,496	341,305	-0.2%	341,789	-0.4%
Retail	988,504	968,670	2.0%	917,594	7.7%
Housing loans**	654,500	644,508	1.6%	632,463	3.5%
Auto loans	213,142	203,075	5.0%	187,084	13.9%
Other loans	120,862	121,087	-0.2%	98,048	23.3%
Total loans	2,126,283	2,140,561	-0.7%	2,063,451	3.0%

* In 2Q18, some SME customers experienced sales turnover growth and were reclassified as Corporate loans. Data for March 31, 2018 are restated figures.

** Including all home mortgage loans, some of which are from segments other than retail. This is different from the sectorial loans listed on Additional Financial Information section.

Total loans (net of deferred revenue) in 1Q19 grew at 3.0% yoy primarily because of strong growth in the retail segment, especially in high margin loans. However, loan volume contracted slightly qoq following the Bank's strategy to rebalance its loan portfolio to achieve optimal balance sheet risk-return and efficiency.

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

- **Corporate** loans fell 0.8% yoy and 4.0% qoq mainly from scheduled loan repayments.
- **SME** loans declined slightly by 0.4% yoy and 0.2% qoq due to soft demand for business loans
- **Retail** loans rose 7.7% yoy and 2.0% qoq with strong demand for high margin lending products.
 - **Housing loans** increased 3.5% yoy and 1.6% qoq mainly from My Home, My Cash product (a personal loan product collateralized by borrowers' properties) and a surge in demand prior to the BOT's macroprudential measures taking effect on April 1, 2019).
 - **Auto loans** expanded 13.9% yoy and 5.0% qoq, largely driven by higher car sales and strong demand for My Car, My Cash product (a personal loan product collateralized by borrowers' automobiles).
 - **Other loans** (mostly personal loans and credit card receivables) surged 23.3% yoy, following the Bank's strategy to grow high margin loans. On a quarter-on-quarter basis, other loans fell 0.2% due to a seasonal effect of high credit card spending at the year end being paid off.

Deposits

Consolidated	Mar 31, 19	Dec 31, 18	% qoq	Mar 31, 18	% yoy
Unit: Baht million					
Demand	79,709	68,139	17.0%	72,612	9.8%
Savings	1,406,251	1,418,782	-0.9%	1,352,105	4.0%
Fixed	632,098	672,710	-6.0%	668,068	-5.4%
Less than 6 months	113,007	133,341	-15.2%	137,788	-18.0%
6 months and up to 1 year	165,541	194,939	-15.1%	137,655	20.3%
Over 1 year	353,550	344,430	2.6%	392,625	-10.0%
Total deposits	2,118,058	2,159,631	-1.9%	2,092,785	1.2%
CASA - Current & Savings Accounts (%)	70.2%	68.9%		68.1%	
Gross loans to deposits ratio	100.4%	99.1%		98.6%	
Liquidity ratio (Bank-only)	26.5%	25.0%		25.8%	

As of March 31, 2019, total **deposits** increased 1.2% yoy from both higher current and savings (CASA) deposits, while fixed deposits declined yoy with the end of fixed deposit campaigns. On a quarter-on-quarter basis, total deposits declined 1.9% largely from fixed deposits. This is in line with the Bank's strategy to increase the proportion of low-cost deposit through customer base expansion, being customers' primary bank, and payment ecosystems. As a result, the Bank's CASA proportion further increased to 70.2% at the end of March 2019.

A daily liquidity ratio of 26.5%, as measured by total liquid assets (at a bank-only level) to total deposits, was well above the Bank's minimum threshold of 20%. The loan-to-deposit ratio temporarily reached a 100% level as the Bank is in the process of improving balance sheet efficiency and gradually expanding its CASA base.

Statutory Capital

Pursuant to Basel III guidelines, the Bank of Thailand (BOT) requires all Thai commercial banks to hold a capital conservation buffer from January 1, 2016 onward. This additional capital requirement is to be phased in 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.

Furthermore, the Bank has been classified by the BOT, along with 4 other major Thai commercial banks, as Domestic Systemically Important Banks (D-SIBs) which are required to maintain higher minimum Common Equity Tier 1 capital to provide additional stability and resilience. This 1% Higher Loss Absorbency requirement applied to D-SIBs will be phased in starting at 0.5% in 2019 and increasing to 1.0% in 2020.

