

SCB
ไทยพาณิชย์



Management Discussion and Analysis

For the second quarter and first half ended June 30, 2019

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1. Executive Summary

Siam Commercial Bank and its subsidiaries announced total operating income of Baht 36.0 billion in the second quarter of 2019, up 4.9% yoy, with the increase largely attributable to robust net interest income (NII) growth. Strong operating profit translated into a 19.9% qoq increase in net profit to Baht 11.0 billion in the second quarter (based on audited consolidated financial statements), although net profit fell slightly by 1.2% yoy. For the first half of 2019, net profit stood at Baht 20.1 billion.

NII in the second quarter rose to Baht 25.5 billion, an increase of 7.1% yoy. Strong NII growth was mainly driven by portfolio re-balancing towards high margin lending in addition to total loan growth of around 3% yoy.

Non-NII increased 0.1% yoy to Baht 10.5 billion despite a decline in SCB Life's insurance business. In addition, Non-NII increased 6.6% qoq as a result of improved recurring fee income as well as higher income from net trading & FX income and net gain on investments.

Expense growth had decelerated in the second quarter largely due to the absence of the one-off provisions to comply with the new labor law. Moreover, the transformation program is near completion and thus bringing the end to the high investment cycle. The underlying cost-to-income ratio improved significantly in this quarter to 46.2% from 51.6% in the first quarter.

Non-performing loan (NPL) ratio remained stable at 2.77% at the end of June 2019. In the second quarter of 2019, the Bank set aside Baht 5.9 billion of provisions or 110 bps in credit cost, bringing NPL coverage ratio to 153%. The Bank's capital adequacy ratio also remained strong at 17.1%.

2. Thailand's Economic Outlook

The Thai economy in the first half of 2019 decelerated as exports shrank from the ongoing trade war. The value of Thai exports in USD (balance of payments basis) fell by 4.1% during the first half of 2019 due to global economic slowdown and intensified US-China trade war. In May 2019, the US escalated the trade tension by raising tariffs on USD 200 billion worth of Chinese products from 10% to 25%. The Thai tourism sector also experienced a slowdown with the number of inbound tourist arrivals growing by only 1.5% during the first half of 2019, compared to 3.1% in the second half of the previous year. Not only had the tourism sector been weakened by the economic slowdown in several countries, stronger Baht currency further compounded the problem by reducing foreign tourists spending per head.

Exports contraction has already begun to affect other related domestic sectors, particularly manufacturing sector and private investment. Manufacturing Production Index (MPI) and Private Investment Index (PII), constructed by the Bank of Thailand (BOT), fell 1.9% and 1.9%, respectively, in the first half of 2019. **However, private consumption continued to grow mainly because of government stimulus measures** as evidenced by the 3.8% growth in the Bank of Thailand's private consumption index (PCI) during the first half of 2019. The key component that drove private consumption growth was non-durable goods, which partially benefited from government stimulus measures both the pre-election measures implemented at the beginning of the year and the mid-year scheme through state welfare card which injected Baht 13.2 billion into the economy.

Siam Commercial Bank's Economic Intelligence Center (EIC) revises its forecast for Thai economic growth in 2019 down to 3.1% from the previous forecast of 3.3% to reflect weakened export, tourism and private investment as a result of the trade war and global economic slowdown. The global economy is likely to remain weak for the rest of the year as both global trade and investment are affected by heightened uncertainty in foreign trade policies worldwide, particularly the recent escalation in US-China trade tensions in May 2019. Against this backdrop of widespread economic slowdown, major central banks have turned more dovish, sending signals indicating easing monetary policies in the near future. However, EIC expects the impacts from the easing monetary policies to be limited, merely preventing the slowdown from worsening. As such, EIC now expects the 2019F Thai export growth to contract by 1.6% (vs. +0.6% previously). Moreover, EIC has also revised the number of tourist arrivals downward to 40.1 million, or 4.8% growth, and expects a slowdown in tourist spending per head due to the economic slowdown in several tourist countries and strong Thai Baht.

While domestic spending slows in response to weak foreign demand, private investment is also likely to experience a slowdown due to falling exports, together with reduced residential construction activities (following stricter Loan to value measures), and low investor confidence over the new coalition government's ability to push through their economic policies. On public investment, EIC expects continuing growth in public construction activities at 7.0% with a drag from purchases of equipment which fell 11.7% yoy in the first quarter. Furthermore, there is additional risk from delays in finalizing the annual expenditure budget for 2020 which may interfere with disbursement for investment

in projects without contingent liabilities and new projects. For private consumption, despite the boost from economic stimulus measures, both those already implemented and those anticipated after a new government is formed, EIC expects private consumption to slow from the previous year and grow at 3.9%. Lower projected growth in private consumption is justified by a slowdown in spending on durable goods (especially after strong vehicle sales in the previous year), a high level of household debt, and employment risk in the manufacturing sector that may be affected by export contraction.

