

Part 3 Financial Status and Operational Results**13. Significant Financial Information****Auditor Report of the Independent Certified Public Accountants and Auditing Fees****Auditors****KPMG Phoomchai Audit Ltd.**

2016: Mr. Winid Silamongkol, CPA Registration No. 3378 of KPMG Phoomchai Audit Ltd.

2017: Mr. Winid Silamongkol, CPA Registration No. 3378 of KPMG Phoomchai Audit Ltd.

2018: Mr. Winid Silamongkol, CPA Registration No. 3378 of KPMG Phoomchai Audit Ltd.

Report of the Independent Certified Public Accountants for 2016-2018**2016**

Auditor's opinion was that the consolidated and the Bank's financial statements present fairly, in all material respects, the financial position of the Group and the Bank, respectively, as at 31 December 2016 and their financial performance and cash flows for the year then ended in accordance with Thai Financial Reporting Standards (TFRSs).

2017

Auditor's opinion was that the consolidated and the Bank's financial statements present fairly, in all material respects, the financial position of the Group and the Bank, respectively, as at 31 December 2017 and their financial performance and cash flows for the year then ended in accordance with Thai Financial Reporting Standards (TFRSs).

2018

Auditor's opinion was that the consolidated and the Bank's financial statements present fairly, in all material respects, the financial position of the Group and the Bank, respectively, as at 31 December 2018 and their financial performance and cash flows for the year then ended in accordance with Thai Financial Reporting Standards (TFRSs).

Appointment of Auditors and Determining Auditing Fees

The Board assigned the Audit Committee to consider and propose the appointment of external auditors and auditing fees to shareholders for approval at every Annual General Meeting of shareholders. At the 2018 Annual General Meeting, shareholders approved the following items:

The appointment of Mr. Winid Silamongkol CPA Registration No. 3378, Mr. Charoen Phosamritlert CPA Registration No. 4068 and Miss Pantip Gulsantitamrong CPA Registration No. 4208, of KPMG Phoomchai Audit Ltd. to be auditors of the Bank for the financial year 2018. The Bank of Thailand concurred with these appointments.

Audit Fees

In 2018, the total audit fees of the Bank and its subsidiaries were Baht 30.8 million. In addition, the Bank and its subsidiaries paid fees for services other than statutory audits as follows:

- Audits and examination as required by regulators, such as special audits, examination of banking returns, and audit of the Risk-Based Capital Reports
- Examination of foreign exchange kiosks.
- Tax services
- Review of the embedded value report (insurance company)

Non-audit fees to the external auditors were Baht 29.3 million, of which Baht 6.6 million was paid in the fiscal year of 2018 while the outstanding amount of Baht 22.7 million will be paid in 2019.

THE SIAM COMMERCIAL BANK PUBLIC COMPANY LIMITED (BANK ONLY)

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31

(in Baht thousand)

Assets	2018		2017		2016	
Cash	46,443,366	1.62%	40,591,037	1.49%	40,317,033	1.51%
Interbank and money market items, net	362,033,032	12.66%	303,476,880	11.13%	243,901,504	9.16%
Derivative assets	41,533,759	1.45%	46,035,173	1.69%	59,634,746	2.24%
Investments, net	272,994,919	9.54%	299,032,913	10.97%	363,076,332	13.64%
Investments in subsidiaries and associate, net	18,988,748	0.66%	18,016,700	0.66%	16,741,514	0.63%
Loans to customers and accrued interest receivables, net						
Loans to customers	2,154,332,379	75.32%	2,046,282,647	75.08%	1,950,822,291	73.30%
Accrued interest receivables	<u>3,028,442</u>	0.11%	<u>2,963,859</u>	0.11%	<u>3,504,906</u>	0.13%
Total loans to customers and accrued interest receivables	2,157,360,821	75.43%	2,049,246,506	75.18%	1,954,327,197	73.43%
Less deferred revenue	(29,540,202)	-1.03%	(25,216,417)	-0.93%	(23,557,162)	-0.89%
Less allowance for doubtful accounts	(98,646,744)	-3.45%	(84,936,081)	-3.12%	(72,624,446)	-2.73%
Less revaluation allowance for debt restructuring	<u>(3,867,951)</u>	-0.14%	<u>(4,291,141)</u>	-0.16%	<u>(4,003,522)</u>	-0.15%
Total loans to customers and accrued interest receivables, net	2,025,305,924	70.81%	1,934,802,867	70.99%	1,854,142,067	69.67%
Properties for sale, net	13,445,838	0.47%	11,280,102	0.41%	11,599,777	0.44%
Premises and equipment, net	41,707,339	1.46%	42,890,983	1.57%	39,647,293	1.49%
Goodwill and other intangible assets, net	15,697,382	0.55%	8,778,161	0.32%	4,264,935	0.16%
Assets pending transfer	2,429,931	0.08%	2,300,059	0.08%	2,442,140	0.09%
Deferred tax assets	106,779	0.00%	25,740	0.00%	7,758	0.00%
Other assets, net	19,440,025	0.68%	18,401,385	0.68%	25,631,231	0.96%
Total assets	2,860,127,042	100.00%	2,725,632,000	100.00%	2,661,406,330	100.00%

THE SIAM COMMERCIAL BANK PUBLIC COMPANY LIMITED (BANK ONLY)

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31 (continued)

(in Baht thousand)

