

**SCB**  
ไทยพาณิชย์



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## Management Discussion and Analysis

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For the fourth quarter and year ended December 31, 2019

**The Siam Commercial Bank Public Company Limited**

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## 1. Executive Summary

Siam Commercial Bank and its subsidiaries reported 2019 pre-provision operating profit (PPOP) of Baht 95.6 billion, up 30% yoy. This strong PPOP growth from 2018 was primarily driven by the recognition of extraordinary gains from sale of SCB Life. Nevertheless, the Bank set aside higher provisions in 2019, resulting in the annual net profit (based on audited consolidated financial statements) of Baht 40.4 billion.

Net interest income grew at 3% yoy to Baht 99.4 billion. Despite falling interest rates in 2019 and a slight decline in the overall portfolio size, the Bank was able to sustain this growth momentum by rebalancing its loan portfolio towards higher margin products.

Non-interest income surged 59% yoy to Baht 66.7 billion mainly due to a large investment gain from sale of SCB Life recorded in late September. Excluding this one-off item, non-interest income would have returned to its growth trajectory of 2% yoy with improved recurring income and a new income stream from the bancassurance partnership that commenced in the fourth quarter.

Operating expenses grew at 9% yoy to Baht 70.5 billion mainly because of one-time personnel expenses to comply with the new labor law and transformation-related expenses. With the strong top-line growth of 20% yoy, cost-to-income ratio declined to 42.5%.

Non-performing loan ratio rose to 3.41% at the end of December 2019 from below 3% in the first half of 2019. This deterioration reflected a challenging business environment as economic headwinds intensified in the second half of 2019 coupled with the Bank's prudent loan classification policy.

Given the current trend on asset quality as well as economic uncertainty, the Bank set aside total loan loss provisions of Baht 36.2 billion for 2019. At the end of December 2019, NPL coverage was maintained at 134% and the capital adequacy ratio remained strong at 18.1%.

## 2. Thailand's Economic Outlook

**In 2019, Thailand's GDP growth dropped to 2.4%**, from 4.2% in 2018, as a result of a contraction in exports caused by the global economic slowdown, U.S.–China trade tensions and the baht's steep appreciation. Private consumption and investment decelerated amid the export sector's slump, steadily dragging on incomes, employment and consumer confidence. However, in the second half of 2019, household spending was bolstered by government stimulus measures and rebounding tourism, which saw a rise in international arrivals, although spending-per-visitor remained on a downtrend.

**SCB expects that the Thai economy will grow more slowly in 2020, at 1.8%.** The global trade outlook had started to look somewhat better after the U.S. and China agreed in January on a “phase one” deal that dropped some import tariffs imposed during recent bilateral disputes. But the coronavirus outbreak is likely to disrupt economic activity in China and other countries. The Chinese government imposed strict measures to combat the epidemic such as shutting down transportation in several big cities, extending the Chinese New Year holidays and banning outbound group tours. SCB therefore projects that Thailand's exports will continue to shrink in 2020, although less severely than last year. Moreover, the epidemic will hit Thailand's tourism sector by reducing the number of international arrivals from China and elsewhere, especially in the first half of 2020.

**Private consumption and investments are expected to rise at slower rates in 2020, dragging on domestic demand.** Thailand's household consumption will be constrained by slower hiring in the manufacturing sector and tourism-related businesses, farm incomes will be depressed by drought, and household debt is expected to soar. Private investment is likely to slow down due to limited domestic purchasing power, high inventories, particularly in the industrial sector, and low industrial capacity utilization. Yet investment will be supported by the rollout of investments in 5G mobile telecom networks. The Thai government will play a bigger role in sustaining economic expansion through infrastructure spending, which is expected to accelerate, despite some delays in the budget process at the beginning of the year. Besides, the Thai government might undertake an additional stimulus package in 2020, which could help the economy during the year.

**In terms of financial condition, interest rate is projected to remain low throughout 2020.** On February 5, Thailand's monetary policy committee (MPC) cut the policy rate to 1.00% to cushion against the negative impact of the coronavirus epidemic and national budget delay. Going forward, it is likely that the MPC will keep the interest rate at 1.00% throughout the year, but a further rate cut might be announced to counter prolonged economic slowdown. The baht is projected to be weaker during the first half of 2020 due to the impact of the coronavirus situation, which is likely to reduce Thailand's surplus of trade in both goods and services. Nevertheless, SCB expects the baht to rebound strongly by the end of 2020, trading around 30-31 THB/USD, because Thailand's current account surplus will remain higher than those of other countries in the region.

**Despite these challenge, the Thai economy is fundamentally in a good condition,** as reflected in strong economic indicators, including the current account surplus, sufficient foreign reserves, a high level of capital funds in financial institutions, and the government's capability to authorize additional

stimulus schemes if necessary. Nevertheless, significant risks remain, including: 1) the possibility that the coronavirus outbreak could become worse than expected, 2) uncertainty in the trade policies of key economies, 3) geopolitical risks, particularly tensions between the U.S. and Iran, and 4) the financial fragility of Thai households and SMEs, especially those with high debt levels and those affected by technological transformation and fierce business competition.

### 3. Management Discussion and Analysis

For the fourth quarter and year ended December 31, 2019

Siam Commercial Bank PCL reported (audited) consolidated **net profit** of Baht 40,436 million for 2019. Pre-provision operating profit (PPOP) rose 29.9% from last year driven mainly by a one-time gain from sale of SCB Life, higher net interest income and higher net fee income but offset by higher operating expenses (OPEX). The Bank set aside provisions of Baht 36,211 million (+50.7% yoy), arising from the slower economy and its consequent potential impact on the Bank's loan portfolio.