Regarding Thailand's monetary policy, the Monetary Policy Committee (MPC) cut policy rate from 1.75% to 1.50% on Aug 7, 2019 based on the lower-than-expected growth trajectory due to export contraction. In addition, inflation is likely to be below the lower band of monetary policy target this year. **For the rest of 2019, there is a possibility of a further rate cut** since trade war still presents an important risk, coupled with rate cuts by many central banks which put pressure on the Baht currency to appreciate further.

Thai economy is facing both external and domestic risks going forward. External risks stem from trade war which may intensify amid slower-than-expected global economic growth, especially from the Chinese economy. At present, the US president has threatened to impose an additional 10% import tax on USD 300 billion worth of Chinese imports in September 2019 which, if implemented, will cause Thai exports and economic growth to be slower than expected. Moreover, Baht appreciation could further dampen export and tourism sectors. The key domestic risk is the prevailing political instability. The government's slim-majority and the difficulty in reconciling election policies among the coalition parties cast doubts on the government's stability and ability to implement new policies.

3. Management Discussion and Analysis

For the second quarter and first half ended June 30, 2019

Siam Commercial Bank PCL reported (audited) consolidated **net profit** of Baht 10,976 million for the second quarter of 2019, an increase of 19.9% quarter-on-quarter due to higher net interest income, higher net fee income and staff cost reverting back to normal after one-time employee expenses (Baht 1.4 billion) recorded in 1Q19 to comply with the amended labor law.

While net profit decreased slightly 1.2% yoy from Baht 11,111 million in 2Q18, **operating profit** increased by 4.4% yoy due to higher net interest income, higher net gain on trading and higher net gain on investments.

For the **first half of 2019**, net profit stood at Baht 20,132 million, a 10.4% yoy decrease from Baht 22,476 million in 1H18. The main causes of this decline were the one-time employee expenses necessitated by the amended labor law booked in 1Q19, lower net fee income from the digital transaction fee waiver initiated in late 1Q18, higher provisions and lower net insurance premium. However, these negative factors were partly offset by higher net interest income and higher net gain on investments.

Sale of Shares in SCB Life Assurance Public Company Limited and Long-term Bancassurance Partnership with FWD Group Financial Services Pte. Ltd.

On July 1, 2019, the Bank entered into a binding Share Sale Agreement with FWD Group Financial Services Pte. Ltd. (FWD) to sell its entire stake in SCB Life Assurance Public Company Limited (SCB Life). Upon successful closing of the share sale, the Bank will form a business collaboration in life insurance business with FWD and the Bank will offer the life insurance products of FWD and SCB Life to the Bank's customers in Thailand through the Bank's distribution channels for a period of 15 years in accordance with a long-term distribution agreement.

The above-mentioned sale of shares is expected to be completed in the latter part of 2019, subject to the satisfaction of certain conditions specified in the Share Sale Agreement, including approval of the Bank's shareholders*. Subject to completion of the share sale under the term of the relevant agreements, the Bank will receive a total consideration of Baht 92.7 billion along with additional payments common in bancassurance transactions over the course of the long-term distribution agreement. SCB Life will cease to be a subsidiary of SCB upon successful completion of the share sale.

* At the Extraordinary General Meeting (EGM) on August 6, 2019, 94.15% of shareholders has approved the sale of all of the Bank's ordinary shares in SCB Life to FWD Group Financial Services Pte. Ltd.

In accordance with accounting standards, as of June 30, 2019, SCB Life's total assets and liabilities have been reclassified as items held for sales, while no reclassification or changes have been made to the Bank's income statement on the basis that the Bank's business of providing insurance products will continue under the Distribution Agreement. Since assets that relate to SCB Life were moved from earning assets, to non-earning assets, some ratios including net interest margin and yield on earning assets have shown temporary increases, and loans and investment growth have shown temporary decreases, as shown in the table below. However, such impacts will cease on completion of the share sale agreement by the end of 2019.

Changes to financial results and ratios are listed in table below.