Liabilities and shareholders' equity	2018		2017		2016	
Liabilities						
Deposits	2,156,936,065	75.41%	2,087,890,289	76.60%	2,021,453,602	75.95%
Interbank and money market items	145,599,164	5.09%	110,911,960	4.07%	103,778,925	3.90%
Liability payable on demand	13,942,883	0.49%	23,670,230	0.87%	10,521,749	0.40%
Derivative liabilities	36,798,917	1.29%	44,620,824	1.64%	54,138,466	2.03%
Debt issued and borrowings	106,065,393	3.71%	75,379,761	2.77%	106,652,606	4.01%
Provisions	8,922,840	0.31%	7,340,382	0.27%	7,116,836	0.27%
Liabilities pending transfer	19,435,132	0.68%	14,488,352	0.53%	13,428,370	0.50%
Deferred tax liabilities	-	0.00%	2,559,950	0.09%	2,186,016	0.08%
Other liabilities	31,240,768	1.09%	29,802,716	1.09%	32,935,499	1.24%
Total liabilities	2,518,941,162	88.07%	2,396,664,464	87.93%	2,352,212,069	88.38%
Shareholders' equity						
Share capital						
Authorised share capital						
3,582,842,660 preferred shares of Baht 10 each	35,828,427	1.25%	35,838,257	1.31%	35,838,257	1.35%
3,417,157,340 common shares of Baht 10 each	34,171,573	1.19%	34,161,743	1.25%	34,161,743	1.28%
Issued and paid-up share capital						
3,718,303 preferred shares of Baht 10 each	37,183	0.00%	37,850	0.00%	38,903	0.00%
3,395,473,895 common shares of Baht 10 each	33,954,739	1.19%	33,954,072	1.25%	33,953,019	1.28%
Premium on share capital						
Premium on preferred shares	14,541	0.00%	14,802	0.00%	15,213	0.00%
Premium on common shares	11,109,650	0.39%	11,109,389	0.41%	11,108,978	0.42%
Other reserves	16,535,798	0.58%	18,654,960	0.68%	18,312,436	0.69%
Retained earnings						
Appropriated						
Legal reserve	7,000,000	0.24%	7,000,000	0.26%	7,000,000	0.26%
Unappropriated	272,533,969	9.53%	258,196,463	9.47%	238,765,712	8.97%
Total owners of the company	341,185,880	11.93%	328,967,536	12.07%	309,194,261	11.62%
Total shareholders' equity	341,185,880	11.93%	328,967,536	12.07%	309,194,261	11.62%
Total liabilities and shareholders' equity	2,860,127,042	100.00%	2,725,632,000	100.00%	2,661,406,330	100.00%

THE SIAM COMMERCIAL BANK PUBLIC COMPANY LIMITED (BANK ONLY)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31

(in Baht thousand)

	2018		2017		2016	
Interest income	118,470,269	93.02%	115,630,594	91.35%	114,144,175	92.56%
Interest expenses	32,701,604	25.68%	32,766,978	25.89%	33,973,975	27.55%
Net interest income	85,768,665	67.34%	82,863,616	65.47%	80,170,200	65.01%
Fees and service income	36,681,937	28.80%	37,424,662	29.57%	36,608,736	29.69%
Fees and service expenses	7,354,816	5.77%	5,337,478	4.22%	4,912,879	3.98%
Net fees and service income	29,327,121	23.03%	32,087,184	25.35%	31,695,857	25.70%
Net gain on trading	7,764,554	6.10%	6,888,659	5.44%	6,547,319	5.31%
Net gain on investments	2,705,633	2.12%	704,314	0.56%	1,278,831	1.04%
Dividend income	1,509,738	1.19%	3,349,891	2.65%	3,535,324	2.87%
Other operating income	282,587	0.22%	681,923	0.54%	93,614	0.08%
Total operating income	127,358,298	100.00%	126,575,587	100.00%	123,321,145	100.00%
Other operating expenses						
Employee expenses	25,969,307	20.39%	24,207,823	19.13%	21,571,637	17.49%
Directors' remuneration	89,238	0.07%	91,635	0.07%	89,972	0.07%
Premises and equipment expenses	12,318,209	9.67%	10,744,254	8.49%	10,045,782	8.15%
Taxes and duties	4,138,577	3.25%	4,050,500	3.20%	3,996,871	3.24%
Other expenses	19,812,844	15.56%	16,349,431	12.92%	13,603,800	11.03%
Total operating expenses	62,328,175	48.94%	55,443,643	43.80%	49,308,062	39.98%
Impairment loss of loans and debt securities	24,001,551	18.85%	25,030,000	19.77%	22,530,000	18.27%
Profit from operating before income tax expense	41,028,572	32.22%	46,101,944	36.42%	51,483,083	41.75%
Income tax expenses	7,553,082	5.93%	8,247,976	6.52%	9,318,038	7.56%
Net profit	33,475,490	26.28%	37,853,968	29.91%	42,165,045	34.19%
Other comprehensive income (loss)						
<i>Items that will be reclassified subsequently to profit or loss</i>						
(Losses) gains on remeasuring available-for-sale investments	(2,308,856)	-1.81%	717,378	0.57%	(121,585)	-0.10%
Change in hedge reserve	1	0.00%	51,202	0.04%	(51,212)	-0.04%
Income tax relating to components of other comprehensive income						
(loss) will be reclassified subsequently to profit or loss	461,771	0.36%	(153,716)	-0.12%	34,559	0.03%
	(1,847,084)	-1.45%	614,864	0.49%	(138,238)	-0.11%
<i>Items that will not be reclassified to profit or loss</i>						
Change in revaluation surplus	-	0.00%	-	0.00%	(53,058)	-0.04%
Actuarial losses on defined benefit plans	(893,131)	-0.70%	-	0.00%	-	0.00%
Income tax relating to components of other comprehensive income						
(loss) will not be reclassified subsequently to profit or loss	178,626	0.14%	-	0.00%	10,612	0.01%
	(714,505)	-0.56%	-	0.00%	(42,446)	-0.03%
Total other comprehensive (loss) income, net of income tax	(2,561,589)	-2.01%	614,864	0.49%	(180,684)	-0.15%
Total comprehensive income	30,913,901	24.27%	38,468,832	30.39%	41,984,361	34.04%

THE SIAM COMMERCIAL BANK PUBLIC COMPANY LIMITED (BANK ONLY)

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31

(in Baht thousand)