The minimum regulatory capital requirements which include the capital conservation buffer and the D-SIBs buffer (Higher Loss Absorbency) are shown in the table below.

Minimum regulatory capital requirement (%)	2016	2017	2018	2019	2020
Common Equity Tier 1	4.50%	4.50%	4.50%	4.50%	4.50%
Tier 1 capital	6.00%	6.00%	6.00%	6.00%	6.00%
Total capital	8.50%	8.50%	8.50%	8.50%	8.50%
<u>Additional buffers</u>					
Capital Conservation Buffer	0.625%	1.25%	1.875%	2.50%	2.50%
D-SIB Buffer	-	-	-	0.50%	1.00%
Common Equity Tier 1	5.125%	5.75%	6.375%	7.50%	8.00%
Tier 1 capital	6.625%	7.25%	7.875%	9.00%	9.50%
Total capital	9.125%	9.75%	10.375%	11.50%	12.00%

Both current and upcoming regulatory changes have been incorporated into the Bank's long-term capital management plan well in advance. The Bank believes that its strong capital position, which is currently above the minimum regulatory requirement, together with high loan loss provisions will enable the Bank to withstand any adverse shocks, be it Bank-specific or economy-wide. Additionally, its strong capital position will also enable the Bank to pursue any future growth opportunities.

The table below shows the Bank's total capital ratios under Basel III at the end of March 2019.

Unit: Baht million, %	Consolidated			Bank-only		
	Mar 31, 19	Dec 31, 18	Mar 31, 18	Mar 31, 19	Dec 31, 18	Mar 31, 18
Statutory Capital						
Common Equity Tier 1/ Tier 1*	325,713	326,679	314,581	305,487	305,183	297,224
Tier 2 capital	41,591	43,793	42,909	40,740	42,953	42,129
Total capital	367,304	370,472	357,490	346,227	348,136	339,353
Risk-weighted assets	2,151,899	2,166,374	2,085,530	2,073,217	2,091,071	2,016,547
Capital Adequacy Ratio	17.1%	17.1%	17.1%	16.7%	16.6%	16.8%
Common Equity Tier 1/ Tier 1*	15.2%	15.1%	15.1%	14.7%	14.6%	14.7%
Tier 2 capital	1.9%	2.0%	2.0%	2.0%	2.0%	2.1%

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

Asset Quality

At the end of March 2019, gross NPLs (on a consolidated basis) declined 3.5% qoq from the previous quarter to Baht 67.9 billion mainly due to a disciplined approach to write-offs and NPL sales. The new NPL formation rose slightly in the first quarter of 2019. As a result, gross NPL ratio declined from 2.85% to 2.77% and coverage ratio improved to 152.8%.

Unit: Baht million, %	Mar 31, 19	Dec 31, 18	Sep 30, 18	Jun 30, 18	Mar 31, 18
Consolidated					
Non-Performing Loans (Gross NPLs)	67,904	70,389	69,762	67,391	65,840
Gross NPL ratio	2.77%	2.85%	2.80%	2.81%	2.77%
Non-Performing Loans (Net NPLs)	33,836	35,699	37,075	36,281	35,929
Net NPL ratio	1.40%	1.47%	1.51%	1.53%	1.53%
<u>Gross NPL ratio by segment/product</u>					
Corporate	2.16%	2.16%	1.90%	1.70%	1.77%
SME	7.82%	7.97%	8.51%	8.25%	8.24%
Retail	2.43%	2.60%	2.64%	2.67%	2.55%
Housing loans	2.87%	3.13%	3.17%	3.21%	3.01%
Auto loans	1.74%	1.80%	1.71%	1.67%	1.69%
Allowance for doubtful accounts and debt restructuring*	103,725	103,273	99,438	96,697	93,443
Total allowance to NPLs (Coverage ratio)	152.8%	146.7%	142.5%	143.5%	141.9%
Credit cost (Quarterly, bps)	102	167	98	96	98
Bank-only					
Non-Performing Loans (Gross NPLs)	66,914	69,383	68,756	66,374	64,817
Gross NPL ratio	2.76%	2.84%	2.78%	2.80%	2.75%
Non-Performing Loans (Net NPLs)	33,550	35,406	36,780	35,982	35,626
Net NPL ratio	1.40%	1.47%	1.51%	1.53%	1.53%

* Excluding interbank and money market items.