Consolidated Unit: Baht million, %	As reported			Excluding the impact of SCB Life classification		
	Jun 30, 19	% qoq	% yoy	Jun 30, 19	% qoq	% yoy
Loans by Segment	2,158,247	1.5%	2.6%	2,169,054	2.0%	3.2%
Retail	990,749	0.2%	6.5%	1,001,556	1.3%	7.6%
Other loans	119,447	-1.2%	17.6%	130,254	7.8%	28.3%
Investments	288,523	-53.4%	-46.7%	601,187	-2.9%	11.0%

Changes in key financial ratio Unit: %	Excl. the impact of SCB Life		Excl. the impact of SCB Life	
	As reported	classification	As reported	classification
	2Q19	2Q19	1H19	1H19
Net interest margin	3.45%	3.27%	3.41%	3.22%
Yield on earning assets	4.65%	4.40%	4.60%	4.35%
Yield on loans	5.43%	5.42%	5.32%	5.31%
Retail	6.32%	6.28%	6.27%	6.24%
Yield on interbank and money market	1.52%	1.49%	1.56%	1.53%
Yield on investment	3.47%	2.58%	3.61%	2.64%
Gross loans to deposits ratio	98.5%	99.0%	98.5%	99.0%
Gross NPL ratio	2.77%	2.75%	2.77%	2.75%
Retail	2.50%	2.48%	2.50%	2.48%
New NPL ratio	0.54%	0.53%	1.03%	1.02%

Net Profit and Total Comprehensive Income

Consolidated	2Q19	% qoq	% yoy	1H19	% yoy
Unit: Baht million					
Net interest income	25,536	3.3%	7.1%	50,250	6.5%
Non-interest income	10,505	6.6%	0.1%	20,362	-9.7%
Total operating income	36,041	4.3%	4.9%	70,611	1.3%
Operating expenses	16,657	-6.6%	5.6%	34,493	7.8%
Operating profit	19,384	15.8%	4.4%	36,119	-4.2%
Impairment loss on loans and debt securities	5,909	9.0%	18.0%	11,329	13.1%
Income tax	2,530	17.4%	4.0%	4,685	-9.7%
Non-controlling interests	(31)	NM	NM	(28)	NM
Net profit (attributable to shareholders of the Bank)	10,976	19.9%	-1.2%	20,132	-10.4%
Other comprehensive income	5,916	164.2%	NM	8,155	NM
Total comprehensive income	16,892	48.2%	119.3%	28,288	64.0%
ROAE	11.2%			10.4%	
ROAA	1.4%			1.2%	

NM denotes "not meaningful"

Share Information

Unit: Baht	2Q19	% qoq	% yoy	1H19	% yoy
EPS	3.23	19.9%	-1.2%	5.92	-10.4%
BVPS	116.12	0.8%	7.5%	116.12	7.5%
Closing price	139.50	5.7%	17.7%	139.50	17.7%
Shares outstanding* (Million shares)	3,399	0.0%	0.0%	3,399	0.0%
Market capitalization (Baht billion)	474.2	5.7%	17.7%	474.2	17.7%

* Include both common and preferred shares

Income Statement for the second quarter and first half ended June 30, 2019 (Consolidated basis)

Net interest income

Consolidated	2Q19	% qoq	% yoy	1H19	% yoy
Unit: Baht million					
Interest income	34,419	2.9%	7.7%	67,874	7.3%
Loans	25,719	3.3%	5.6%	50,614	5.2%
Interbank and money markets	1,373	-11.0%	4.5%	2,916	12.1%
Financial leases	3,359	4.9%	13.3%	6,563	12.9%
Investments	3,938	3.8%	19.4%	7,729	15.9%
Others	30	33.8%	7.1%	52	0.9%
Interest expenses	8,883	1.6%	9.4%	17,624	9.6%
Deposits	4,855	3.2%	7.4%	9,558	6.3%
Interbank and money markets	453	8.7%	18.1%	870	10.9%
Borrowings	1,013	-5.6%	39.0%	2,087	54.8%
Contribution to the Deposit Protection Agency & FIDF	2,520	1.6%	3.0%	5,001	3.0%
Others	41	-38.1%	5.9%	108	14.2%
Net interest income	25,536	3.3%	7.1%	50,250	6.5%

- **Net interest income** in 2Q19 increased by 7.1% yoy to Baht 25,536 million due to loan growth of 2.6% yoy and improved net interest margin of 6 bps (excluding the impact of SCB Life classification) following the Bank's strategy to grow high margin loans. However, interest expenses also increased by 9.4% yoy from the launch of fixed deposit campaigns and the issuance of senior unsecured note of USD 1 billion in 1Q19.
- On a **quarter-on-quarter** basis, net interest income increased by 3.3% qoq due to loan growth of 1.5% qoq and improved net interest margin of 7 bps (excluding the impact of SCB Life classification).
- In the **first half of 2019**, net interest income increased by 6.5% yoy to Baht 50,250 million due to loan growth of 2.6% yoy and improved net interest margin of 3 bps yoy (excluding the impact of SCB Life classification).

