

**SCB**  
ไทยพาณิชย์



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## Management Discussion and Analysis

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For the third quarter and first nine months ended  
September 30, 2019

**The Siam Commercial Bank Public Company Limited**

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## 1. Executive Summary

Siam Commercial Bank and its subsidiaries announced a third-quarter net profit of Baht 14.8 billion which was 40.8% higher than the same period last year. This was a result of net profit of Baht 10.5 billion from normal operations and a one-time capital gain from the sale of SCB Life of Baht 11.6 billion. In this quarter, the Bank has set aside additional provisions of Baht 9.1 billion on top of its normalized quarterly requirement of Baht 6.2 billion. For the first nine months of 2019, net profit stood at Baht 34.9 billion, up 5.9% yoy.

Despite moderate loan growth of 2.2% yoy due to the slower economy, net interest income (NII) increased 7.4% yoy to Baht 26.2 billion in the third quarter. The Bank's proactive risk management and strategy to rebalance its loan portfolio towards higher margin products was the main reason for this NII growth.

Non-NII in the third quarter, excluding the one-time gain, was stable yoy because of resilient recurring fee income especially from lending-related activities and wealth products.

The Bank's total operating income, including the one-time gain, rose significantly by 74.1% to Baht 60.5 billion which far exceeded expense growth. Consequently, the Bank's cost-to-income ratio declined to 29.1% in the third quarter.

Non-performing loan (NPL) ratio rose to 3.01% at the end of September 2019 from 2.77% at the end of June 2019, reflecting the current state of the economy and prevailing economic headwinds. NPL coverage ratio stood at 144% in the current quarter while the Bank's capital adequacy ratio remained strong at a record high of 17.9%.

## 2. Thailand's Economic Outlook

**During the first half of 2019, the Thai economy grew by only 2.6% yoy as a result of weakened exports and private investment in the second quarter.** For the tourism sector, although the number of tourist arrivals picked up after the boat incident in 2018, the sector was dragged down by Thai Baht appreciation which directly reduced spending per tourist. However, private consumption continued to grow at 4.6% yoy due to the government stimulus package implemented in the 2<sup>nd</sup> quarter of 2019.

**Siam Commercial Bank's Economic Intelligence Center (SCB EIC) revises down 2019F GDP growth to 2.8% (from 3.0% previously)** mainly due to prolonged and wide-spreading trade tensions between the US and China. These adverse effects are no longer limited to the global manufacturing sector, international trade, and investment, but have recently spread to the service sector which has shown signs of slowing down. Moreover, risks of technical recession are on the rise in trade-dependent countries, such as Germany, Hong Kong, and Singapore. In response to global economic slowdown and rising downside risks, central banks around the world have reverted to expansionary monetary policies and countries with fiscal policy space have also implemented fiscal stimulus measures to shore up their economies. For the Thai economy, exports and tourism sectors are not only affected by the continued global slowdown but also strengthening Thai Baht against trade partners and competitors. As a result, EIC revises down 2019F export growth to -2.5% yoy while for tourism sector, the forecast of tourist arrivals is kept at 40.1 million with a downward revision of tourist spending per head to reflect the effect of strong Thai Baht.

**For domestic demand, signs of a slowdown in private consumption and investment have become increasingly obvious.** Property and domestic car sales have shrunk with slow economic conditions which have manifested in falling employment, especially in the manufacturing sector, slowdown in tourism spending and farm income, and lower consumer confidence. Moreover, commercial banks have also been more cautious at lending on the back of deteriorating loan quality and stricter lending regulations. For the fiscal stimulus measure announced in August, EIC expects the impact to mainly shore up non-durable consumption in 4Q19F. However, FY2020 budget approval delay presents one of the key risks, especially for new public investment projects.

**SCB EIC expects 2.8% yoy GDP growth in 2020 given global economic slowdown and stubbornly high household debt which has exerted downward pressure on domestic purchasing power.**

Downside risks from prolonged and wide-spreading trade war effects, combined with rising risks of technical recession in trade-dependent countries remain key concerns that contribute to fragile global economic recovery. As a result, EIC expects Thai exports to recover slowly (at 0.2% yoy in 2020). For private domestic demand, EIC foresees a slowdown in private investment given the fact that export recovery has not fully materialized and residential construction activities have been impacted by tightening LTV measure. Similarly, private consumption in 2020F is expected to slow down due to stubbornly high household debt and more cautious lending by commercial banks. As such, public

investment in infrastructure projects, public consumption, and government stimulus measures will play a greater role in Thai economic recovery in 2020F.

**On monetary policy outlook, SCB EIC expects MPC to keep the policy rate at its record low level (1.25%) throughout 2020F.** From latest Monetary Policy Committee (MPC)'s meeting on 6<sup>th</sup> November, the MPC decided to cut the policy rate to 1.25%, its record low level. In 2020F, the MPC is likely to keep its policy at 1.25% throughout the year to shore up domestic purchasing power through a lower financing cost. Note that the lower financing cost might not boost substantial new lending on the back of rising economic uncertainties, but it is likely to lower debt service expenses for households and SME business in debt. On financial stability concerns, resulting from prolonged low interest rate environment, EIC believes the MPC is likely to employ macro- and micro-prudential measures to address the issue. On Thai Baht outlook, EIC expects strengthening pressure on Thai Baht, compared with its regional peers, to continue due to massive current account surplus and smaller policy rate cuts by Thai MPC as well as capital inflows to Thailand, resulting from Thai Baht's status as a regional safe-haven currency. We, thus, expect Thai Baht/US Dollar to move in the range of 30-31 in 2020F.