	2018	2017	2016
Cash flows from operating activities			
Profit from operating before income tax expense	41,028,572	46,101,944	51,483,083
<i>Adjustments to reconcile profit from operating before income tax expense to cash receipts (payments) from operating activities</i>			
Depreciation and amortisation	4,539,874	3,103,600	2,609,470
Impairment loss on loans and debt securities	27,114,229	27,460,613	24,696,417
Losses on impairment of properties for sale	113,740	11,304	57,877
Losses (gains) on sale of premises and equipment	47,016	(21,405)	(130,154)
Net (gain) loss on trading	(3,270,367)	2,685,110	(5,009,286)
Net gain on investments	(2,705,633)	(704,314)	(1,278,831)
	66,867,431	78,636,852	72,428,576
Net interest income	(85,768,665)	(82,863,616)	(80,170,200)
Dividend income	(1,509,738)	(3,349,891)	(3,535,324)
Proceeds from interest	117,763,427	116,837,369	115,294,836
Interest paid	(31,978,303)	(33,211,538)	(35,617,882)
Proceeds from dividend	1,341,219	2,303,359	3,535,324
Income tax paid	(8,299,732)	(8,604,425)	(9,878,484)
Profit from operating before changes in operating assets and liabilities	58,415,639	69,748,110	62,056,846
<i>(Increase) decrease in operating assets</i>			
Interbank and money market items	(58,544,492)	(59,585,388)	2,605,860
Derivative assets	7,477,509	7,061,739	4,781,836
Investment in securities for trading	(2,282,221)	19,682,058	(8,198,192)
Loans to customers	(128,223,088)	(116,824,562)	(126,653,978)
Properties for sale	8,408,329	8,512,888	8,310,553
Other assets	(980,456)	7,282,392	8,599,920
<i>Increase (decrease) in operating liabilities</i>			
Deposits	69,045,776	66,436,687	136,549,924
Interbank and money market items	34,687,204	7,133,035	(41,938,947)
Liability payable on demand	(9,727,347)	13,148,481	2,041,263
Derivative liabilities	(7,943,116)	(9,742,892)	(6,123,900)
Short-term debt issued and borrowings	28,809,454	(39,147,291)	(14,024,726)
Other liabilities	5,205,560	(1,017,702)	10,857,321
Net cash from (used in) operating activities	4,348,751	(27,312,445)	38,863,780

THE SIAM COMMERCIAL BANK PUBLIC COMPANY LIMITED (BANK ONLY)
STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31 (continued)

(in Baht thousand)

	2018	2017	2016
<i>Cash flows from investing activities</i>			
Acquisition of available-for-sale securities	(253,321,752)	(376,873,023)	(454,907,621)
Proceeds from sales of available-for-sale securities	281,317,455	421,918,513	433,785,212
Acquisition of held-to-maturity securities	(607,321)	(669,600)	(710,400)
Proceeds from redemption of held-to-maturity securities	1,544,398	1,900,898	1,453,201
Acquisition of general securities	(1,060,894)	(234,570)	(801,555)
Proceeds from sales of general securities	1,330,155	30,208	13,791
Acquisition of investments in subsidiaries and/or associate	(972,049)	(457,553)	(421,098)
Proceeds from decrease in capital of subsidiary	-	-	8,442,471
Acquisition of premises and equipment	(1,990,002)	(5,644,363)	(3,210,640)
Proceeds from sales of premises and equipment	177,435	78,654	272,002
Acquisition of intangible assets	(8,464,665)	(5,216,555)	(2,503,866)
Net cash (used in) from investing activities	17,952,760	34,832,609	(18,588,503)
<i>Cash flows from financing activities</i>			
Proceeds from long-term debt issued	2,168,000	31,296,938	-
Repayment of long-term debt issued	-	(20,000,000)	-
Proceeds from long-term borrowings	138,213	152,459	-
Repayment of long-term borrowings	(59,838)	-	-
Dividend paid to equity holders of the Bank	(18,695,557)	(18,695,557)	(18,695,557)
Net cash used in financing activities	(16,449,182)	(7,246,160)	(18,695,557)
Net increase in cash	5,852,329	274,004	1,579,720
Cash at 1 January	40,591,037	40,317,033	38,737,313
Cash at 31 December	46,443,366	40,591,037	40,317,033
Supplementary disclosures of cash flow information			
Significant non-cash items were as follows:			
(Losses) gains on remeasuring available-for-sale investments	(2,308,856)	717,378	(121,585)
Changes in hedge reserve	1	51,202	(51,212)
Changes in revaluation surplus	-	-	(53,058)
Actuarial losses on defined benefit plans	(893,131)	-	-
Properties for sale from loan payment	10,687,805	8,204,517	9,414,680
Losses from foreign exchange revaluation on long-term debt issued	(384,408)	(3,385,277)	-
(Losses) gains from foreign exchange revaluation on banking book derivatives	(979,611)	121,881	-

THE SIAM COMMERCIAL BANK PUBLIC COMPANY LIMITED (CONSOLIDATED)

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31

(in thousand Baht)

Assets	2018		2017		2016	
Cash	47,116,872	1.48%	40,797,176	1.35%	40,488,512	1.39%
Interbank and money market items, net	377,904,575	11.86%	316,733,080	10.47%	257,256,079	8.83%
Derivative assets	41,682,825	1.31%	43,499,427	1.44%	58,590,670	2.01%
Investments, net	568,853,597	17.85%	570,370,844	18.86%	590,586,901	20.27%
Investments in subsidiaries and associate, net	47,391	0.00%	-	0.00%	333,702	0.01%
Loans to customers and accrued interest receivables, net						
Loans to customers	2,170,100,801	68.09%	2,059,948,448	68.12%	1,962,604,955	67.37%
Accrued interest receivables	3,334,205	0.10%	3,328,131	0.11%	4,128,530	0.14%
Total loans to customers and accrued interest receivables	2,173,435,006	68.19%	2,063,276,579	68.23%	1,966,733,485	67.52%
Less deferred revenue	(29,540,202)	-0.93%	(25,216,416)	-0.83%	(23,557,162)	-0.81%
Less allowance for doubtful accounts	(99,404,677)	-3.12%	(85,699,301)	-2.83%	(73,353,575)	-2.52%
Less revaluation allowance for debt restructuring	(3,867,951)	-0.12%	(4,291,141)	-0.14%	(4,003,522)	-0.14%
Total loans to customers and accrued interest receivables, net	2,040,622,176	64.02%	1,948,069,721	64.42%	1,865,819,226	64.05%
Properties for sale, net	13,449,583	0.42%	11,283,644	0.37%	11,604,427	0.40%
Premises and equipment, net	43,206,362	1.36%	44,164,383	1.46%	40,887,724	1.40%
Goodwill and other intangible assets, net	25,491,592	0.80%	18,107,161	0.60%	13,514,334	0.46%
Assets pending transfer	2,232,926	0.07%	2,234,515	0.07%	2,370,538	0.08%
Deferred tax assets	197,811	0.01%	110,753	0.00%	410,314	0.01%
Other assets, net	26,533,915	0.83%	28,661,317	0.95%	31,125,417	1.07%
Total assets	3,187,339,625	100.00%	3,024,032,021	100.00%	2,912,987,844	100.00%