Yield and cost of funding

Consolidated Unit: Percentage	2Q19	2Q19	1Q19	4Q18	3Q18	2Q18
	(As reported)	Excl. the impact of SCB Life classification				
Net interest margin	3.45%	3.27%	3.20%	3.26%	3.26%	3.21%
Yield on earning assets	4.65%	4.40%	4.33%	4.38%	4.34%	4.31%
Yield on loans	5.43%	5.42%	5.27%	5.32%	5.30%	5.25%
Yield on interbank and money market	1.52%	1.49%	1.68%	1.58%	1.30%	1.53%
Yield on investment	3.47%	2.58%	2.34%	2.68%	2.66%	2.43%
Cost of funds*	1.47%	1.47%	1.45%	1.44%	1.40%	1.40%
Cost of deposits**	1.36%	1.36%	1.33%	1.35%	1.30%	1.31%

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.

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
Nov 30, 11 Jan 25, 12 Oct 17, 12 May 29, 13 Nov 27, 13 Mar 12, 14 Mar 11, 15 Apr 29, 15 Dec 19, 18									
Policy rate (%)	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	2Q19	% qoq	% yoy	1H19	% yoy
Unit: Baht million					
Net fee and service income	7,185	7.8%	1.4%	13,853	-9.0%
Fee and service income	9,356	4.5%	2.2%	18,312	-4.6%
Fee and service expenses	2,171	-5.1%	4.7%	4,460	12.3%
Net insurance premiums	(30)	NM	NM	245	-75.1%
Net earned insurance premiums	11,707	-13.6%	-19.6%	25,251	-10.6%
Net insurance claims	11,737	-11.5%	-17.2%	25,006	-8.3%
Net fee and insurance premium	7,155	3.1%	-4.1%	14,097	-13.1%
Net gain on trading	2,060	5.8%	21.3%	4,007	-6.4%
Share of profit from investment in associate	0	NM	NM	31	NM
Dividend income	271	45.8%	-46.2%	457	-42.7%
Other income	100	4.6%	-60.8%	195	-43.3%
Non-interest income excluding net gain on investments	9,586	4.2%	-3.4%	18,788	-13.2%
Net gain on investments	919	40.2%	60.2%	1,574	74.0%
Total non-interest income	10,505	6.6%	0.1%	20,362	-9.7%

NM denotes “not meaningful”

- **Non-interest income** increased slightly by 0.1% yoy to Baht 10,505 million in 2Q19 mainly due to higher net gain on trading, higher net gain on investments and higher net fee income. The above increase was partly offset by lower net insurance premiums and lower dividend income.
- On a **quarter-on-quarter** basis, non-interest income increased by 6.6% qoq mainly due to higher net fee income (from mutual fund business, corporate finance fees and fee related to loans), higher net gain on investments and higher net gain on trading despite lower net insurance premiums.
- In the **first half of 2019**, non-interest income decreased by 9.7% yoy to Baht 20,362 million. This decrease was largely due to lower net fee income from the digital transaction fee waiver initiated in late 1Q18 and lower net insurance premiums.

Net fee income breakdown

Consolidated	2Q19	% qoq	% yoy	1H19	% yoy
Unit: Baht million					
Net Fee and Service Income	7,185	7.8%	1.4%	13,853	-9.0%
Bank cards	2,102	2.5%	5.9%	4,153	5.4%
GMTS*	1,367	14.5%	-5.3%	2,561	-11.1%
Bancassurance fee	565	-8.2%	-24.2%	1,181	-21.0%
Mutual fund	1,501	12.3%	-2.9%	2,836	-17.0%
Loan related fee	773	18.7%	16.1%	1,424	-2.4%
Others**	877	7.0%	25.5%	1,698	-16.7%

* 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	2Q19	% qoq	% yoy	1H19	% yoy
Unit: Baht million					
Employee expenses	7,755	-15.8%	6.0%	16,964	14.9%
Premises and equipment expenses	3,368	1.7%	3.9%	6,681	4.7%
Taxes and duties	1,188	3.1%	5.2%	2,341	5.0%
Directors' remuneration	25	-6.9%	16.2%	51	9.0%
Other expenses	4,322	4.5%	6.1%	8,456	-1.6%
Total operating expenses	16,657	-6.6%	5.6%	34,493	7.8%
Cost to income ratio	46.2%			48.8%*	

* Excluding one-time employee expenses necessitated by the amended labor law in 1Q19, the cost-to-income ratio would be 46.9%.