**Thai economy in 2020F is facing a confluence of both external and domestic risk factors.** Trade war effect remains a key risk, which could be escalated further and hence pose further downside risk to Thailand's export and tourism sectors and subsequently its GDP. Other key external risk factors include geopolitical risks, such as Brexit, protests in Hong Kong, and trade tensions between Japan and South Korea, which could exacerbate the global economic slowdown and increase volatility in global financial markets. Domestic risk factors stem from financial vulnerability which has increased for both households and SMEs as reflected by rising NPLs on the back of accumulated debt, slow income growth, and structural challenges resulting in concentrated business revenues and household incomes. Moreover, government budget delay and slow disbursement rate are other key risk factors for future economic growth.

### 3. Management Discussion and Analysis

#### For the third quarter and first nine months ended September 30, 2019

Siam Commercial Bank PCL reported (reviewed) consolidated **net profit** of Baht 14,798 million for the third quarter of 2019, an increase of 40.8% yoy. The high yoy increase was due to a one-time gain from the Bank's divestment in SCB Life Assurance PCL following the finalization of bancassurance partnership with FWD Group Financial Services Pte. Ltd. Other factors contributing to this period's increase in net profit were higher net interest income and higher net fee income. However, part of the profit was offset by additional provisions of Baht 9.1 billion in 3Q19. Excluding the one-time gain from sale and additional provisions, net profit would be relatively flat yoy.

On a **quarter-on-quarter** basis, net profit also increased significantly by 34.8% qoq to Baht 14,798 million in 3Q19 from Baht 10,976 million in 2Q19, driven by higher non-NII and net interest income as mentioned above.

For the **first nine months of 2019**, net profit stood at Baht 34,930 million, a 5.9% yoy increase from Baht 32,984 million in 9M18. The increase was mainly from a one-time gain from sale of SCB Life and higher net interest income which were partly offset by higher provisions and higher tax expenses.

#### Net Profit and Total Comprehensive Income

Consolidated	3Q19	% qoq	% yoy	9M19	% yoy
Unit: Baht million					
Net interest income	26,191	2.6%	7.4%	76,441	6.8%
Non-interest income	34,260	226.1%	231.6%	54,622	66.2%
Total operating income	60,452	67.7%	74.1%	131,063	25.5%
Operating expenses	17,563	5.4%	6.4%	52,055	7.3%
<b>Operating profit</b>	<b>42,889</b>	<b>121.3%</b>	<b>135.4%</b>	<b>79,008</b>	<b>41.3%</b>
Impairment loss on loans and debt securities	15,273	158.5%	197.5%	26,603	75.6%
Income tax	12,877	409.0%	400.4%	17,562	126.2%
Non-controlling interests	(59)	NM	NM	(87)	NM
<b>Net profit (attributable to shareholders of the Bank)</b>	<b>14,798</b>	<b>34.8%</b>	<b>40.8%</b>	<b>34,930</b>	<b>5.9%</b>
Other comprehensive income	12,328	108.4%	6,104.7%	20,484	NM
<b>Total comprehensive income</b>	<b>27,126</b>	<b>60.6%</b>	<b>153.4%</b>	<b>55,414</b>	<b>98.2%</b>
ROAE	15.0%			12.0%	
ROAA	1.9%			1.5%	

NM denotes "not meaningful"

## Share Information

Unit: Baht	3Q19	% qoq	% yoy	9M19	% yoy
EPS	4.35	34.8%	40.8%	10.28	5.9%
BVPS	116.34	0.2%	6.1%	116.34	6.1%
Closing price	118.00	-15.4%	-20.8%	118.00	-20.8%
Shares outstanding* (Million shares)	3,399	0.0%	0.0%	3,399	0.0%
Market capitalization (Baht billion)	401.1	-15.4%	-20.8%	401.1	-20.8%

\* Include both common and preferred shares

## Completion of sale of shares in SCB Life Assurance Public Company Limited and commencement of long-term bancassurance partnership with FWD Group Financial Services Pte. Ltd.

On September 26, 2019 the Bank successfully completed the shares sale of SCB Life Assurance Public Company Limited (SCB Life) and entered into a long-term Distribution Agreement with FWD. Hence, the operating performance of SCB Life up until the completion date was incorporated into the Bank's results.

Also, upon completion of the shares sale, SCB received a total consideration of Baht 92.7 billion which resulted in a pre-tax capital gain of Baht 24 billion. As a result of this divestment, Common Equity Tier 1 ratio has been uplifted by 1.2% due to the capital release. Moreover, out of the total consideration of Baht 92.7 billion, Baht 17.7 billion will be recognized as income over 15 years according to the Bank's accounting policies. The Bank will also receive payments common in bancassurance transactions over the course of the Distribution Agreement.