**In the fourth quarter**, net profit decreased by 22.3% yoy to Baht 5,506 million in 4Q19. PPOP decreased by 6.2% largely due to lower interest income from investment after the Bank's divestment in SCB Life and higher OPEX. These negative factors were partly offset by higher net fee income, particularly from the new income stream generated by the bancassurance partnership, and higher gain on investments.

On a **quarter-on-quarter** basis, PPOP (excluding one-time gain from sale of SCB Life in 3Q19) decreased by 12.3% qoq mainly due to lower net interest income and higher OPEX partly offset by higher net fee income.

#### Net Profit and Total Comprehensive Income

Consolidated	2019	2018	% yoy	4Q19	% qoq	% yoy
Unit: Baht million						
Net interest income	99,402	96,369	3.1%	22,960	-12.3%	-7.4%
Non-interest income	66,696	41,855	59.3%	12,074	-64.8%	34.4%
Total operating income	166,098	138,225	20.2%	35,035	-42.0%	3.7%
Operating expenses	70,538	64,639	9.1%	18,483	5.2%	14.6%
<b>Pre-provision operating profit</b>	<b>95,560</b>	<b>73,586</b>	<b>29.9%</b>	<b>16,552</b>	<b>-61.4%</b>	<b>-6.2%</b>
Impairment loss on loans and debt securities	36,211	24,023	50.7%	9,608	-37.1%	8.3%
Income tax	19,098	9,468	101.7%	1,536	-88.1%	-9.9%
Non-controlling interests	(185)	28	NM	(98)	NM	NM
<b>Net profit (attributable to shareholders of the Bank)</b>	<b>40,436</b>	<b>40,068</b>	<b>0.9%</b>	<b>5,506</b>	<b>-62.8%</b>	<b>-22.3%</b>
Other comprehensive income	19,863	(4,809)	NM	(620)	NM	NM
<b>Total comprehensive income</b>	<b>60,300</b>	<b>35,259</b>	<b>71.0%</b>	<b>4,886</b>	<b>-82.0%</b>	<b>-33.1%</b>
ROAE	10.4%	10.8%		5.5%		
ROAA	1.3%	1.3%		0.7%		

NM denotes "not meaningful"

## Share Information

Unit: Baht	2019	2018	% yoy	4Q19	% qoq	% yoy
EPS	11.90	11.79	0.9%	1.62	-62.8%	-22.3%
BVPS	117.78	111.80	5.3%	117.78	1.2%	5.3%
Closing price	122.00	133.50	-8.6%	122.00	3.4%	-8.6%
Shares outstanding* (Million shares)	3,399	3,399	0.0%	3,399	0.0%	0.0%
Market capitalization (Baht billion)	414.7	453.8	-8.6%	414.7	3.4%	-8.6%

\* Include both common and preferred shares

## Income Statement for the fourth quarter and year ended December 31, 2019

(Consolidated basis)

### Net interest income

Consolidated	2019	2018	% yoy	4Q19	% qoq	% yoy
Unit: Baht million						
<b>Interest income</b>	<b>135,025</b>	<b>129,127</b>	<b>4.6%</b>	<b>31,719</b>	<b>-10.5%</b>	<b>-4.8%</b>
Loans	102,864	98,035	4.9%	25,528	-4.5%	1.6%
Interbank and money market	5,737	5,456	5.1%	1,410	-0.1%	-11.5%
Financial leases	13,461	12,003	12.1%	3,431	-1.0%	9.8%
Investments	12,833	13,495	-4.9%	1,315	-65.3%	-62.1%
Others	130	138	-6.0%	35	-17.1%	16.3%
<b>Interest expenses</b>	<b>35,624</b>	<b>32,758</b>	<b>8.7%</b>	<b>8,758</b>	<b>-5.2%</b>	<b>2.6%</b>
Deposits	20,062	18,301	9.6%	5,181	-2.7%	8.4%
Interbank and money market	1,601	1,534	4.3%	362	-2.0%	-3.1%
Borrowings	3,625	3,012	20.3%	629	-30.8%	-26.8%
Contribution to the Deposit Protection Agency & FIDF	10,116	9,735	3.9%	2,540	-1.3%	2.7%
Others	220	176	24.7%	46	-28.4%	1.5%
<b>Net interest income</b>	<b>99,402</b>	<b>96,369</b>	<b>3.1%</b>	<b>22,960</b>	<b>-12.3%</b>	<b>-7.4%</b>

- **Net interest income** in 2019 increased by 3.1% yoy to Baht 99,402 million due to higher net interest margin following the Bank's strategy to grow high margin loans. The improved margin was substantial enough to outweigh the effect from the two lending rate cuts in 2019 and a 1.3% yoy decline in loan growth.
- **In the fourth quarter**, net interest income decreased by 7.4% yoy to Baht 22,960 million in 4Q19 which was largely driven by lower interest income from investments as the Bank no longer accrued interest income from SCB Life following the divestment. In addition, there was also a slight decline in loan growth as a result of loan repayment and stricter underwriting standards amidst continuous economic uncertainty.

- On a **quarter-on-quarter** basis, net interest income decreased by 12.3% qoq due to (1) lower interest income from investments as mentioned above, (2) negative loan growth (-1.7% qoq), and (3) the lending rate cut in November 2019.