- **Operating expenses** increased by 5.6% yoy to Baht 16,657 million in 2Q19 primarily due to higher staff costs from annual salary adjustments, higher other expenses as well as higher premises and equipment expenses reflecting higher depreciation from the Bank's transformation program.
- On a **quarter-on-quarter** basis, operating expenses decreased by 6.6% qoq as staff cost reverting back to normal after the one-time employee expenses necessitated by the amended labor law booked in 1Q19.
- In the **first half of 2019**, non-interest expenses increased by 7.8% yoy to Baht 34,493 million due to higher staff cost from one-time employee expenses recorded in 1Q19 as mentioned above and from annual salary adjustments as well as an increase in premises and equipment expenses from higher depreciation and software rental. Excluding the one-time expenses, the operating expenses would increase by 3.4% yoy.

Cost-to-income ratio stood at 46.2% in 2Q19, a decline from 51.6% in 1Q19 (or 47.5% excluding one-time employee expenses.) The lower cost-to-income ratio is an indication that the Bank's expense growth was well contained and that the Bank has entered a lower investment cycle of the Transformation Program starting in 2019. For the first half of 2019, cost-to-income ratio was 48.8% (excluding one-time employee expenses, cost-to-income ratio would be 46.9%).

The Bank's cost-to-income ratio already peaked in 1Q19 and is expected to improve as the Bank continues to reap the benefits from the Transformation Program including the ongoing digital migration as well as people reallocation to revenue generating roles.

Impairment loss on loans and debt securities

Consolidated	2Q19	% qoq	% yoy	1H19	% yoy
Unit: Baht million					
Impairment loss on loans and debt securities	5,909	9.0%	18.0%	11,329	13.1%
Credit cost (bps)	110			105	

- In 2Q19, **impairment loss on loans and debt securities** was set at Baht 5,909 million or 110 bps of total loans, which was slightly below the Bank's 2019 target of 115-135 bps. The rationale behind this level of impairment loss is that high margin lending only started to ramp up.

Balance sheet as of June 30, 2019 (Consolidated basis)

As of June 30, 2019, the Bank's total assets stood at Baht 3,265 billion, an increase of 5.3% yoy. Details on the consolidated balance sheets are provided in the following sections:

Loans

By Segment (Consolidated) Unit: Baht million	Jun 30, 19	Mar 31, 19	% qoq	Dec 31, 18	% ytd	Jun 30, 18	% yoy
Corporate	821,947	797,283	3.1%	830,586	-1.0%	827,835	-0.7%
SME	345,551	340,496	1.5%	341,305	1.2%	344,357	0.3%
Retail	990,749	988,504	0.2%	968,670	2.3%	930,447	6.5%
Housing loans*	651,823	654,500	-0.4%	644,508	1.1%	636,725	2.4%
Auto loans	219,479	213,142	3.0%	203,075	8.1%	192,187	14.2%
Unsecured loans	117,641	108,515	8.4%	108,978	7.9%	90,219	30.4%
Other loans	1,806	12,347	-85.4%	12,109	-85.1%	11,316	-84.0%
Total loans	2,158,247	2,126,283	1.5%	2,140,561	0.8%	2,102,639	2.6%

* 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 2Q19 grew at 2.6% yoy primarily due to strong growth in the retail segment, especially in high margin and auto loans. On a quarter-on-quarter basis, loan volume grew at 1.5% qoq coming from across the board, but particularly from corporate and SME segments. Excluding the impact of SCB Life classification, loans would have grown by 3.2% yoy and 2.0% qoq.