### The calculations of capital gain from SCB Life sale are shown in the table below:

(Baht billion)

Total consideration	92.7
Income recognized over 15 years according to the Bank's accounting policies	17.7
Selling price of shares	75.0
Investment cost in SCB Life (Conso)	50.4
Expenses related to the deal	0.6
<b>Total capital gain</b>	<b>24.0</b>
Corporate income tax	12.4
<b>Impact to net profit</b>	<b>11.6</b>
<b>Income tax expenses</b>	
Selling price of shares	75.0
Investment cost in SCB Life (Bank-only)	12.5
Expenses related to the deal	0.6
Total capital gain	61.9
<b>Corporate income tax (20%)</b>	<b>12.4</b>

## Income Statement for the third quarter and the first nine months ended September 30, 2019 (Consolidated basis)

### Net interest income

Consolidated	3Q19	% qoq	% yoy	9M19	% yoy
Unit: Baht million					
<b>Interest income</b>	<b>35,432</b>	<b>2.9%</b>	<b>8.9%</b>	<b>103,306</b>	<b>7.8%</b>
Loans	26,723	3.9%	7.7%	77,337	6.1%
Interbank and money markets	1,411	2.8%	11.8%	4,327	12.0%
Financial leases	3,467	3.2%	13.2%	10,030	13.0%
Investments	3,789	-3.8%	12.8%	11,518	14.9%
Others	43	43.6%	-24.2%	94	-12.3%
<b>Interest expenses</b>	<b>9,241</b>	<b>4.0%</b>	<b>13.4%</b>	<b>26,865</b>	<b>10.9%</b>
Deposits	5,324	9.7%	17.6%	14,882	10.1%
Interbank and money markets	369	-18.6%	-1.7%	1,239	6.7%
Borrowings	909	-10.3%	12.9%	2,996	39.1%
Contribution to the Deposit Protection Agency & FIDF	2,573	2.1%	6.9%	7,575	4.3%
Others	65	57.2%	82.6%	173	32.9%
<b>Net interest income</b>	<b>26,191</b>	<b>2.6%</b>	<b>7.4%</b>	<b>76,441</b>	<b>6.8%</b>

- **Net interest income** in 3Q19 increased by 7.4% yoy to Baht 26,191 million due to (1) loan growth of 2.2% yoy, (2) improved net interest margin following the Bank's strategy to grow high margin loans and (3) a one-time adjustment relating to its life insurance subsidiary's policy loan book prior to the completion of FWD transaction, despite a one-sided lending rate cut (MRR by 25 bps and MOR by 12.5 bps on August 15, 2019).
- On a **quarter-on-quarter** basis, net interest income increased by 2.6% qoq due to an improvement in net interest margin and a one-time adjustment mentioned above, and partially offset by the one-sided lending rate cut.
- In the **first nine months of 2019**, net interest income increased by 6.8% yoy to Baht 76,441 million due to loan growth of 2.2% yoy and improved net interest margin as explained above.



## Yield and cost of funding

Consolidated	3Q19	3Q19 <sup>1/</sup>	2Q19	2Q19 <sup>2/</sup>	1Q19	4Q18	3Q18
Unit: Percentage	(As reported)		(As reported)				
Net interest margin <sup>3/</sup>	3.68%	3.33%	3.45%	3.27%	3.20%	3.26%	3.26%
Yield on earning assets <sup>3/</sup>	4.98%	4.51%	4.65%	4.40%	4.33%	4.38%	4.34%
Yield on loans <sup>3/</sup>	5.61%	5.58%	5.43%	5.42%	5.27%	5.32%	5.30%
Yield on interbank and money market	1.37%	1.49%	1.52%	1.49%	1.68%	1.58%	1.30%
Yield on investment	5.41%	2.52%	3.47%	2.58%	2.34%	2.68%	2.66%
Cost of funds <sup>4/</sup>	1.53%	1.53%	1.47%	1.47%	1.45%	1.44%	1.40%
Cost of deposits <sup>5/</sup>	1.43%	1.43%	1.36%	1.36%	1.33%	1.35%	1.30%

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

<sup>1/</sup> Projected ratios assuming SCB Life is still part of the Group; for comparative purpose only

<sup>2/</sup> Excluding the reclassification of SCB Life's total assets and liabilities as items held for sale.

<sup>3/</sup> There was a one-time adjustment to the life insurance subsidiary's policy loan book prior to the completion of FWD transaction that resulted in 5 bps, 5 bps and 6 bps increase in net interest margin, yield on earning assets and yield on loans, respectively in 3Q19.

<sup>4/</sup> Cost of funds = Interest expenses (including the contribution to DPA & FIDF) / Average interest-bearing liabilities.

<sup>5/</sup> Cost of deposits includes the contribution to the Deposit Protection Agency and FIDF fee.

SCB Interest Rates	Jul 20, 15	Dec 21, 15	Mar 1, 16	Apr 7, 16	Apr 25, 16	Oct 12, 16	May 16, 17	Jan 4, 19	Aug 15, 19
<b>Lending rate (%)</b>									
MLR	6.525	6.525	6.525	6.275	6.275	6.275	6.025	6.025	6.025
MOR	7.37	7.37	7.37	7.37	7.12	7.12	6.87	6.87	6.745
MRR	7.87	7.87	7.87	7.87	7.62	7.62	7.37	7.37	7.12
<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	0.90-1.60	0.90	0.90	0.90	0.90	0.90	0.90-1.15	0.90-1.15
6-month deposits	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15-1.40	1.15-1.40
12-month deposits	1.50	1.30	1.30	1.30	1.30	1.40	1.40	1.40-1.65	1.40-1.65
* Excluding special campaigns which generally offer significantly higher rates but have different terms and conditions from the 3, 6, 12 month term deposits.									
	Jan 25, 12	Oct 17, 12	May 29, 13	Nov 27, 13	Mar 12, 14	Mar 11, 15	Apr 29, 15	Dec 19, 18	Aug 7, 19
<b>Policy rate (%)</b>	3.00	2.75	2.50	2.25	2.00	1.75	1.50	1.75	1.50