THE SIAM COMMERCIAL BANK PUBLIC COMPANY LIMITED (CONSOLIDATED)

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31 (continued)

(in thousand Baht)

Liabilities and shareholders' equity	2018		2017		2016	
Liabilities						
Deposits	2,159,630,551	67.76%	2,092,457,200	69.19%	2,026,272,115	69.56%
Interbank and money market items	142,528,617	4.47%	108,573,192	3.59%	100,953,159	3.47%
Liability payable on demand	13,944,143	0.44%	23,670,751	0.78%	10,526,319	0.36%
Liabilities to deliver security	1,144	0.00%	59,900	0.00%	50,594	0.00%
Derivative liabilities	36,483,008	1.14%	44,984,107	1.49%	54,192,365	1.86%
Debt issued and borrowings	107,560,901	3.37%	78,538,067	2.60%	106,837,890	3.67%
Provisions	9,426,568	0.30%	7,729,706	0.26%	7,461,771	0.26%
Liabilities under insurance contracts	278,220,199	8.73%	248,244,534	8.21%	216,994,447	7.45%
Liabilities pending transfer	19,675,994	0.62%	14,615,892	0.48%	13,471,154	0.46%
Deferred tax liabilities	423,164	0.01%	3,589,507	0.12%	2,327,820	0.08%
Other liabilities	38,462,288	1.21%	37,806,171	1.25%	39,601,988	1.36%
Total liabilities	2,806,356,577	88.05%	2,660,269,027	87.97%	2,578,689,622	88.52%
Shareholders' equity						
Share capital						
Authorised share capital						
3,582,842,660 preferred shares of Baht 10 each	35,828,427	1.12%	35,838,257	1.19%	35,838,257	1.23%
3,417,157,340 common shares of Baht 10 each	34,171,573	1.07%	34,161,743	1.13%	34,161,743	1.17%
Issued and paid-up share capital						
3,718,303 preferred shares of Baht 10 each	37,183	0.00%	37,850	0.00%	38,903	0.00%
3,395,473,895 common shares of Baht 10 each	33,954,739	1.07%	33,954,072	1.12%	33,953,019	1.17%
Premium on share capital						
Premium on preferred shares	14,541	0.00%	14,802	0.00%	15,213	0.00%
Premium on common shares	11,109,650	0.35%	11,109,389	0.37%	11,108,978	0.38%
Other reserves	15,668,579	0.49%	19,985,092	0.66%	15,342,084	0.53%
Retained earnings						
Appropriated						
Legal reserve	7,000,000	0.22%	7,000,000	0.23%	7,000,000	0.24%
Unappropriated	312,241,904	9.80%	291,362,368	9.63%	266,630,575	9.15%
Total owners of the company	380,026,596	11.92%	363,463,573	12.02%	334,088,772	11.47%
Non-controlling interests	956,452	0.03%	299,421	0.01%	209,450	0.01%
Total shareholders' equity	380,983,048	11.95%	363,762,994	12.03%	334,298,222	11.48%
Total liabilities and shareholders' equity	3,187,339,625	100.00%	3,024,032,021	100.00%	2,912,987,844	100.00%

THE SIAM COMMERCIAL BANK PUBLIC COMPANY LIMITED (CONSOLIDATED)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31

(in thousand Baht)

	2018		2017		2016	
Interest income	129,127,210	93.42%	125,113,063	91.85%	122,443,063	91.83%
Interest expenses	<u>32,757,797</u>	23.70%	<u>32,803,548</u>	24.08%	<u>33,993,718</u>	25.50%
Net interest income	96,369,413	69.72%	92,309,515	67.77%	88,449,345	66.34%
Fees and service income	37,016,121	26.78%	36,854,858	27.06%	34,379,242	25.78%
Fees and service expenses	<u>8,559,783</u>	6.19%	<u>6,530,982</u>	4.79%	<u>5,965,037</u>	4.47%
Net fees and service income	28,456,338	20.59%	30,323,876	22.26%	28,414,205	21.31%
Net gain on trading	7,944,828	5.75%	7,089,951	5.21%	6,713,833	5.04%
Net gain on investments	2,930,164	2.12%	1,610,763	1.18%	2,534,734	1.90%
Share of profit (loss) from investment in associate	47,391	0.03%	(8,949)	-0.01%	(10,513)	-0.01%
Dividend income	1,211,013	0.88%	1,032,097	0.76%	1,119,392	0.84%
Net earned insurance premiums	50,591,839	36.60%	49,231,848	36.14%	52,314,254	39.24%
Other operating income	<u>583,655</u>	0.42%	<u>989,649</u>	0.73%	<u>433,225</u>	0.32%
Total operating income	188,134,641	136.11%	182,578,750	134.04%	179,968,475	134.98%
Net insurance claims	<u>49,909,813</u>	36.11%	<u>46,366,273</u>	34.04%	<u>46,634,372</u>	34.98%
Net operating income	138,224,828	100.00%	136,212,477	100.00%	133,334,103	100.00%
Other operating expenses						
Employee expenses	29,347,037	21.23%	27,488,330	20.18%	24,597,294	18.45%
Directors' remuneration	100,332	0.07%	98,940	0.07%	96,707	0.07%
Premises and equipment expenses	13,263,885	9.60%	11,553,836	8.48%	10,823,314	8.12%
Taxes and duties	4,488,694	3.25%	4,417,007	3.24%	4,261,769	3.20%
Other expenses	<u>17,438,800</u>	12.62%	<u>14,091,949</u>	10.35%	<u>11,864,578</u>	8.90%
Total operating expenses	64,638,748	46.76%	57,650,062	42.32%	51,643,662	38.73%
Impairment loss of loans and debt securities	<u>24,022,741</u>	17.38%	<u>25,066,653</u>	18.40%	<u>22,527,984</u>	16.90%
Profit from operating before income tax expense	49,563,339	35.86%	53,495,762	39.27%	59,162,457	44.37%
Income tax expenses	9,468,272	6.85%	10,291,148	7.56%	11,493,030	8.62%
Net profit	40,095,067	29.01%	43,204,614	31.72%	47,669,427	35.75%
Other comprehensive income (loss)						
<i>Items that will be reclassified subsequently to profit or loss</i>						
(Losses) gains on remeasuring available-for-sale investments	(5,374,535)	-3.89%	6,079,641	4.46%	(2,641,408)	-1.98%
Losses arising from translating the financial statements of a foreign operation	(15,236)	-0.01%	(204,089)	-0.15%	(23,420)	-0.02%
Share of other comprehensive income (loss) of associate (using equity method)	-	0.00%	72	0.00%	(22,820)	-0.02%
Change in hedge reserve	319,201	0.23%	370,849	0.27%	(136,252)	-0.10%
Income tax relating to components of other comprehensive income (loss) will be reclassified subsequently to profit or loss	<u>1,011,067</u>	0.73%	<u>(1,290,097)</u>	-0.95%	<u>558,327</u>	0.42%
	<u>(4,059,503)</u>	-2.94%	<u>4,956,376</u>	3.64%	<u>(2,265,573)</u>	-1.70%
<i>Items that will not be reclassified to profit or loss</i>						
Change in revaluation surplus	-	0.00%	-	0.00%	(53,058)	-0.04%
Actuarial losses on defined benefit plans	(959,880)	-0.69%	-	0.00%	-	0.00%
Income tax relating to components of other comprehensive income (loss) will not be reclassified subsequently to profit or loss	<u>191,976</u>	0.14%	-	0.00%	<u>10,612</u>	0.01%
	<u>(767,904)</u>	-0.56%	-	0.00%	<u>(42,446)</u>	-0.03%
Total other comprehensive (loss) income, net of income tax	(4,827,407)	-3.49%	4,956,376	3.64%	(2,308,019)	-1.73%
Total comprehensive income	35,267,660	25.51%	48,160,990	35.36%	45,361,408	34.02%