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

- **Corporate** loans decreased 0.7% yoy largely driven by loan repayments. However, corporate loans rose 3.1% qoq primarily from M&A deal of one large corporate customer.
- **SME** loans grew 0.3% yoy and 1.5% qoq due mainly to higher loans to small SME customers.
- **Retail** loans rose 6.5% yoy and 0.2% qoq with strong demand for high margin lending products. Excluding the impact of SCB Life classification, retail loans would grow 7.6% yoy and 1.3% qoq.
 - **Housing loans** increased 2.4% yoy mainly due to My Home, My Cash product (a personal loan product collateralized by borrowers' properties). On a quarter-on-quarter basis, housing loans declined slightly by 0.4% qoq due to the BOT's macroprudential measures effective from April 1, 2019 as well as the Bank's strategy to optimize its loan portfolio.
 - **Auto loans** expanded 14.2% yoy and 3.0% qoq, largely driven by higher car sales and strong demand for My Car, My Cash product (a personal loan product collateralized by borrowers' automobiles).
 - **Unsecured loans** (personal loans and credit card receivables) surged by 30.4% yoy and 8.4% qoq, following the Bank's strategy to grow high margin loans.

- **Other loans** declined significantly by 84.0% yoy and 85.4% qoq due mainly to the reclassification of SCB Life transaction in 2Q19. Excluding this item, other loans would grow by 11.5% yoy and 2.2% qoq.

Deposits

Consolidated	Jun 30, 19	Mar 31, 19	% qoq	Dec 31, 18	% ytd	Jun 30, 18	% yoy
Unit: Baht million							
Demand	77,324	79,709	-3.0%	68,139	13.5%	69,964	10.5%
Savings	1,443,184	1,406,251	2.6%	1,418,782	1.7%	1,390,897	3.8%
Fixed	670,112	632,098	6.0%	672,710	-0.4%	684,731	-2.1%
Less than 6 months	106,748	113,007	-5.5%	133,341	-19.9%	161,774	-34.0%
6 months and up to 1 year	216,760	165,541	30.9%	194,939	11.2%	148,924	45.6%
Over 1 year	346,604	353,550	-2.0%	344,430	0.6%	374,033	-7.3%
Total deposits	2,190,620	2,118,058	3.4%	2,159,631	1.4%	2,145,592	2.1%
CASA - Current & Savings	69.4%	70.2%		68.9%		68.1%	
Accounts (%)							
Gross loans to deposits ratio	98.5%	100.4%		99.1%		98.0%	
Liquidity ratio (Bank-only)	27.3%	26.5%		25.0%		24.9%	

As of June 30, 2019, total **deposits** increased 2.1% yoy from higher current and savings (CASA) deposits, while fixed deposits declined yoy due mainly to a decrease in 3-month fixed deposits. In 2Q19, the Bank launched various fixed deposit campaigns, leading to a 3.4% qoq increase in deposits. As a result, the Bank's CASA proportion rose yoy but fell slightly qoq to 69.4% at the end of June 2019.

A daily liquidity ratio of 27.3%, as measured by total liquid assets to total deposits (at a bank-only level), was well above the Bank's minimum threshold of 20%.

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 June 2019.

Unit: Baht million, %	Consolidated			Bank-only		
	Jun 30, 19	Mar 31, 19	Jun 30, 18	Jun 30, 19	Mar 31, 19	Jun 30, 18
Statutory Capital						
Common Equity Tier 1/ Tier 1*	332,040	325,713	321,550	305,148	305,487	298,679
Tier 2 capital	42,017	41,591	43,462	41,146	40,740	42,659
Total capital	374,057	367,304	365,012	346,294	346,227	341,338
Risk-weighted assets	2,187,582	2,151,899	2,134,369	2,107,778	2,073,217	2,059,739
Capital Adequacy Ratio	17.1%	17.1%	17.1%	16.4%	16.7%	16.6%
Common Equity Tier 1/ Tier 1*	15.2%	15.2%	15.1%	14.5%	14.7%	14.5%
Tier 2 capital	1.9%	1.9%	2.0%	1.9%	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 June 2019, **gross NPLs** (on a consolidated basis) increased 1.4% qoq to Baht 68.9 billion, while gross NPL ratio remained unchanged qoq at 2.77% (gross NPL ratio would decline marginally to 2.75% in 2Q19 if the impact of SCB Life classification is excluded). The Bank's **coverage ratio** was relatively stable at 152.9% in 2Q19.

In 2Q19, **new NPL formation** increased qoq mainly from corporate new NPLs in the agricultural commodities industry, as well as higher new NPLs from housing and auto loans. However, NPL ratio of corporate loans declined qoq due to NPL write-offs.

Special mention loans increased 28.7% qoq in 2Q19 mainly from the qualitative classification of one large corporate customer in the property development sector for which the Bank has provided full provisions.