## Yield and cost of funding

Consolidated	2019	2018	4Q19	3Q19	3Q19 <sup>1/</sup>	2Q19	2Q19 <sup>2/</sup>	1Q19
Unit: Percentage				(As reported)	(As reported)			
Net interest margin <sup>3/</sup>	3.34%	3.21%	3.20%	3.68%	3.33%	3.45%	3.27%	3.20%
Yield on earning assets <sup>3/</sup>	4.54%	4.30%	4.42%	4.98%	4.51%	4.65%	4.40%	4.33%
Yield on loans <sup>3/</sup>	5.47%	5.27%	5.43%	5.61%	5.58%	5.43%	5.42%	5.27%
Yield on interbank and money market	1.41%	1.57%	1.27%	1.37%	1.49%	1.52%	1.49%	1.68%
Yield on investment	2.91%	2.37%	1.80%	5.41%	2.52%	3.47%	2.58%	2.34%
Cost of funds <sup>4/</sup>	1.49%	1.40%	1.46%	1.53%	1.53%	1.47%	1.47%	1.45%
Cost of deposits <sup>5/</sup>	1.39%	1.31%	1.41%	1.43%	1.43%	1.36%	1.36%	1.33%

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

<sup>1/</sup> Projected ratios assume that 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	Dec 21, 15	Mar 1, 16	Apr 7, 16	Apr 25, 16	Oct 12, 16	May 16, 17	Jan 4, 19	Aug 15, 19	Nov 8, 19
<b>Lending rate (%)</b>									
MLR	6.525	6.525	6.275	6.275	6.275	6.025	6.025	6.025	6.025
MOR	7.37	7.37	7.37	7.12	7.12	6.87	6.87	6.745	6.745
MRR	7.87	7.87	7.87	7.62	7.62	7.37	7.37	7.12	6.87
<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	0.90-1.60	0.90	0.90	0.90	0.90	0.90	0.90-1.15	0.90-1.15	0.65-0.90
6-month deposits	1.15	1.15	1.15	1.15	1.15	1.15	1.15-1.40	1.15-1.40	0.90-1.15
12-month deposits	1.30	1.30	1.30	1.30	1.40	1.40	1.40-1.65	1.40-1.65	1.15-1.40
* Excluding special campaigns which generally offer significantly higher rates but have different terms and conditions from the 3, 6, 12 month term deposits.									
	Oct 17, 12	May 29, 13	Nov 27, 13	Mar 12, 14	Mar 11, 15	Apr 29, 15	Dec 19, 18	Aug 7, 19	Nov 6, 19
<b>Policy rate (%)</b>	2.75	2.50	2.25	2.00	1.75	1.50	1.75	1.50	1.25



## Non-interest income

Consolidated	2019	2018	% yoy	4Q19	% qoq	% yoy
Unit: Baht million						
Net fee and service income	29,670	28,456	4.3%	8,427	14.0%	25.8%
Fee and service income	39,103	37,016	5.6%	11,054	13.5%	22.5%
Fee and service expenses	9,433	8,560	10.2%	2,628	12.0%	13.1%
Net insurance premiums	(396)	682	NM	-	NM	NM
Net earned insurance premiums	34,951	50,592	-30.9%	-	NM	NM
Net insurance claims	35,347	49,910	-29.2%	-	NM	NM
<b>Net fee and insurance premium</b>	<b>29,274</b>	<b>29,138</b>	<b>0.5%</b>	<b>8,427</b>	<b>24.8%</b>	<b>31.1%</b>
Net gain on trading and foreign exchange transactions	6,817	7,945	-14.2%	1,552	23.4%	6.1%
Share of profit from investment in associate	31	47	-35.1%	(457)	NM	NM
Dividend income	627	1,211	-48.2%	8	-95.1%	-93.7%
Other income	541	584	-7.4%	229	97.1%	47.3%
<b>Non-interest income excluding net gain on investments</b>	<b>37,289</b>	<b>38,925</b>	<b>-4.2%</b>	<b>9,759</b>	<b>11.6%</b>	<b>21.2%</b>
Net gain on investments	5,383	2,930	83.7%	2,316	55.1%	148.6%
Net gain on sale of investment in subsidiary	24,024	-	NM	-	NM	-
<b>Total non-interest income*</b>	<b>66,696</b>	<b>41,855</b>	<b>59.3%</b>	<b>12,074</b>	<b>-64.8%</b>	<b>34.4%</b>

\* Excluding the one-time gain from the sale of SCB Life, non-NII would have increased by 2.0% yoy for 2019.

NM denotes "not meaningful"

- **Non-interest income** increased significantly by 59.3% yoy to Baht 66,696 million in 2019 mainly due to a one-time gain from the sale of SCB Life and higher net fee income from the new income stream generated by the bancassurance partnership, mutual fund business and loan-related fees. The above increases was partly offset by lower net gain on trading and foreign exchange transactions and negative net insurance premiums.
- **In the fourth quarter**, non-interest income increased by 34.4% yoy to Baht 12,074 million in 4Q19 due to higher gain on investments and higher net fee income from bancassurance, corporate finance and mutual fund businesses.
- On a **quarter-on-quarter** basis, non-interest income (excluding one-time gain from sale of SCB Life in 3Q19) increased by 18.0% qoq mainly due to higher net fee income and higher net gain on trading and foreign exchange transactions.