## Non-interest income

Consolidated	3Q19	% qoq	% yoy	9M19	% yoy
Unit: Baht million					
Net fee and service income	7,391	2.9%	13.2%	21,243	-2.4%
Fee and service income	9,737	4.1%	10.7%	28,049	0.2%
Fee and service expenses	2,346	8.1%	3.6%	6,806	9.1%
Net insurance premiums	(641)	NM	NM	(396)	NM
Net earned insurance premiums	9,700	-17.1%	-11.8%	34,951	-11.0%
Net insurance claims	10,341	-11.9%	-6.2%	35,347	-7.7%
<b>Net fee and insurance premium</b>	<b>6,750</b>	<b>-5.7%</b>	<b>3.9%</b>	<b>20,847</b>	<b>-8.2%</b>
Net gain on trading and foreign exchange transactions	1,257	-39.0%	-42.9%	5,265	-18.8%
Share of profit from investment in associate	457	NM	173.0%	488	191.4%
Dividend income	163	-39.9%	-43.5%	619	-42.9%
Other income	116	16.3%	39.7%	312	-27.2%
<b>Non-interest income excluding net gain on investments</b>	<b>8,743</b>	<b>-8.8%</b>	<b>-5.4%</b>	<b>27,531</b>	<b>-10.8%</b>
Net gain on investments	1,493	62.5%	36.5%	3,067	53.5%
Net gain on sale of investment in subsidiary	24,024	NM	NM	24,024	NM
<b>Total non-interest income*</b>	<b>34,260</b>	<b>226.1%</b>	<b>231.6%</b>	<b>54,622</b>	<b>66.2%</b>

\* Excluding one-time gain from sale of SCB Life, non-NII would decrease by 2.6% qoq and 0.9% yoy for 3Q19 and by 6.9% yoy for 9M19.

NM denotes "not meaningful"

- **Non-interest income** increased significantly by 231.6% yoy to Baht 34,260 million in 3Q19 mainly due to a one-time gain from sale of SCB Life and higher net fee income, particularly from mutual fund business, loan-related fees and card business. The above increase was partly offset by lower net gain on trading and foreign exchange transactions and negative net insurance premiums.
- On a **quarter-on-quarter** basis, non-interest income increased significantly by 226.1% qoq mainly due to higher gain on investment from the sale of SCB Life and higher net fee income (mostly from mutual fund, card business and brokerage fees) despite lower net gain on trading and foreign exchange transactions and negative net insurance premiums.
- In the **first nine months of 2019**, non-interest income increased significantly by 66.2% yoy to Baht 54,622 million. This increase was largely due to one-time gain from sale of SCB Life which was offset by negative net insurance premiums, lower net gain on trading and foreign exchange transactions and lower net fee income from the digital transaction fee waiver initiated in late 1Q18.

## Net fee income breakdown

Consolidated Unit: Baht million	3Q19	% qoq	% yoy	9M19	% yoy
Net Fee and Service Income	7,391	2.9%	13.2%	21,243	-2.4%
Bank cards	2,181	3.8%	5.6%	6,333	5.5%
GMTS*	1,038	-24.1%	-2.1%	3,599	-8.7%
Bancassurance fee	642	13.5%	1.9%	1,823	-14.2%
Mutual fund	1,791	19.4%	23.2%	4,628	-5.0%
Loan related fee	799	3.4%	23.3%	2,223	5.5%
Others**	940	7.2%	40.2%	2,637	-2.6%

\* 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 Unit: Baht million	3Q19	% qoq	% yoy	9M19	% yoy
Employee expenses	7,775	0.3%	6.6%	24,739	12.2%
Premises and equipment expenses	3,548	5.3%	6.4%	10,228	5.3%
Taxes and duties	1,219	2.6%	10.2%	3,560	6.7%
Directors' remuneration	26	7.1%	-2.7%	77	4.7%
Other expenses	4,994	15.6%	5.4%	13,450	0.9%
<b>Total operating expenses</b>	<b>17,563</b>	<b>5.4%</b>	<b>6.4%</b>	<b>52,055</b>	<b>7.3%</b>
<b>Cost to income ratio*</b>	<b>29.1%</b>			<b>39.7%</b>	

\* Excluding the one-time gain from sale of SCB Life, the cost-to-income ratio would be 48.1% in 3Q19 and 48.6% in 9M19.

- **Operating expenses** increased by 6.4% yoy to Baht 17,563 million in 3Q19 primarily due to higher staff cost from annual salary adjustment, higher other expenses as well as higher premises and equipment expenses which reflected higher depreciation from the Bank's transformation program.
- On a **quarter-on-quarter** basis, operating expenses increased by 5.4% qoq due to higher other expenses from higher marketing and promotion expenses related to the credit card business.
- In the **first nine months of 2019**, operating expenses increased by 7.3% yoy to Baht 52,055 million due to higher staff cost from a one-time employee expenses recorded in 1Q19 and from annual salary adjustment as well as an increase in premises and equipment expenses from higher depreciation from the Bank's transformation program.