Unit: Baht million, %	Jun 30, 19	Mar 31, 19	Dec 31, 18	Sep 30, 18	Jun 30, 18
Consolidated					
Non-Performing Loans (Gross NPLs)	68,885	67,904	70,389	69,762	67,391
Gross NPL ratio	2.77%	2.77%	2.85%	2.80%	2.81%
Non-Performing Loans (Net NPLs)	33,800	33,836	35,699	37,075	36,281
Net NPL ratio	1.38%	1.40%	1.47%	1.51%	1.53%
<u>Gross NPL ratio by segment/product</u>					
Corporate	2.08%	2.16%	2.16%	1.90%	1.70%
SME	7.80%	7.82%	7.97%	8.51%	8.25%
Retail	2.50%	2.43%	2.60%	2.64%	2.67%
Housing loans	2.90%	2.87%	3.13%	3.17%	3.21%
Auto loans	1.91%	1.74%	1.80%	1.71%	1.67%
Allowance for doubtful accounts and debt restructuring*	105,358	103,725	103,273	99,438	96,697
Total allowance to NPLs (Coverage ratio)	152.9%	152.8%	146.7%	142.5%	143.5%
Credit cost (Quarterly, bps)	110	102	167	98	96
Bank-only					
Non-Performing Loans (Gross NPLs)	67,895	66,914	69,383	68,756	66,374
Gross NPL ratio	2.73%	2.76%	2.84%	2.78%	2.80%
Non-Performing Loans (Net NPLs)	33,514	33,550	35,406	36,780	35,982
Net NPL ratio	1.37%	1.40%	1.47%	1.51%	1.53%

* Excluding interbank and money market items.

New NPLs by Segment and by Product

	2019		2018				2017			
	2Q19	1Q19	4Q18	3Q18	2Q18	1Q18	4Q17	3Q17	2Q17	1Q17
Total loans	0.54%	0.50%	0.48%	0.49%	0.44%	0.41%	0.49%	0.38%	0.45%	0.41%
Corporate*	0.25%	0.12%	0.14%	0.25%	0.02%	0.06%	0.09%	0.01%	0.03%	0.03%
SME*	0.75%	0.99%	0.68%	0.73%	0.68%	0.79%	0.67%	0.58%	1.08%	0.63%
Housing loans**	0.83%	0.76%	0.85%	0.81%	0.93%	0.70%	0.96%	0.70%	0.70%	0.76%
Auto loans***	0.68%	0.61%	0.67%	0.57%	0.51%	0.43%	0.54%	0.50%	0.50%	0.41%
New NPLs (Baht billion)	13.4	12.3	11.8	12.2	10.6	9.7	11.4	8.8	10.4	9.1

* 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.

Consolidated Unit: Baht million	Jun 30, 19		Mar 31, 19		Jun 30, 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	2,018,508	20,649	2,005,001	20,525	1,984,931	20,299
Special mention	73,873	4,084	57,381	3,413	53,438	3,472
Substandard	20,011	10,487	19,392	9,838	16,136	7,742
Doubtful	15,811	6,336	13,702	4,959	13,623	4,700
Doubtful loss	33,110	18,493	34,856	19,505	37,667	19,052
Total	2,161,313	60,049	2,130,332	58,240	2,105,795	55,265
Allowance established in excess of BOT regulations		41,341		41,568		37,175
Total allowance		101,390		99,808		92,440

Sources and Uses of Funds

As of June 30, 2019, given the classification of SCB Life into items held for sale, deposits accounted for 67.1% of SCB's funding base. Other major sources of funds were: 12.1% from shareholders' equity, 3.7% from debt issuance, and 3.7% from interbank borrowings. Uses of funds for this same period were: 66.1% for loans, 11.3% for interbank and money markets lending, 8.8% for investments in securities, and 1.1% held in cash.