THE SIAM COMMERCIAL BANK PUBLIC COMPANY LIMITED (CONSOLIDATED)
STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31

(in Baht thousand)

	2018	2017	2016
Cash flows from operating activities			
Profit from operating before income tax expense	49,563,339	53,495,762	59,162,457
<i>Adjustments to reconcile profit from operating before income tax expense to cash receipts (payments) from operating activities</i>			
Depreciation and amortisation	4,756,762	3,271,861	2,796,878
Impairment loss on loans and debt securities	27,135,420	27,497,266	24,694,401
Losses on impairment of properties for sale	113,537	12,411	57,877
Losses (gains) on sale of premises and equipment	58,172	(24,479)	(136,790)
Net (gain) loss on trading	(3,611,121)	3,084,349	(4,588,393)
Net gain on investments	(2,930,164)	(1,610,763)	(2,534,734)
Share of (profit) loss from investment in associate	(47,391)	8,949	10,513
	75,038,554	85,735,356	79,462,209
Net interest income	(96,369,413)	(92,309,515)	(88,449,345)
Dividend income	(1,211,013)	(1,032,097)	(1,119,392)
Proceeds from interest	128,256,968	126,765,200	123,854,189
Interest paid	(32,051,579)	(33,262,642)	(35,631,228)
Proceeds from dividend	1,206,093	1,028,378	1,114,134
Income tax paid	(10,444,731)	(10,793,147)	(12,094,448)
Profit from operating before changes in operating assets and liabilities	64,424,879	76,131,533	67,136,119
<i>(Increase) decrease in operating assets</i>			
Interbank and money market items	(61,042,863)	(59,424,924)	3,722,055
Derivative assets	6,035,619	7,527,791	2,845,244
Investment in securities for trading	2,561,484	14,543,299	(9,125,622)
Loans to customers	(130,352,187)	(118,710,261)	(127,196,979)
Properties for sale	8,408,329	8,512,888	8,310,458
Other assets	2,338,067	2,984,061	5,712,177
<i>Increase (decrease) in operating liabilities</i>			
Deposits	67,173,351	66,185,085	135,543,193
Interbank and money market items	33,955,425	7,620,033	(41,983,904)
Liability payable on demand	(9,726,608)	13,144,432	2,042,112
Liabilities to deliver security	(58,756)	9,306	32,254
Derivative liabilities	(8,664,851)	(8,005,015)	(5,584,736)
Short-term debt issued and borrowings	27,146,655	(36,174,269)	(13,617,480)
Liabilities under insurance contracts	29,975,665	31,250,087	32,215,481
Other liabilities	4,787,746	359,863	11,177,143
Net cash from (used in) operating activities	36,961,955	5,953,909	71,227,515

THE SIAM COMMERCIAL BANK PUBLIC COMPANY LIMITED (CONSOLIDATED)
STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31 (continued)

(in Baht thousand)