Cost-to-income ratio stood at 29.1% in 3Q19 (or 48.1%, excluding one-time gain from sale of SCB Life). For the first nine months of 2019, cost-to-income ratio was 39.7% (or 48.6%, excluding the one-time gain from sale of SCB Life). The Bank's cost-to-income ratio is expected to improve as the transformation program is near completion and thus bringing the end to the high investment cycle.

### Impairment loss on loans and debt securities

Consolidated	3Q19	% qoq	% yoy	9M19	% yoy
Unit: Baht million					
Impairment loss on loans and debt securities	15,273	158.5%	197.5%	26,603	75.6%
Credit cost (bps)	284			165	

- In 3Q19, **impairment loss on loans and debt securities** was set at Baht 15,273 million (284 bps of total loans). Out of this amount, Baht 9,100 million (169 bps of total loans) was a one-off provision against possible adverse events in the future amidst an uncertain economic outlook on top of its normalized quarterly requirement of Baht 6,173 million (115 bps of total loans) in 3Q19.

**Balance sheet as of September 30, 2019 (Consolidated basis)**

As of September 30, 2019, the Bank's total assets stood at Baht 2,981 billion, a decrease of 3.8% yoy due to the divestment of SCB Life despite loans growing 2.2% yoy. Details on the consolidated balance sheets are provided in the following sections:

**Loans**

By Segment (Consolidated) Unit: Baht million	Sep 30, 19	Jun 30, 19	% qoq	Dec 31, 18	% ytd	Sep 30, 18	% yoy
Corporate	798,877	821,947	-2.8%	830,586	-3.8%	812,301	-1.7%
SME	350,550	345,551	1.4%	341,305	2.7%	344,388	1.8%
Retail	1,000,641	990,749	1.0%	968,670	3.3%	947,075	5.7%
Housing loans*	651,557	651,823	0.0%	644,508	1.1%	643,551	1.2%
Auto loans	222,318	219,479	1.3%	203,075	9.5%	195,722	13.6%
Unsecured loans	124,917	117,641	6.2%	108,978	14.6%	95,874	30.3%
Other loans	1,849	1,806	2.4%	12,109	-84.7%	11,928	-84.5%
<b>Total loans</b>	<b>2,150,068</b>	<b>2,158,247</b>	<b>-0.4%</b>	<b>2,140,561</b>	<b>0.4%</b>	<b>2,103,764</b>	<b>2.2%</b>

\* 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 3Q19 grew at 2.2% yoy. Details on changes in loan volume by customer segments are as follows:

- **Corporate** loans declined 1.7% yoy and 2.8% qoq mainly because of unscheduled loan repayments.
- **SME** loans rose 1.8% yoy and 1.4% qoq due largely to more lending to small SME customers following the Bank's strategy to grow high margin loans for specific customer segments.
- **Retail** loans grew 5.7% yoy and 1.0% qoq with strong demand for high margin lending products.
  - **Housing loans** increased 1.2% yoy mainly due to higher take-up of My Home, My Cash loan (a personal loan product collateralized by borrowers' properties). On a quarter-on-quarter basis, housing loans were relatively flat despite strong demand for My Home, My Cash product because of the BOT's macroprudential measures which took effect on April 1, 2019 as well as the Bank's strategy to optimize its loan portfolio.
  - **Auto loans** expanded 13.6% yoy and 1.3% qoq, largely driven by strong demand for My Car, My Cash loan (a personal loan product collateralized by borrowers' automobiles).
  - **Unsecured loans** (personal loans and credit card receivables) surged 30.3% yoy and 6.2% qoq, following the Bank's strategy to grow high margin loans for specific customer segments.
  - **Other loans** declined significantly by 84.5% yoy due mainly to the deconsolidation of SCB Life after its divestment in September 2019, but increased slightly by 2.4% qoq.

## Deposits

Consolidated Unit: Baht million	Sep 30, 19	Jun 30, 19	% qoq	Dec 31, 18	% ytd	Sep 30, 18	% yoy
Demand	77,987	77,324	0.9%	68,139	14.5%	72,315	7.8%
Savings	1,404,318	1,443,184	-2.7%	1,418,782	-1.0%	1,378,995	1.8%
Fixed	711,517	670,112	6.2%	672,710	5.8%	672,159	5.9%
Less than 6 months	102,635	106,748	-3.9%	133,341	-23.0%	129,248	-20.6%
6 months and up to 1 year	268,906	216,760	24.1%	194,939	37.9%	188,350	42.8%
Over 1 year	339,976	346,604	-1.9%	344,430	-1.3%	354,561	-4.1%
<b>Total deposits</b>	<b>2,193,822</b>	<b>2,190,620</b>	<b>0.1%</b>	<b>2,159,631</b>	<b>1.6%</b>	<b>2,123,468</b>	<b>3.3%</b>
CASA - Current & Savings	67.6%	69.4%		68.9%		68.3%	
Accounts (%)							
Gross loans to deposits ratio	98.0%	98.5%		99.1%		99.1%	
Liquidity ratio (Bank-only)	30.4%	27.3%		25.0%		25.4%	

As of September 30, 2019, total **deposits** increased 3.3% yoy mainly driven by higher fixed deposits following the launch of several fixed deposit campaigns in 2Q19. On a quarter-on-quarter basis, deposits were relatively flat. As a result, the Bank's CASA proportion declined yoy and qoq to 67.6% at the end of September 2019.