## Non-interest income

Consolidated Unit: Baht million	2019	2018	% yoy	4Q19	% qoq	% yoy
Transactional banking *	14,726	15,761	-6.6%	3,715	2.9%	-1.1%
Lending related **	8,087	7,219	12.0%	1,948	-12.3%	-5.7%
Wealth management ***	7,303	6,995	4.4%	1,858	-9.9%	21.7%
Bancassurance	3,641	2,284	59.4%	1,790	161.1%	346.2%
<b>Recurring income</b>	<b>33,757</b>	<b>32,259</b>	<b>4.6%</b>	<b>9,311</b>	<b>8.5%</b>	<b>20.1%</b>
Non-recurring and others	33,335	8,914	274.0%	2,764	-89.5%	83.6%
Net insurance premium	(396)	682	NM	-	NM	NM
<b>Total non-interest income</b>	<b>66,696</b>	<b>41,855</b>	<b>59.3%</b>	<b>12,074</b>	<b>-64.8%</b>	<b>34.4%</b>

\* Including transactional fee, trade and FX income, and others

\*\* Including loan related fee and credit cards

\*\*\* Including income from fund management, securities business, and others

NM denotes "not meaningful"

## Operating expenses

Consolidated Unit: Baht million	2019	2018	% yoy	4Q19	% qoq	% yoy
Employee expenses	33,281	29,347	13.4%	8,542	9.9%	17.2%
Premises and equipment expenses	13,894	13,264	4.8%	3,666	3.3%	3.3%
Taxes and duties	4,627	4,489	3.1%	1,066	-12.5%	-7.5%
Directors' remuneration	105	100	5.0%	28	6.0%	5.8%
Other expenses	18,631	17,439	6.8%	5,181	3.7%	26.0%
<b>Total operating expenses</b>	<b>70,538</b>	<b>64,639</b>	<b>9.1%</b>	<b>18,483</b>	<b>5.2%</b>	<b>14.6%</b>
<b>Cost to income ratio*</b>	<b>42.5%</b>	<b>46.8%</b>		<b>52.8%</b>		

\* Excluding the one-time gain from the sale of SCB Life and one-time personnel expenses to comply with the new labor law, cost-to-income ratio would have been 48.7% in 2019.

- **Operating expenses** increased by 9.1% yoy to Baht 70,538 million in 2019 primarily due to higher staff cost, higher other expenses from amortization of software license as well as higher premises and equipment expenses which reflected higher depreciation from the Bank's transformation program. The increase in staff cost consisted of one-time personnel expenses in 1Q19 to comply with the new labor law, annual salary adjustment and re-skilling of workforce required.
- **In the fourth quarter**, operating expenses increased by 14.6% yoy to Baht 18,483 million in 4Q19 due to higher staff costs as mentioned above as well as higher amortization of software license and higher credit card redemption.
- On a **quarter-on-quarter** basis, operating expenses increased by 5.2% qoq due to higher staff cost, higher other expenses as well as higher premises and equipment expenses.

Cost-to-income ratio stood at 42.5% in 2019. Excluding the one-time gain from the sale of SCB Life and one-time personnel expenses to comply with the new labor law, cost-to-income ratio would be at 48.7% due to higher staff cost from changing mix of skillsets, increasing depreciation expenses from transformation projects and IT-related expenses. Efforts are continuing in re-shaping the organization and adjusting the cost structure as more and more customers shift their banking services onto digital channels.

### Impairment loss on loans and debt securities

Consolidated	2019	2018	% yoy	4Q19	% qoq	% yoy
Unit: Baht million						
Impairment loss on loans and debt securities	36,211	24,023	50.7%	9,608	-37.1%	8.3%
Credit cost (bps)	170	115		180		

- In 2019, **impairment loss on loans and debt securities** was set at Baht 36,211 million (170 bps of total loans). Out of this amount, Baht 9,100 million was an additional provision on top of the normalized requirement of Baht 27,111 million (127 bps of total loans) in 2019 to prepare for possible future adverse events amidst increasing economic uncertainty. The normalized provision of 127 bps of total loans are higher than the 115 bps recorded in 2018 due to the slower economy.

### Balance sheet as of December 31, 2019 (Consolidated basis)

As of December 31, 2019, the Bank's total assets fell 7.0% yoy to Baht 2,964 billion due to the divestment of SCB Life and a decline in loan growth. Details on the consolidated balance sheets are provided in the following sections:

#### Loans

By Segment (Consolidated)	Dec 31, 19	Dec 31, 18	% yoy	Sep 30, 19	% qoq
Unit: Baht million					
Corporate	755,822	830,586	-9.0%	798,877	-5.4%
SME	350,837	341,305	2.8%	350,550	0.1%
Retail	1,007,128	968,670	4.0%	1,000,641	0.6%
Housing loans*	649,925	644,508	0.8%	651,557	-0.3%
Auto loans	219,187	203,075	7.9%	222,318	-1.4%
Unsecured loans	135,709	108,978	24.5%	124,917	8.6%
Other loans	2,307	12,109	-80.9%	1,850	24.7%
<b>Total loans</b>	<b>2,113,787</b>	<b>2,140,561</b>	<b>-1.3%</b>	<b>2,150,068</b>	<b>-1.7%</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) as of December 31, 2019 decreased by 1.3% yoy and 1.7% qoq. Details on changes in loan volume by customer segments are as follows:

- **Corporate** loans declined 9.0% yoy and 5.4% qoq mainly because of loan repayments. This was in line with the Bank's strategy to optimize its loan portfolio based on the risk/return profile.
- **SME** loans rose 2.8% yoy and 0.1% qoq due largely to more lending to small SME customers following the Bank's strategy to grow high margin loans in targeted customer segments.
- **Retail** loans grew 4.0% yoy and 0.6% qoq with strong growth for high-margin lending products.
  - **Housing loans** increased 0.8% yoy mainly due to higher take-up of My Home, My Cash loan (a personal loan product collateralized by borrowers' properties) despite the BOT's macroprudential measures which took effect on April 1, 2019. On a quarter-on-quarter basis, housing loans were relatively flat as strong demand for My Home, My Cash product was offset by lower new housing loans.
  - **Auto loans** expanded 7.9% yoy, largely driven by strong demand for new cars in the first half of 2019 and My Car, My Cash loans (a personal loan product collateralized by borrowers' automobiles). On a quarter-on-quarter basis, auto loans decreased by 1.4% qoq following a decline in car sales towards the end of the year.
  - **Unsecured loans** (personal loans and credit card receivables) surged 24.5% yoy and 8.6% qoq, following the Bank's strategy to grow high-margin loans in targeted customer segments.
  - **Other loans** declined significantly by 80.9% yoy due mainly to deconsolidation of SCB Life's policy loans after its divestment in September 2019.

## Deposits

Consolidated Unit: Baht million	Dec 31, 19	Dec 31, 18	% yoy	Sep 30, 19	% qoq
Demand	77,549	68,139	13.8%	77,987	-0.6%
Savings	1,376,942	1,418,782	-2.9%	1,404,318	-1.9%
Fixed	704,934	672,710	4.8%	711,517	-0.9%
Less than 6 months	110,568	133,341	-17.1%	102,635	7.7%
6 months and up to 1 year	244,694	194,939	25.5%	268,906	-9.0%
Over 1 year	349,672	344,430	1.5%	339,976	2.9%
<b>Total deposits</b>	<b>2,159,425</b>	<b>2,159,631</b>	<b>0.0%</b>	<b>2,193,822</b>	<b>-1.6%</b>
CASA - Current & Savings	67.4%	68.9%		67.6%	
Accounts (%)					
Gross loans to deposits ratio	97.9%	99.1%		98.0%	
Liquidity ratio (Bank-only)	31.0%	25.0%		30.4%	

As of December 31, 2019, total **deposits** was relatively flat yoy as higher fixed deposits (boosted by fixed deposit campaigns in 2Q19) was offset by a decline in saving deposits. On a quarter-on-quarter basis, deposits fell 1.6% qoq mainly due to a decline in saving deposits. The Bank's CASA proportion remained stable at 67.4% at the end of December 2019.

The Bank's daily liquidity ratio of 31.0%, as measured by total liquid assets to total deposits (at a bank-only level), was well above the 20% minimum threshold.

### 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. This Higher Loss Absorbency requirement (or D-SIBs buffer) is added on top of the capital conservation buffer of 2.5% to provide additional stability and resilience.

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.

<b>Minimum regulatory capital requirement (%)</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
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 December 2019.

Unit: Baht million, %	Consolidated			Bank-only		
	Dec 31, 19	Sep 30, 19	Dec 31, 18	Dec 31, 19	Sep 30, 19	Dec 31, 18
<b>Statutory Capital</b>						
Common Equity Tier 1/ Tier 1	352,692	355,173	326,679	317,312	319,709	305,183
Tier 2 capital	22,514	22,964	43,793	22,432	22,884	42,953
<b>Total capital</b>	<b>375,206</b>	<b>378,137</b>	<b>370,472</b>	<b>339,744</b>	<b>342,593</b>	<b>348,136</b>
Risk-weighted assets	2,075,492	2,108,019	2,166,374	2,060,169	2,091,978	2,091,071
<b>Capital Adequacy Ratio</b>	<b>18.1%</b>	<b>17.9%</b>	<b>17.1%</b>	<b>16.5%</b>	<b>16.4%</b>	<b>16.6%</b>
Common Equity Tier 1/ Tier 1	17.0%	16.8%	15.1%	15.4%	15.3%	14.6%
Tier 2 capital	1.1%	1.1%	2.0%	1.1%	1.1%	2.0%

At the end of December 2019, the Bank's consolidated common equity Tier 1/Tier 1 capital increased significantly yoy, mainly as a result of capital released from the divestment of SCB Life as well as appropriation of net profit. On the other hand, Tier 2 capital declined yoy due to early redemption of Tier 2 subordinated debenture of Baht 20 billion in 3Q19. Overall, the Bank's capital position remains strong which enables the Bank to pursue any future growth opportunities.

### Asset Quality

At the end of December 2019, **gross NPLs** (on a consolidated basis) increased 21.1% yoy to Baht 85.2 billion and **gross NPL ratio** rose yoy to 3.41%. Loan quality deteriorated across all segments which reflected a challenging business environment as economic headwinds intensified in the second half of 2019. Another reason for increased NPLs in this period was also the Bank's qualitative loan classification of some corporate and SME customers. The Bank's **coverage ratio** remained high at 134.1% at the end of 2019.