	2018	2017	2016
<i>Cash flows from investing activities</i>			
Acquisition of available-for-sale securities	(403,574,752)	(516,878,010)	(571,471,012)
Proceeds from sale of available-for-sale securities	400,100,243	528,910,230	515,870,226
Acquisition of held-to-maturity securities	(3,940,521)	(669,600)	(9,231,641)
Proceeds from redemption of held-to-maturity securities	3,516,127	1,707,990	19,679,259
Acquisition of general securities	(1,068,871)	(243,070)	(801,555)
Proceeds from sale of general securities	1,330,155	30,208	13,791
Acquisition of premises and equipment	(2,349,751)	(5,768,414)	(3,265,479)
Proceeds from sale of premises and equipment	194,717	83,694	277,106
Acquisition of intangible assets	(9,033,139)	(5,367,363)	(2,061,133)
Net cash (used in) from investing activities	(14,825,792)	1,805,665	(50,990,438)
<i>Cash flows from financing activities</i>			
Proceeds from long-term debt issued	2,168,000	31,296,938	-
Repayment from long-term debt issued	-	(20,000,000)	-
Proceeds from long-term borrowings	138,213	152,459	-
Repayment of long-term borrowings	(59,838)	-	-
Dividend paid to equity holders of the Bank	(18,695,557)	(18,695,557)	(18,695,557)
Dividend paid to non-controlling interests	-	-	(8,883)
Non-controlling interests arising on acquisition of subsidiary	648,000	-	-
Acquisition of non-controlling interests without a change in control	(49)	(661)	-
Net cash used in financing activities	(15,801,231)	(7,246,821)	(18,704,440)
Losses arising from translating the financial statements of a foreign operation	(15,236)	(204,089)	(23,420)
Net increase in cash	6,319,696	308,664	1,509,217
Cash at 1 January	40,797,176	40,488,512	38,979,295
Cash at 31 December	47,116,872	40,797,176	40,488,512
Supplementary disclosures of cash flow information			
Significant non-cash items were as follows:			
(Losses) gains on remeasuring available-for-sale investments	(5,374,535)	6,079,641	(2,641,408)
Losses arising from translating the financial statements of a foreign operation	(15,236)	(204,089)	(23,420)
Share of other comprehensive income (loss) of associate (using equity method)	-	72	(22,820)
Changes in hedge reserve	319,201	370,849	(136,252)
Changes in revaluation surplus	-	-	(53,058)
Actuarial losses on defined benefit plans	(959,880)	-	-
Properties for sale from loan payment	10,687,805	8,204,517	9,414,680
Losses from foreign exchange revaluation on long-term debt issued	(384,408)	(3,385,277)	-
(Losses) gains from foreign exchange revaluation on banking book derivatives	(979,611)	121,881	-

THE SIAM COMMERCIAL BANK PUBLIC COMPANY LIMITED (CONSOLIDATED)
FINANCIAL RATIOS

	2018	2017	2016
PROFITABILITY RATIO			
Operating Profit Margin ⁽¹⁾	55.84%	57.33%	56.56%
Net Profit Margin	28.99%	31.68%	35.71%
Return on Equity	10.78%	12.37%	14.84%
Yield ⁽²⁾	5.30%	5.50%	5.71%
Cost of Funds ⁽³⁾	1.39%	1.44%	1.54%
Spread ⁽⁴⁾	3.92%	4.06%	4.17%
Return on Investment	2.88%	2.55%	2.72%
EFFICIENCY RATIO			
Cost Income Ratio	46.76%	42.32%	38.73%
Net Interest Income to Asset	3.10%	3.11%	3.11%
Return on Asset	1.29%	1.45%	1.67%
Asset Turnover Ratio (Times)	0.04	0.05	0.05
FINANCIAL POLICY RATIO			
Liability to Total Equity (Times)	7.37	7.31	7.71
Loan to Borrowing Ratio	93.84%	92.71%	90.46%
Loan to Deposit Ratio	99.12%	97.24%	95.70%
Deposit to Liability Ratio	76.95%	78.66%	78.58%
Dividend payout ⁽⁵⁾	46.66%	43.32%	39.27%
Total Capital Funds	17.10%	17.73%	17.73%
ASSET QUALITY RATIO			
Allowance for Doubtful Account to Loan and Accrued Interest Receivables	4.64%	4.20%	3.77%
Credit Cost ⁽⁶⁾	1.15%	1.26%	1.19%
% Non-Performing Loan to Total Loans ⁽⁷⁾	2.85%	2.83%	2.67%
Accrued Interest Receivables to Loan and Accrued Interest Receivables	0.16%	0.16%	0.21%

Remark:

(1) Operating Profit Margin = (Net interest income + net fee income + net insurance premium - tax and duties) / (Total interest income + gross fee income + gross insurance premium)

(2) Yield = Total interest income / (avg. loans + avg. interbank and money market assets)

(3) Cost of Funds = Total interest expense / (avg. deposits + avg. borrowings + avg. liability payable on demand + avg. interbank and money market liabilities)

(4) Spread = Yield - Cost of Funds

(5) Dividend payment in 2018 was Baht 5.50 per share (ordinary and preferred shares) as proposed to the Annual General Meeting of Shareholders in April 2019. (Interim dividend Baht 1.50 per share)

(6) Credit cost = Provision / avg. loans

(7) % Non-Performing Loan to Total Loans used the guidelines specified in the BoT's notification

14. Management Discussion and Analysis

Management Discussion and Analysis

For the year ended December 31, 2018

IMPORTANT DISCLAIMER:

The information contained in this document has been obtained from several sources, and Siam Commercial Bank PCL (the "Bank") cannot confirm, in all cases, the accuracy and completeness of such data, particularly those sourced from outside the Bank. In addition, any forward looking statements are subject to change as market conditions and actual outcomes may differ from forecasts. The Bank makes no representation or warranty of any type whatsoever on the accuracy or completeness of the information contained herein.

Siam Commercial Bank PCL reported (audited) consolidated **net profit** of Baht 40,068 million for 2018, a 7.1% yoy decrease from Baht 43,152 million in 2017. Lower net profit was primarily due to higher operating expenses from new technology investments and customer acquisition initiatives under the Transformation Program and lower non-interest income from a decline in both net fee income and net insurance premiums. **Total operating income** increased by 1.5% yoy mainly due to net interest income growth of 4.4% yoy driven by higher loan volume and relatively stable net interest margin.