The Bank's daily liquidity ratio of 30.4%, as measured by total liquid assets to total deposits (at a bank-only level), was well above the 20% minimum threshold.

## Investments

Consolidated Unit: Baht million	Sep 30, 19	Jun 30, 19	% qoq	Dec 31, 18	% ytd	Sep 30, 18	% yoy
Trading securities and securities measured at fair value through P/L	30,651	28,657	7.0%	13,415	128.5%	17,435	75.8%
Available-for-sale securities	228,716	246,095	-7.1%	432,663	-47.1%	326,665	-30.0%
Held-to-maturity securities	8,639	9,858	-12.4%	120,645	-92.8%	122,133	-92.9%
General investments	4,015	3,835	4.7%	2,131	88.4%	1,866	115.2%
Investment in associate	535	78	584.8%	47	NM	167	219.7%
<b>Total investments (net)</b>	<b>272,557</b>	<b>288,523</b>	<b>-5.5%</b>	<b>568,901</b>	<b>-52.1%</b>	<b>468,267</b>	<b>-41.8%</b>

NM denotes "not meaningful"

As of September 30, 2019, total investments (net) stood at Baht 273 billion, a sharp decline by 41.8% yoy and 5.5% qoq primarily due to the Bank's divestment of SCB Life Assurance which held approximately Baht 329 billion of investments as at September 26, 2019. Out of the total investments (net) of Baht 273 billion, 93.5% were investments in government and state-enterprise securities. The Bank held a high proportion of government securities to achieve its aim of keeping liquidity ratio (liquid assets/deposits) above 20% at a bank-only level.

## 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 had been phased in gradually to the Common Equity Tier 1 capital requirement at the rate of 0.625% p.a. and reached the 2.5% target since January 2019.

Furthermore, the Bank has been designated by the BOT, along with 4 other major Thai commercial banks, as Domestic Systemically Important Banks (D-SIBs) which resulted in a requirement to maintain an additional Common Equity Tier 1 (CET1) of 0.5% in 2019 that will increase to 1.0% in 2020, to provide additional stability and resilience. This Higher Loss Absorbency requirement (D-SIBs buffer) is added on top of the capital conservation buffer of 2.5%.

As a result, 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.

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

Unit: Baht million, %	Consolidated			Bank-only		
	Sep 30, 19	Jun 30, 19	Sep 30, 18	Sep 30, 19	Jun 30, 19	Sep 30, 18
<b>Statutory Capital</b>						
Common Equity Tier 1/ Tier 1	355,173	332,040	331,484	319,709	305,148	309,000
Tier 2 capital	22,964	42,017	43,417	22,884	41,146	42,587
<b>Total capital</b>	<b>378,137</b>	<b>374,057</b>	<b>374,901</b>	<b>342,593</b>	<b>346,294</b>	<b>351,587</b>
Risk-weighted assets	2,108,019	2,187,582	2,133,655	2,091,978	2,107,778	2,058,640
<b>Capital Adequacy Ratio</b>	<b>17.9%</b>	<b>17.1%</b>	<b>17.6%</b>	<b>16.4%</b>	<b>16.4%</b>	<b>17.1%</b>
Common Equity Tier 1/ Tier 1	16.8%	15.2%	15.6%	15.3%	14.5%	15.0%
Tier 2 capital	1.1%	1.9%	2.0%	1.1%	1.9%	2.1%

At the end of September 2019, the Bank's consolidated common equity Tier 1/Tier 1 capital increased significantly qoq, mainly the result of capital released from the divestment of SCB Life as well as appropriation of 1H19 net profit. On the other hand, Tier 2 capital declined by Baht 20 billion following the early redemption of Tier 2 subordinated debenture. Overall, the Bank's capital position remains strong which enables the Bank to pursue any future growth opportunities.

### Asset Quality

At the end of September 2019, **gross NPLs** (on a consolidated basis) increased 12.1% qoq to Baht 77.2 billion and **gross NPL ratio** rose qoq to 3.01%. The increase was due to new NPL formation from corporate segment. The Bank's **coverage ratio** remained high at 143.8% in 3Q19.

**Special mention loans** decreased significantly by 11.6% qoq in 3Q19 mainly from the migration of corporate customers to NPL.

Unit: Baht million, %	Sep 30, 19	Jun 30, 19	Mar 31, 19	Dec 31, 18	Sep 30, 18
<b>Consolidated</b>					
Non-Performing Loans (Gross NPLs)	77,207	68,885	67,904	70,389	69,762
Gross NPL ratio	3.01%	2.77%	2.77%	2.85%	2.80%
Non-Performing Loans (Net NPLs)	37,327	33,800	33,836	35,699	37,075
Net NPL ratio	1.48%	1.38%	1.40%	1.47%	1.51%
<u>Gross NPL ratio by segment/product</u>					
Corporate	3.18%	2.08%	2.16%	2.16%	1.90%
SME	7.51%	7.80%	7.82%	7.97%	8.51%
Retail	2.54%	2.50%	2.43%	2.60%	2.64%
Housing loans	2.90%	2.90%	2.87%	3.13%	3.17%
Auto loans	1.97%	1.91%	1.74%	1.80%	1.71%
Allowance for doubtful accounts and debt restructuring*	111,008	105,358	103,725	103,273	99,438
Total allowance to NPLs (Coverage ratio)	143.8%	152.9%	152.8%	146.7%	142.5%
Credit cost (Quarterly, bps)	284	110	102	167	98
<b>Bank-only</b>					
Non-Performing Loans (Gross NPLs)	76,217	67,895	66,914	69,383	68,756
Gross NPL ratio	2.97%	2.73%	2.76%	2.84%	2.78%
Non-Performing Loans (Net NPLs)	37,042	33,514	33,550	35,406	36,780
Net NPL ratio	1.47%	1.37%	1.40%	1.47%	1.51%

\* Excluding interbank and money market items.