Consolidated Unit: Baht million	Mar 31, 19		Dec 31, 18		Mar 31, 18	
	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	2,005,001	20,525	2,019,500	20,661	1,952,900	20,247
Special mention	57,381	3,413	53,968	3,500	48,628	3,065
Substandard	19,392	9,838	23,034	12,831	14,720	6,448
Doubtful	13,702	4,959	13,246	4,318	13,380	4,538
Doubtful loss	34,856	19,505	34,147	17,902	37,773	19,277
Total	2,130,332	58,240	2,143,895	59,212	2,067,401	53,575
Allowance established in excess of BOT regulations		41,568		40,193		35,588
Total allowance		99,808		99,405		89,163

Special mention loans increased 6.3% qoq mainly from qualitative loan classification of one corporate customer in the mining industry in 1Q19.

New NPLs by Segment and by Product

	2019	2018				2017				2016			
	1Q19	4Q18	3Q18	2Q18	1Q18	4Q17	3Q17	2Q17	1Q17	4Q16	3Q16	2Q16	1Q16
Total loans	0.50%	0.48%	0.49%	0.44%	0.41%	0.49%	0.38%	0.45%	0.41%	0.52%	0.50%	0.40%	0.41%
Corporate*	0.12%	0.14%	0.25%	0.02%	0.06%	0.09%	0.01%	0.03%	0.03%	0.18%	0.28%	0.00%	0.05%
SME*	0.99%	0.68%	0.73%	0.68%	0.79%	0.67%	0.58%	1.08%	0.63%	1.08%	0.70%	0.60%	0.86%
Housing loans**	0.76%	0.85%	0.81%	0.93%	0.70%	0.96%	0.70%	0.70%	0.76%	0.61%	0.68%	0.65%	0.51%
Auto loans***	0.61%	0.67%	0.57%	0.51%	0.43%	0.54%	0.50%	0.50%	0.41%	0.50%	0.40%	0.43%	0.41%
New NPLs (Baht billion)	12.3	11.8	12.2	10.6	9.7	11.4	8.8	10.4	9.1	11.2	10.8	8.2	8.6

* In 2Q18, some SME customers experienced sales turnover growth and were reclassified as Corporate customers. Data as of 1Q17, 2Q17, 3Q17, 4Q17, and 1Q18 are restated figures.

** Most of new NPLs in housing loans were highly concentrated among customers who are self-employed with high levels of leverage and high loan-to-value ratios. The Bank has tightened its underwriting standards for these segments since early 2014.

*** Excluding the cases in which cars had been repossessed before the end of the month on the month that loans were classified as NPL.

In 1Q19, new NPL formation improved qoq across major segments and business areas, except for SME segment which has been facing macroeconomic uncertainties both domestic and abroad.

Sources and Uses of Funds

As of March 31, 2019, deposits accounted for 66.2% of SCB's funding base. Other major sources of funds were: 12.2% from shareholders' equity, 8.8% from liabilities under insurance contracts recorded by the Bank's insurance subsidiary (SCB Life Assurance PCL), 4.8% from interbank borrowings, and 4.2% from debt issuance. Uses of funds for this same period were: 66.4% for loans, 19.3% for investments in securities, 11.1% for interbank and money markets lending, and 1.2% held in cash.