Unit: Baht million, %	Dec 31, 19	Sep 30, 19	Jun 30, 19	Mar 31, 19	Dec 31, 18
<b>Consolidated</b>					
Non-Performing Loans (Gross NPLs)	85,212	77,207	68,885	67,904	70,389
Gross NPL ratio	3.41%	3.01%	2.77%	2.77%	2.85%
Non-Performing Loans (Net NPLs)	42,761	37,327	33,800	33,836	35,699
Net NPL ratio	1.74%	1.48%	1.38%	1.40%	1.47%
<u>Gross NPL ratio by segment/product</u>					
Corporate	3.56%	3.18%	2.08%	2.16%	2.16%
SME	8.31%	7.51%	7.80%	7.82%	7.97%
Retail	2.90%	2.54%	2.50%	2.43%	2.60%
Housing loans	3.34%	2.90%	2.90%	2.87%	3.13%
Auto loans	2.29%	1.97%	1.91%	1.74%	1.80%
Allowance for doubtful accounts and debt restructuring*	114,272	111,008	105,358	103,725	103,273
Total allowance to NPLs (Coverage ratio)	134.1%	143.8%	152.9%	152.8%	146.7%
Credit cost (Quarterly, bps)	180	284	110	102	167
<b>Bank-only</b>					
Non-Performing Loans (Gross NPLs)	84,349	76,217	67,895	66,914	69,383
Gross NPL ratio	3.38%	2.97%	2.73%	2.76%	2.84%
Non-Performing Loans (Net NPLs)	42,498	37,042	33,514	33,550	35,406
Net NPL ratio	1.73%	1.47%	1.37%	1.40%	1.47%

\* Excluding interbank and money market items.

Consolidated Unit: Baht million	Dec 31, 19		Sep 30, 19		Dec 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	1,966,438	20,403	2,010,934	20,678	2,019,500	20,661
Special mention	64,996	4,040	65,325	3,883	53,968	3,500
Substandard	36,234	19,618	30,775	16,356	23,034	12,831
Doubtful	17,821	6,353	17,029	7,253	13,246	4,318
Doubtful loss	31,244	16,763	29,436	16,805	34,147	17,902
<b>Total</b>	<b>2,116,733</b>	<b>67,177</b>	<b>2,153,499</b>	<b>64,975</b>	<b>2,143,895</b>	<b>59,212</b>
Allowance established in excess of BOT regulations		43,973		42,943		40,193
<b>Total allowance</b>		<b>111,150</b>		<b>107,918</b>		<b>99,405</b>

**Special mention loans** increased by 20.4% yoy in 4Q19 mainly in the SME and retail segments, particularly auto loans, but declined qoq.

## New NPLs by Segment and by Product

	2019				2018				2017				2019	2018
	4Q19	3Q19	2Q19	1Q19	4Q18	3Q18	2Q18	1Q18	4Q17	3Q17	2Q17	1Q17		
<b>Total loans</b>	<b>0.73%</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>	<b>2.80%</b>	<b>1.80%</b>
Corporate <sup>1/</sup>	0.22%	1.77%	0.25%	0.12%	0.14%	0.25%	0.02%	0.06%	0.09%	0.01%	0.03%	0.03%	2.51%	0.46%
SME <sup>1/</sup>	1.97%	0.90%	0.75%	0.99%	0.68%	0.73%	0.68%	0.79%	0.67%	0.58%	1.08%	0.63%	4.58%	2.90%
Housing loans <sup>2/</sup>	0.78%	0.77%	0.83%	0.76%	0.85%	0.81%	0.93%	0.70%	0.96%	0.70%	0.70%	0.76%	3.15%	3.26%
Auto loans <sup>3/</sup>	0.85%	0.72%	0.68%	0.61%	0.67%	0.57%	0.51%	0.43%	0.54%	0.50%	0.50%	0.41%	2.85%	2.10%
<b>New NPLs (Baht billion)</b>	<b>18.2</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>	<b>70.1</b>	<b>44.3</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.

New NPL formation in 2019 trended up significantly from the previous year across all segments amidst softening economic environment except for housing loans. In 4Q19, new NPL formation (excluding one big corporate account recorded as NPLs in 3Q19) still remained high due to qualitative classification of some corporate and SME customers as well as deterioration of certain SME and retail portfolios given the conservative standard of the Bank.

## Sources and Uses of Funds

As of December 31, 2019, deposits accounted for 72.9% of SCB's funding base. Other major sources of funds were: 13.5% from shareholders' equity, 4.9% from interbank borrowings, and 2.6% from debt issuance. Uses of funds for this same period were: 71.3% for loans, 14.6% for interbank and money markets lending, 10.5% for investments in securities, and 1.6% held in cash.