**New NPLs by Segment and by Product**

	2019			2018				2017			
	3Q19	2Q19	1Q19	4Q18	3Q18	2Q18	1Q18	4Q17	3Q17	2Q17	1Q17
<b>Total loans</b>	<b>1.02%</b>	<b>0.54%</b>	<b>0.50%</b>	<b>0.48%</b>	<b>0.49%</b>	<b>0.44%</b>	<b>0.41%</b>	<b>0.49%</b>	<b>0.38%</b>	<b>0.45%</b>	<b>0.41%</b>
Corporate <sup>1/</sup>	1.77%	0.25%	0.12%	0.14%	0.25%	0.02%	0.06%	0.09%	0.01%	0.03%	0.03%
SME <sup>1/</sup>	0.90%	0.75%	0.99%	0.68%	0.73%	0.68%	0.79%	0.67%	0.58%	1.08%	0.63%
Housing loans <sup>2/</sup>	0.77%	0.83%	0.76%	0.85%	0.81%	0.93%	0.70%	0.96%	0.70%	0.70%	0.76%
Auto loans <sup>3/</sup>	0.72%	0.68%	0.61%	0.67%	0.57%	0.51%	0.43%	0.54%	0.50%	0.50%	0.41%
<b>New NPLs (Baht billion)</b>	<b>26.2</b>	<b>13.4</b>	<b>12.3</b>	<b>11.8</b>	<b>12.2</b>	<b>10.6</b>	<b>9.7</b>	<b>11.4</b>	<b>8.8</b>	<b>10.4</b>	<b>9.1</b>

<sup>1/</sup> 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.

<sup>2/</sup> 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.

<sup>3/</sup> 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	Sep 30, 19		Jun 30, 19		Sep 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	2,010,934	20,678	2,018,508	20,649	1,987,388	20,250
Special mention	65,325	3,883	73,873	4,084	50,378	3,424
Substandard	30,775	16,356	20,011	10,487	17,324	9,120
Doubtful	17,029	7,253	15,811	6,336	13,743	4,338
Doubtful loss	29,436	16,805	33,110	18,493	38,730	19,600
<b>Total</b>	<b>2,153,499</b>	<b>64,975</b>	<b>2,161,313</b>	<b>60,049</b>	<b>2,107,563</b>	<b>56,732</b>
Allowance established in excess of BOT regulations		42,943		41,341		38,521
<b>Total allowance</b>		<b>107,918</b>		<b>101,390</b>		<b>95,253</b>

**Sources and Uses of Funds**

As of September 30, 2019, deposits accounted for 73.6% of SCB's funding base. Other major sources of funds were: 13.3% from shareholders' equity, 4.1% from interbank borrowings, and 3.1% from debt issuance. Uses of funds for this same period were: 72.1% for loans, 15.2% for interbank and money markets lending, 9.1% for investments in securities, and 1.3% held in cash.

## Additional Financial Information

Consolidated	Sep 30, 19	Jun 30, 19	% qoq	Sep 30, 18	% yoy
Unit: Baht million, %					
<b>Loans by Sector</b>	<b>2,150,068</b>	<b>2,158,247</b>	<b>-0.4%</b>	<b>2,103,764</b>	<b>2.2%</b>
Agricultural and mining	13,642	13,851	-1.5%	20,046	-31.9%
Manufacturing and commercial	549,482	566,543	-3.0%	606,070	-9.3%
Real estate and construction	176,875	178,027	-0.6%	167,146	5.8%
Utilities and services	409,982	409,964	0.0%	365,692	12.1%
Housing loans <sup>1/</sup>	548,318	552,588	-0.8%	554,316	-1.1%
Other loans	451,769	437,274	3.3%	390,494	15.7%
<b>Debt securities in issue and borrowings</b>	<b>91,022</b>	<b>122,318</b>	<b>-25.6%</b>	<b>94,707</b>	<b>-3.9%</b>
Bonds	90,201	101,672	-11.3%	72,110	25.1%
Subordinated bonds	-	20,000	-100.0%	20,000	-100.0%
Structured notes	539	389	38.6%	2,322	-76.8%
Others	282	257	9.7%	275	2.5%
<b>NPL breakdown by status (Bank-only)</b>					
Restructured and being serviced	72.8%	73.6%	-0.8%	70.9%	1.9%
Under negotiation for restructuring	7.3%	8.2%	-0.9%	4.0%	3.3%
In litigation	7.2%	7.5%	-0.3%	12.6%	-5.4%
In foreclosure process	12.7%	10.7%	2.0%	12.5%	0.2%
<b>Troubled debt restructured loans</b>	<b>37,608</b>	<b>39,380</b>	<b>-4.5%</b>	<b>33,853</b>	<b>11.1%</b>
Restructured loans which are classified as NPL	9,901	11,430	-13.4%	7,131	38.8%
Restructured loans which are not classified as NPL	27,707	27,950	-0.9%	26,722	3.7%
	<b>3Q19</b>	<b>2Q19</b>	<b>3Q18</b>	<b>9M19</b>	<b>9M18</b>
<b>Yield on loans</b>	<b>5.61%</b>	<b>5.43%</b>	<b>5.30%</b>	<b>5.43%</b>	<b>5.27%</b>
Corporate	4.21%	4.31%	4.20%	4.20%	4.17%
SME	6.28%	6.05%	5.96%	5.96%	5.92%
Retail	6.63%	6.32%	6.21%	6.40%	6.17%
Housing loans	4.92%	4.93%	4.98%	4.93%	4.98%
Auto loans	6.28%	6.22%	6.33%	6.29%	6.33%
Credit card <sup>3/</sup>	15.53%	15.59%	16.60%	14.98%	16.15%
Speedy	22.22%	21.77%	21.30%	21.49%	20.97%
<b>Auto loans portfolio</b>					
New car	56.0%	56.4%	56.4%	56.0%	56.4%
Used car	26.8%	27.3%	27.1%	26.8%	27.1%
My car, My cash	17.2%	16.3%	16.5%	17.2%	16.5%
<b>NPL reduction methodology</b>					
Repayments, auctions, foreclosures and account closed	34.9%	44.9%	56.5%	39.5%	59.2%
Debt restructuring	1.0%	3.5%	7.7%	2.3%	8.0%
NPL sales <sup>2/</sup>	25.5%	28.6%	22.4%	30.2%	20.2%
Write off	38.6%	23.0%	13.3%	28.0%	12.6%