Net Profit and Total Comprehensive Income

Consolidated	2018	2017	% yoy
Unit: Baht million			
Net interest income	96,369	92,310	4.4%
Non-interest income	41,855	43,903	-4.7%
Total operating income	138,225	136,212	1.5%
Operating expenses	64,639	57,650	12.1%
Operating profit	73,586	78,562	-6.3%
Impairment loss on loans and debt securities	24,023	25,067	-4.2%
Income tax	9,468	10,291	-8.0%
Non-controlling interests	28	53	-47.8%
Net profit (attributable to shareholders of the Bank)	40,068	43,152	-7.1%
Other comprehensive (loss) income	(4,809)	4,919	NM
Total comprehensive income	35,259	48,071	-26.7%
ROAE	10.8%	12.4%	
ROAA	1.3%	1.5%	

NM denotes "not meaningful"

Share Information

Unit: Baht	2018	2017	% yoy
EPS	11.79	12.69	-7.1%
BVPS	111.80	106.93	4.6%
Closing price	133.50	150.00	-11.0%
Shares outstanding* (Million shares)	3,399	3,399	0.0%
Market capitalization (Baht billion)	453.8	509.9	-11.0% *

The Bank's share includes common shares and preferred shares

Income Statement for the Year Ended December 31, 2018 (Consolidated basis)**Net Interest Income**

Consolidated Unit: Baht million	2018	2017	% yoy
Interest income	129,127	125,113	3.2%
Loans	98,035	95,788	2.3%
Interbank and money market	5,456	5,028	8.5%
Financial leases	12,003	11,024	8.9%
Investments	13,495	13,185	2.3%
Others	138	88	56.5%
Interest expenses	32,758	32,804	-0.1%
Deposits	18,301	19,006	-3.7%
Interbank and money market	1,534	1,218	25.9%
Borrowings	3,012	3,092	-2.6%
Contribution to the Deposit Protection Agency & FIDF	9,735	9,419	3.4%
Others	176	69	154.6%
Net interest income	96,369	92,310	4.4%

- **Net interest income** in 2018 increased by 4.4% yoy to Baht 96,369 million given loan growth of 5.2% yoy and relatively stable net interest margin from effective deposit cost management.

Yield and Cost of Funding

Consolidated	2018	2017
Unit: Percentage		
Net interest margin	3.21%	3.23%
Yield on earning assets	4.30%	4.38%
Yield on loans	5.27%	5.38%
Yield on interbank and money market	1.57%	1.75%
Yield on investment	2.37%	2.27%
Cost of funds*	1.40%	1.45%
Cost of deposits**	1.31%	1.38%

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 Apr 29, 15 May 21, 15 Jul 20, 15 Dec 21, 15 Mar 1, 16 Apr 7, 16 Apr 25, 16 Oct 12, 16 May 16, 17**Lending rate (%)**

MLR	6.625	6.525	6.525	6.525	6.525	6.275	6.275	6.275	6.025
MOR	7.50	7.40	7.37	7.37	7.37	7.37	7.12	7.12	6.87
MRR	8.12	7.82	7.87	7.87	7.87	7.87	7.62	7.62	7.37

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	0.90-0.95	0.90	0.90	0.90-1.60	0.90	0.90	0.90	0.90	0.90
6-month deposits	1.15-1.20	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15
12-month deposits	1.50	1.50	1.50	1.30	1.30	1.30	1.30	1.40	1.40

BOT Interest Rates 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
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* 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	2018	2017	% yoy
Unit: Baht million			
Net fee and service income	28,456	30,324	-6.2%
Fee and service income	37,016	36,855	0.4%
Fee and service expenses	8,560	6,531	31.1%
Net insurance premiums	682	2,866	-76.2%
Net earned insurance premiums	50,592	49,232	2.8%
Net insurance claims	49,910	46,366	7.6%
Net fee and insurance premiums	29,138	33,189	-12.2%
Net gain on trading	7,945	7,090	12.1%
Share of profit (loss) from investment in associate	47	(9)	NM
Dividend income	1,211	1,032	17.3%
Other income	584	990	-41.0%
Non-interest income excluding net gain on investments	38,925	42,292	-8.0%
Net gain on investments	2,930	1,611	81.9%
Total non-interest income	41,855	43,903	-4.7%

NM denotes "not meaningful"

- **Non-interest income** decreased by 4.7% yoy to Baht 41,855 million in 2018 despite higher net gain on investments and higher net gain on trading. This decline was due to lower net insurance premiums and lower net fee income from the digital transaction fee waiver and declining mutual fund fees.
- **Net insurance premiums** fell in 2018 because of (1) lower new sales in 2018, (2) a decline in renewal premiums following slow insurance sales in the past few years, and (3) higher surrenders given a weak economy and maturation of policies sold in prior years which raised net insurance claims. Net insurance premiums are expected to remain weak as these conditions continue to prevail in the near term. To counter this trend and increase sales volume, the Bank plans to shift product mix toward health protection and unit-linked products and expand client coverage by leveraging both traditional branch-based model and digital channels. Digitization/technology at SCB Life will also be uplifted to be aligned with that of SCB.

Net Fee Income Breakdown

Consolidated	2018	2017	% yoy
Unit: Baht million			
Net fee and service income	28,456	30,324	-6.2%
Bank cards	8,116	7,917	2.5%
GMTS*	5,122	5,296	-3.3%
Bancassurance fee	2,749	2,438	12.7%
Mutual fund	6,228	6,924	-10.1%
Loan related fee	2,781	2,926	-4.9%
Others**	3,460	4,823	-28.3%

* 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	2018	2017	% yoy
Unit: Baht million			
Employee expenses	29,347	27,488	6.8%
Premises and equipment expenses	13,264	11,554	14.8%
Taxes and duties	4,489	4,417	1.6%
Directors' remuneration	100	99	1.4%
Other expenses	17,439	14,092	23.8%
Total operating expenses	64,639	57,650	12.1%
Cost to income ratio	46.8%	42.3%	

- **Operating expenses** increased by 12.1% yoy to Baht 64,639 million in 2018 primarily from new technology investments and customer acquisition initiatives under the Transformation Program. Other expenses were higher as marketing expenses rose to support new customer acquisition, marketing campaigns, and new product launches. Employee expenses went up as a result of annual salary adjustments. An increase in premises and equipment expenses reflected higher depreciation from the Bank's investment program as well as higher software rental.

With modest top-line growth amid this high investment cycle, cost-to-income ratio reached 46.8% in 2018 which was within the revised target of 45-47% in 2018.