## Additional Financial Information

Consolidated	Dec 31, 19	Dec 31, 18	% yoy	Sep 30, 19	% qoq
Unit: Baht million, %					
<b>Loans by Sector</b>	<b>2,113,787</b>	<b>2,140,561</b>	<b>-1.3%</b>	<b>2,150,068</b>	<b>-1.7%</b>
Agricultural and mining	16,820	19,798	-15.0%	13,642	23.3%
Manufacturing and commercial	554,901	610,341	-9.1%	549,482	1.0%
Real estate and construction	169,798	166,640	1.9%	176,875	-4.0%
Utilities and services	363,278	376,276	-3.5%	409,982	-11.4%
Housing loans <sup>1/</sup>	544,388	552,772	-1.5%	548,318	-0.7%
Other loans	464,602	414,734	12.0%	451,769	2.8%
<b>Investment</b>	<b>312,143</b>	<b>568,901</b>	<b>-45.1%</b>	<b>272,557</b>	<b>14.5%</b>
Trading securities and securities measured at fair value through P/L	29,814	13,415	122.2%	30,651	-2.7%
Available-for-sale securities	270,740	432,663	-37.4%	228,716	18.4%
Held-to-maturity securities	7,830	120,645	-93.5%	8,639	-9.4%
General investments	3,681	2,131	72.7%	4,015	-8.3%
Investment in associate	78	47	64.9%	535	-85.4%
<b>Debt issued and borrowings</b>	<b>77,952</b>	<b>107,561</b>	<b>-27.5%</b>	<b>91,022</b>	<b>-14.4%</b>
Bonds	76,060	86,694	-12.3%	90,201	-15.7%
Subordinated bonds	-	20,000	-100.0%	-	-
Structured notes	1,596	607	162.9%	539	196.1%
Others	296	260	13.8%	282	5.0%
<b>NPL breakdown by status (Bank-only)</b>					
Restructured and being serviced	76.1%	75.1%	1.0%	72.8%	3.3%
Under negotiation for restructuring	4.9%	2.9%	2.0%	7.3%	-2.4%
In litigation	8.6%	8.4%	0.2%	7.2%	1.4%
In foreclosure process	10.4%	13.6%	-3.2%	12.7%	-2.3%
<b>Troubled debt restructured loans</b>	<b>40,970</b>	<b>33,493</b>	<b>22.3%</b>	<b>37,608</b>	<b>8.9%</b>
Restructured loans which are classified as NPL	10,166	10,257	-0.9%	9,901	2.7%
Restructured loans which are not classified as NPL	30,804	23,236	32.6%	27,707	11.2%
	<b>4Q19</b>	<b>3Q19</b>	<b>4Q18</b>	<b>2019</b>	<b>2018</b>
<b>Yield on loans</b>	<b>5.43%</b>	<b>5.61%</b>	<b>5.32%</b>	<b>5.47%</b>	<b>5.27%</b>
Corporate	4.01%	4.21%	4.18%	4.23%	4.16%
SME	6.28%	6.28%	6.00%	6.07%	5.93%
Retail	6.41%	6.63%	6.20%	6.41%	6.15%
Housing loans	4.82%	4.92%	4.95%	4.91%	4.99%
Auto loans	6.22%	6.28%	6.28%	6.38%	6.29%
Credit card <sup>3/</sup>	15.19%	15.58%	15.82%	15.43%	16.44%
Speedy	21.44%	22.22%	21.26%	21.42%	20.78%
<b>Auto loans portfolio</b>					
New car	56.1%	56.0%	56.3%	56.1%	56.3%
Used car	26.0%	26.8%	27.3%	26.0%	27.3%
My car, My cash	17.9%	17.2%	16.3%	17.9%	16.3%
<b>NPL reduction methodology</b>					
Repayments, auctions, foreclosures and account closed	49.7%	34.2%	39.0%	41.3%	52.4%
Debt restructuring	2.1%	1.6%	5.0%	2.5%	7.0%
NPL sales <sup>2/</sup>	0.4%	25.6%	44.2%	24.3%	28.3%
Write off	47.8%	38.6%	11.8%	31.9%	12.3%

<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 December 31, 2019, September 30, 2019, and December 31, 2018, was Baht 650 billion, Baht 652 billion, and Baht 645 billion, respectively.

<sup>2/</sup> The Bank sold NPLs of Baht 0.05 billion in 4Q19, Baht 5.6 billion in 3Q19, Baht 9.2 billion in 4Q18, Baht 16.7 billion in 2019, and Baht 17.4 billion in 2018.

<sup>3/</sup> Revolver only

## Credit Ratings

Credit Ratings of Siam Commercial Bank PCL	December 31, 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 2019)

### Best Bank in Thailand Awards

- Euromoney (U.K.) (11<sup>th</sup> year)
- The Asset (H.K.) (11<sup>th</sup> year)
- FinanceAsia (H.K.) (9<sup>th</sup> year)
- Asiamoney (H.K.) (5<sup>th</sup> year)
- Alpha SEA (H.K.) (2<sup>nd</sup> year)
- Money and Banking (15<sup>th</sup> year)

SCB was ranked No.1 among Thai commercial banks in the Forbes Global 2000 list by Forbes (U.S.). In addition, SCB was selected from among 175 institutions worldwide as a member of the Dow Jones Sustainability Indices 2019 (DJSI) in the Financial category of the World Index and Emerging Markets Index group for the second consecutive year..

### Awards for Excellence in Financial Performance and Management

- Asia's Best CEO from Corporate Governance Asia (H.K.) (3<sup>rd</sup> consecutive year)
- Asia's Best CFO from Corporate Governance Asia (H.K.) (8<sup>th</sup> consecutive year)
- Best Investor Relations Company from Corporate Governance Asia (H.K.) (10<sup>th</sup> consecutive year)
- Best Financial Inclusion Program from International Investor
- Best Corporate Social Responsibility Principles from International Investor
- Financial Management Excellence by the Thailand Management Association

### Awards Won by Business Groups

#### Wholesale Banking Group

##### From The Asset (H.K.)

- Best Domestic Custodian (13<sup>th</sup> year)
- Best Renminbi Bank (3<sup>rd</sup> consecutive year)
- Best Service Provider—Trade Finance (Thailand) (2<sup>nd</sup> year)
- Best Service Provider—Transaction Bank (Thailand) (2<sup>nd</sup> year)
- Best in Treasury and Working Capital—LLCs
- Best Service Provider—Risk Management (Thailand)
- Best Payments and Collections Solution (for Bangchak)
- Best Payments and Collections Solution (for PTTEP)
- Best Supply Chain Solution (for Grand Asia Steel Processing Center)
- Best Supply Chain Solution (for SCG)
- Editors' Triple Star for Blockchain Solution for Procure-to-Pay (B2P)