<sup>1/</sup> Classified by sector/product and excludes retail loans where customers use their home as collateral. (These loans are classified under "Other loans" in accordance with regulatory guidelines). Elsewhere in this report, all housing loans are aggregated under mortgage loans and the balance of these loans at the end of September 30, 2019, June 30, 2019, and September 30, 2018, was Baht 652 billion, Baht 652 billion, and Baht 644 billion, respectively.

<sup>2/</sup> The Bank sold NPLs of Baht 5.6 billion in 3Q19, Baht 4.3 billion in 2Q19, Baht 3.3 billion in 3Q18, Baht 16.6 billion in 9M19, and Baht 8.2 billion in 9M18.

<sup>3/</sup> Revolver only

**Assets and liabilities of SCB Life (consolidation level) as of September 26, 2019**

Unit: Baht million

**Assets**

Cash	1
Interbank and money market items-net (Assets)	12,790
Derivatives assets	5,274
Investments-net	328,851
Loans to customers	10,899
Accrued interest receivables	245
Premises and equipment-net	273
Goodwill and other intangible assets net	9,395
Other assets-net	5,246
<b>Total assets</b>	<b>372,974</b>

**Liabilities**

Provisions	247
Liabilities under insurance contracts	286,588
Liabilities pending transfer	1
Deferred tax liabilities	5,285
Other liabilities	8,654
<b>Total liabilities</b>	<b>300,775</b>

**Credit Ratings**

Credit Ratings of Siam Commercial Bank PCL	September 30, 2019
<b>Moody's Investors Service</b>	
Outlook	Positive
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
Outlook	Stable
Senior Unsecured (Long Term)	BBB+
Senior Unsecured (Short Term)	A-2
<b>Fitch Ratings</b>	
<b><u>Foreign Currency</u></b>	
Long Term Issuer Default Rating	BBB+
Short Term Issuer Default Rating	F2
Outlook	Stable
Senior Unsecured	BBB+
Viability Rating	bbb+
<b><u>National</u></b>	
Long Term Rating	AA+(tha)
Short Term Rating	F1+(tha)
Outlook	Stable
Subordinated Debenture	AA(thai)

## 4. Awards and Achievement

(Awards granted during the third quarter of 2019)

### **Euromoney (United Kingdom)**

- Best Bank in Thailand
- No. 1 Thailand's Best bank – Overall in Real Estate Survey 2019
- No. 1 Thailand's Best bank – Loan Finance in Real Estate Survey 2019
- No. 1 Thailand's Best bank – Equity Finance in Real Estate Survey 2019
- No. 1 Thailand's Best bank – Securitization in Real Estate Survey 2019

### **Global Finance (United State)**

- Best Consumer Digital Bank (Thailand)

### **Asiamoney (Hong Kong)**

- Best Bank in Thailand
- Best Local Bank in the Region for BRI (Southeast Asia)
- Best Domestic Cash Manager in Thailand
- Best Domestic Services in Thailand for non-financial institutions
- Best Bank for Technology in cash management in Thailand
- Market Leader (Trade Finance) in Thailand

### **Alpha Southeast Asia (Hong Kong)**

- Best Asset Manager - Money Market Funds: SCB Asset Management
- Best Asset Manager - Fixed Income Funds: SCB Asset Management
- Best Asset Manager - Balanced Funds: SCB Asset Management

### **Asian Banking and Finance (Singapore)**

- Corporate & Investment Bank of the Year (Thailand)
- Equity Deal of the Year (Thailand)
- Debt Deal of the Year (Thailand)

### **Digital Banker (Singapore)**

- Best Financial Inclusion Initiative: SCB Abacus

### **MBA Chula Alumni**

- The Best of Drive Award 2019: Finances