Additional Financial Information

Consolidated	Jun 30, 19	Mar 31, 19	% qoq	Jun 30, 18	% yoy
Unit: Baht million, %					
Loans by Sector	2,158,247	2,126,283	1.5%	2,102,639	2.6%
Agricultural and mining	13,851	17,069	-18.9%	20,990	-34.0%
Manufacturing and commercial	566,543	581,636	-2.6%	626,535	-9.6%
Real estate and construction	178,027	162,971	9.2%	164,065	8.5%
Utilities and services	409,964	378,264	8.4%	363,146	12.9%
Housing loans*	552,588	558,547	-1.1%	549,552	0.6%
Other loans	437,274	427,796	2.2%	378,351	15.6%
Investment**	288,523	618,902	-53.4%	541,717	-46.7%
Trading securities and securities measured at fair value through P/L	28,657	38,007	-24.6%	22,033	30.1%
Available-for-sale securities	246,095	459,001	-46.4%	398,299	-38.2%
Held-to-maturity securities	9,858	119,679	-91.8%	119,700	-91.8%
General investments	3,835	2,137	79.5%	1,685	127.6%
Investment in associate	78	78	0.0%	0	NM
Debt securities in issue and borrowings	122,318	133,347	-8.3%	80,304	52.3%
Bonds	101,672	112,486	-9.6%	56,835	78.9%
Subordinated bonds	20,000	20,000	0.0%	20,000	0.0%
Structured notes	389	615	-36.7%	3,190	-87.8%
Others	257	246	4.5%	279	-7.9%
NPL breakdown by status (Bank-only)					
Restructured and being serviced	73.6%	74.5%	-0.9%	66.2%	7.4%
Under negotiation for restructuring	8.2%	5.8%	2.4%	4.0%	4.2%
In litigation	7.5%	7.6%	-0.1%	15.0%	-7.5%
In foreclosure process	10.7%	12.1%	-1.4%	14.8%	-4.1%
Troubled debt restructured loans	39,380	38,747	1.6%	33,387	18.0%
Restructured loans which are classified as NPL	11,430	12,139	-5.8%	7,316	56.2%
Restructured loans which are not classified as NPL	27,950	26,608	5.0%	26,071	7.2%
	2Q19	1Q19	2Q18	1H19	1H18
Yield on loans	5.43%	5.27%	5.25%	5.32%	5.21%
Corporate	4.31%	4.17%	4.13%	4.16%	4.06%
SME	6.05%	5.77%	5.92%	5.85%	5.89%
Retail	6.32%	6.17%	6.18%	6.27%	6.16%
Housing loans	4.93%	4.86%	4.98%	4.92%	5.00%
Auto loans	6.22%	6.17%	6.29%	6.22%	6.29%
Auto loans portfolio					
New car	56.4%	56.6%	56.8%	56.4%	56.8%
Used car	27.3%	27.4%	27.0%	27.3%	27.0%
My car, My cash	16.3%	16.1%	16.2%	16.3%	16.2%
NPL reduction methodology					
Repayments, auctions, foreclosures and account closed	44.9%	40.5%	41.4%	42.5%	52.3%
Debt restructuring	3.5%	2.8%	14.0%	3.1%	9.9%
NPL sales***	28.6%	37.3%	29.3%	33.3%	23.0%
Write off	23.0%	19.4%	15.3%	21.0%	14.8%

* 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, 2019, March 31, 2019 and June 30, 2018, was Baht 652 billion, Baht 655 billion, and Baht 637 billion, respectively.

** 91.4% 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 4.3 billion in 2Q19, Baht 6.7 billion in 1Q19, Baht 3.0 billion in 2Q18, Baht 11.1 billion in 1H19, and Baht 4.9 billion in 1H18.

Credit Ratings

Credit Ratings of Siam Commercial Bank PCL	June 30, 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)

* On July 30, 2019, Moody's has changed the outlook on long-term ratings of SCB to Positive from Stable.

4. Awards and Achievement

(Awards granted during the second quarter of 2019)

The Asset (Hong Kong)

- Best Domestic Custodian in Thailand
- Telecom Deal of the Year in Thailand
- Petrochemical Deal of the Year in the Region

Finance Asia (Hong Kong)

- Best Bank in Thailand

Alpha Southeast Asia (Hong Kong)

- Best Bank in Thailand
- Best Wealth Management Bank in Thailand

Asiamoney (Hong Kong)

- Ranked No.1 on "Thailand Loans Ranking by Bookrunner" table

Corporate Governance Asia (Hong Kong)

- Asia's Best CEO (Investor Relations)
- Asia's Best CFO (Investor Relations)
- Best Investor Relations Company (Thailand)

The Asian Banker (Singapore)

- "Digital Lending Product of the Year" from SCB Abacus

Money & Banking (Thailand)

- Best Public Company of the Year (Financial Industry)
- Best Personal Loan Service
- Best Credit Card Service
- Best Mutual Fund of the Year (Equity General)

Professional Wealth Management

- Best Private Bank for Advisory Services Asia

International Investor

- Best Financial Inclusion Program (Thailand)
- Best Corporate Social Responsibility Principles (Thailand)

European Foundation for Management Development (EFMD)

- Excellence in Practice Gold Award - Organizational Development (in collaboration with IMD)