- Petrochemical Deal of the Year in the Region (for role as mandated lead arranger on Long Son Petrochemicals Company \$3.2 billion loan facility)
- Petrochemical Deal of the Year in Vietnam (for role as mandated lead arranger on Long Son Petrochemicals Company's \$3.2 billion loan facility)
- Best Bond Adviser (Domestic)
- Best FIG bond (Siam Commercial Bank \$1 billion dual-tranche fixed rate notes)
- Best Green Bond (BTS Group Holdings' Baht 13 billion multi-tranche senior and unsecured green bond)
- Telecom Deal of the Year in Thailand (for role as financial adviser, global coordinator, domestic bookrunner and lead underwriter and bookrunner on Digital Infrastructure Fund asset acquisition and capital increase)
- Best Corporate and Institutional Adviser (Domestic Bank)
- Best Cross-Border M&A deal (Global Power Synergy's Baht 134.6 billion acquisition of Glow Energy from Engie) (SCB as financial advisor)
- Most Innovative Deal (AIMIRT Industrial Growth Freehold and Leasehold REIT Baht 3.12 billion preferential public offering) (SCB as sole financial adviser and lead underwriter)

#### **From Finance Asia (H.K.)**

- Deal of the Year for Thailand (Asset World Corp's \$1.36 billion IPO)
- Best Thailand Deal (Asset World Corp's \$1.36 billion IPO)

#### **From Asiamoney (H.K.)**

- Best Local Bank in the Region for BRI (Southeast Asia) (3<sup>rd</sup> consecutive year)
- Rank No.1 in Thailand Loans Ranking by Bookrunner table
- Thailand Market Leader (Asian banks only) as voted by corporates
- Thailand Best Service (Asian banks only) as voted by corporates
- Market Leader in Thailand (Asian banks only)

#### **From Alpha SEA (H.K.)**

- Best Equity IPO in Thailand (Asset World Corp's Baht 48 billion (\$1.58 Billion))
- Best REIT PPO in Thailand (Digital Telecoms Infrastructure Fund's Baht 15.8 billion (\$516 million))
- Best Refinance Deal in Southeast Asia (Thai Beverage's Baht 53 billion (\$1.74 billion) Unsubordinated & Unsecured Debt)
- Best LCY Bond Deal in Thailand (Minor International's Baht 33 billion (\$1 billion) Unsubordinated and Unsecured Debentures)

#### **From Euromoney (U.K.)**

- Best Domestic Cash Manager in Thailand

- Best Domestic Services in Thailand for non-financial institutions
- Best Bank for Technology in cash management in Thailand
- No. 1 Rank in Market Leaders (Asian banks only)

**From Global Finance (U.S.)**

- Best Equity Bank in Asia-Pacific for 2019

**From Asian Banking and Finance (S.G.)**

- Corporate & Investment Bank of the Year (2<sup>nd</sup> year)
- Equity Deal of the Year (2<sup>nd</sup> year)
- Debt Deal of the Year (2<sup>nd</sup> year)

**From IFR Asia (H.K.)**

- Thailand Capital Markets Deal (2<sup>nd</sup> consecutive year)
- Asia-Pacific IPO of the Year (Asset World Corp's Baht 48 billion IPO)

**From Corporate Treasurer (H.K.)**

- Best Trade and Supply Chain House in Thailand

**Retail Banking Group**

- Best Private Bank from Global Finance (U.S.) (3<sup>rd</sup> consecutive year)
- Best Wealth Management Bank in Thailand from Alpha SEA
- Best Private Bank for Advisory Services Asia from Professional Wealth Management (U.K.)
- No. 1 Rank in Loan Finance from Euromoney (U.K.)
- No. 1 Rank in Equity Finance from Euromoney (U.K.)
- No. 1 Rank in Securitization from Euromoney (U.K.)
- Best Retail Lending from Money and Banking
- Best Service in Credit Card from Money and Banking

**Sustainability, Corporate Social Responsibility and other Awards**

- Product/Service Excellence, Leadership Excellence and Marketing Excellence Awards from Thailand Management Association (TMA)
- Selected as a member of FTSE4Good Index Series for the FTSE4Good Emerging Index from FTSE Russell
- Received an AA ESG rating for a banking business from MSCI
- Received a B rating on Climate Change Program from CDP
- Listed in the Thailand Sustainability Investment (THSI) from Stock Exchange of Thailand (SET)
- Sustainability Disclosure Award from Thaipat Institute

- Best Financial Inclusion Program from International Investor
- Best Corporate Social Responsibility Principles from International Investor
- Best Consumer Digital Bank – Thailand from Global Finance (U.S.)
- Best Brand Performance on Social Media in Banking Category (6<sup>th</sup> consecutive year)
- Best Brand Performance on Social Media Campaign for “SCB EASY Freenomenon” campaign
- Received the “Leading the Way in Risk Culture Award from RiskMinds International 2019

### **Affiliated Corporations**

- Digital Lending Product of the Year for “Clickcash” by SCB Abacus, from The Asian Banker (H.K.)
- Best Financial Inclusion Initiative for SCB Abacus from Digital Banker (S.G.)
- Best Analytics Solution Provider (SCB Abacus) from Global Banking and Finance Review (U.K.)
- Most Innovative Data Analytics Project Thailand 2018 (SCB Abacus) from the Asset (H.K.)
- Outstanding Securities Company Awards (SCB Securities) from SET
- Best Asset Manager (SCB Asset Management) —Money Market Funds from Alpha SEA (H.K.)
- Best Asset Manager (SCB Asset Management) —Fixed Income Funds from Alpha SEA (H.K.)
- Best Asset Manager (SCB Asset Management) —Balanced Funds from Alpha SEA (H.K.)
- Rank No. 2 among Top Investment House Asset Managers Thailand (SCB Asset Management) from The Asset (H.K.)