Additional Financial Information

Consolidated	Mar 31, 19	Dec 31, 18	% qoq	Mar 31, 18	% yoy
Unit: Baht million, %					
Loans by Sector	2,126,283	2,140,561	-0.7%	2,063,451	3.0%
Agricultural and mining	17,069	19,798	-13.8%	19,512	-12.5%
Manufacturing and commercial	581,636	610,341	-4.7%	620,797	-6.3%
Real estate and construction	162,971	166,640	-2.2%	154,642	5.4%
Utilities and services	378,264	376,276	0.5%	354,802	6.6%
Housing loans*	558,547	552,772	1.0%	545,647	2.4%
Other loans	427,796	414,734	3.1%	368,051	16.2%
Investment**	618,902	568,901	8.8%	545,318	13.5%
Trading securities and securities measured at fair value through P/L	38,007	13,415	183.3%	23,549	61.4%
Available-for-sale securities	459,001	432,663	6.1%	401,175	14.4%
Held-to-maturity securities	119,679	120,645	-0.8%	119,091	0.5%
General investments	2,137	2,131	0.3%	1,503	42.2%
Investment in associate	78	47	64.9%	0	NM
Debt securities in issue and borrowings	133,347	107,561	24.0%	75,856	75.8%
Bonds	112,486	86,694	29.8%	52,915	112.6%
Subordinated bonds	20,000	20,000	0.0%	20,000	0.0%
Structured notes	615	607	1.3%	2,726	-77.4%
Others	246	260	-5.4%	215	14.4%
NPL breakdown by status (Bank-only)					
Restructured and being serviced	74.5%	75.1%	-0.6%	65.8%	8.7%
Under negotiation for restructuring	5.8%	2.9%	2.9%	5.0%	0.8%
In litigation	7.6%	8.4%	-0.8%	15.0%	-7.4%
In foreclosure process	12.1%	13.6%	-1.5%	14.2%	-2.1%
Troubled debt restructured loans	38,747	33,493	15.7%	34,686	11.7%
Restructured loans which are classified as NPL	12,139	10,257	18.4%	7,800	55.6%
Restructured loans which are not classified as NPL	26,608	23,236	14.5%	26,886	-1.0%
	1Q19	4Q18	3Q18	2Q18	1Q18
Yield on loans	5.27%	5.32%	5.30%	5.25%	5.19%
Corporate	4.17%	4.18%	4.20%	4.13%	3.99%
SME	5.77%	6.00%	5.96%	5.92%	5.90%
Retail	6.17%	6.20%	6.21%	6.18%	6.17%
Housing loans	4.86%	4.95%	4.98%	4.98%	5.03%
Auto loans	6.17%	6.28%	6.33%	6.29%	6.26%
Auto loans portfolio					
New car	56.6%	56.3%	56.4%	56.8%	56.8%
Used car	27.4%	27.3%	27.1%	27.0%	27.0%
My car, My cash	16.1%	16.3%	16.5%	16.2%	16.2%
NPL reduction methodology					
Repayments, auctions, foreclosures and account closed	42.4%	39.0%	56.5%	41.4%	62.6%
Debt restructuring	0.9%	5.0%	7.7%	14.0%	6.1%
NPL sales***	37.3%	44.2%	22.4%	29.3%	17.0%
Write off	19.4%	11.8%	13.3%	15.3%	14.3%

* 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 March 31, 2019, December 31, 2018 and March 31, 2018, was Baht 655 billion, Baht 645 billion, and Baht 632 billion, respectively.

** 85.5% 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 6.7 billion in 1Q19, Baht 9.2 billion in 4Q18, Baht 3.3 billion in 3Q18, Baht 3.0 in 2Q18, and Baht 1.8 billion in 1Q18.

Credit Ratings

Credit Ratings of Siam Commercial Bank PCL		March 31, 2019
Moody's Investors Service		
Outlook		Stable
Bank deposits		Baa1/P-2
Senior unsecured MTN		(P) Baa1
Other short term		(P) P-2
S&P Global Ratings		
Counterparty Credit Rating		BBB+/A-2
Outlook		Stable
Senior Unsecured (Long Term)		BBB+
Senior Unsecured (Short Term)		A-2
Fitch Ratings		
<u>Foreign Currency</u>		
Long Term Issuer Default Rating		BBB+
Short Term Issuer Default Rating		F2
Outlook		Stable
Senior Unsecured		BBB+
Viability Rating		bbb+
<u>National</u>		
Long Term Rating		AA+(tha)
Short Term Rating		F1+(tha)
Outlook		Stable
Subordinated Debenture		AA(thai)

4. Awards and Achievement

(Awards granted during the first quarter of 2019)

Global Finance (U.K.)

- Best Equity Bank in Asia-Pacific

Euromoney-Asiamoney

- Rank No. 1 for Market Leader among Thai banks from “Euromoney-Asiamoney Trade Finance Survey 2019”

The Asset (H.K.)

- Best in Treasury and Working Capital-LLCs
- Best Service Provider-Transaction Bank
- Best Service Provider-Trade Finance
- Best Renminbi Bank
- Best Payments and Collections Solution
- Best Supply Chain Solution
- Editors' Triple Star for Blockchain Solution for Procure-to-Pay (B2P)

Corporate Treasurer (H.K.)

- Best Trade and Supply Chain House in Thailand

Thailand Zocial Awards 2019 by Wisesight (Thailand)

- Best Brand Performance on Social Media by Category “Banking”
- Best Social Media Campaign

Thailand's Most Admired Brand 2019 by BrandAge magazine

- Most Trusted Bank