Impairment Loss on Loans and Debt Securities

Consolidated	2018	2017	% yoy
Unit: Baht million			
Impairment loss on loans and debt securities	24,023	25,067	-4.2%
Credit cost (bps)	115	126	
Coverage ratio	146.7%	137.3%	

- In 2018, **impairment loss on loans and debt securities** was set at Baht 24,023 million or 115 bps of total loans. This included additional prudent provisions of around Baht 4 billion booked in 4Q18 to safeguard against external uncertainties, and at the same time the Bank is shifting its loan portfolio toward unsecured products and digital lending. With a higher level of provisions, coverage ratio improved to 146.7% in 2018 from 137.3% in 2017.

Balance Sheet as of December 31, 2018 (Consolidated Basis)

As of December 31, 2018, the Bank's total assets stood at Baht 3,187 billion, an increase of 5.4% yoy. Details on the consolidated balance sheets are provided in the following sections:

Loans

By Segment (Consolidated)	Dec 31, 18	Dec 31, 17	% yoy
Unit: Baht million		(Restated)	
Corporate*	830,586	782,523	6.1%
SME*	341,305	342,411	-0.3%
Retail	968,670	909,798	6.5%
Housing loans**	644,508	630,079	2.3%
Auto loans	203,075	179,933	12.9%
Other loans	121,087	99,786	21.3%
Total loans	2,140,561	2,034,732	5.2%

* In 2Q18, some SME customers experienced sales turnover growth and were reclassified as Corporate loans. Data for December 31, 2017 are restated figures.

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

As of December 31, 2018, loans (net of deferred revenue) grew yoy mainly driven by corporate and retail segments.

- The 5.2% yoy loan growth was slightly lower than the Bank's loan growth target of 6-8% for 2018.
- Details on changes in loan volume by customer segments are as follows:

- **Corporate** loans grew by 6.1% yoy mainly from working capital loans.
- **SME** loans declined by 0.3% yoy.
- **Retail** loans expanded by 6.5% yoy.
 - **Housing loans** increased by 2.3% yoy. Housing loans grew at a slower pace than the overall market as the Bank has adjusted its loan portfolio to achieve the optimal risk-return.
 - **Auto loans** rose 12.9% yoy, largely driven by higher car sales.
 - **Other loans** (mostly personal loans and credit card receivables) surged 21.3% yoy, following the Bank's strategy to grow high margin loans.

Deposits

Consolidated	Dec 31, 18	Dec 31, 17	% yoy
Unit: Baht million			
Demand	68,139	78,274	-12.9%
Savings	1,418,782	1,281,892	10.7%
Fixed	672,710	732,291	-8.1%
Less than 6 months	133,341	164,034	-18.7%
6 months and up to 1 year	194,939	176,335	10.6%
Over 1 year	344,430	391,922	-12.1%
Total deposits	2,159,631	2,092,457	3.2%
CASA - current & savings accounts (%)	68.9%	65.0%	
Gross loan to deposit ratio	99.1%	97.2%	
Liquidity ratio (Bank-only)	25.0%	26.9%	

As of December 31, 2018, total **deposits** rose 3.2% yoy from higher savings deposits, while current and fixed deposits declined. The yoy decrease in fixed deposits was due mainly to the end of the 15-month fixed deposit campaign in 3Q18. As a result, the Bank's CASA proportion further increased to 68.9% at the end of 2018.

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 recently been classified by the BOT, along with four 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. Also, its strong capital position will facilitate 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 December 2018.

Unit: Baht million, %	Consolidated		Bank-only	
	Dec 31, 18	Dec 31, 17	Dec 31, 18	Dec 31, 17
Statutory Capital				
Common Equity Tier 1/ Tier 1*	326,679	321,939	305,183	299,978
Tier 2 capital	43,793	42,564	42,953	41,754
Total capital	370,472	364,503	348,136	341,732
Risk-weighted assets	2,166,374	2,055,938	2,091,071	1,984,315
Capital Adequacy Ratio	17.1%	17.7%	16.6%	17.2%
Common Equity Tier 1/ Tier 1*	15.1%	15.6%	14.6%	15.1%
Tier 2 capital	2.0%	2.1%	2.0%	2.1%

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

Asset Quality

At the end of December 2018, gross NPLs on a consolidated basis increased slightly yoy to 2.85%. The yoy increase in NPLs was mainly from the qualitative loan classification of one corporate customer in the mining industry in 3Q18 and a relapse of one corporate customer in the auto parts industry in 4Q18. However, SME loans' asset quality improved yoy.

Unit: Baht million, %	Dec 31, 18	Dec 31, 17
Consolidated		
Non-performing loans (Gross NPLs)	70,389	65,560
Gross NPL ratio	2.85%	2.83%
Non-performing loans (Net NPLs)	35,699	35,592
Net NPL ratio	1.47%	1.56%
<u>Gross NPL ratio by segment/product</u>		
Corporate	2.16%	1.80%
SME	7.97%	8.08%
Retail	2.60%	2.62%
Housing loans	3.13%	3.08%
Auto loans	1.80%	1.82%
Allowance for doubtful accounts and debt restructuring*	103,273	89,990
Total allowance for NPLs (Coverage ratio)	146.7%	137.3%
Credit cost (bps)	115	126
Bank-only		
Non-performing loans (Gross NPLs)	69,383	64,537
Non-performing loans (Net NPLs)	35,406	35,289
Gross NPL ratio	2.84%	2.81%
Net NPL ratio	1.47%	1.56%

* Excluding interbank and money market items.

	Dec 31, 18		Dec 31, 17	
Consolidated	Loan and	Allowance	Loan and	Allowance
Unit: Baht million	accrued	for doubtful	accrued	for doubtful
	interest	accounts	interest	accounts
Normal	2,019,500	20,661	1,920,725	19,964
Special mention	53,968	3,500	51,721	3,225
Substandard	23,034	12,831	17,161	7,961
Doubtful	13,246	4,318	13,429	4,163
Doubtful loss	34,147	17,902	35,024	18,206
Total	2,143,895	59,212	2,038,060	53,519
Allowance established in excess of BOT regulations		40,193		32,180
Total allowance		99,405		85,699

Special mention loans increased 4.3% yoy mainly from qualitative loan classification of some corporate and SME customers.

New NPLs by Segment and by Product

	2018				2017				2016				2018	2017
	4Q18	3Q18	2Q18	1Q18	4Q17	3Q17	2Q17	1Q17	4Q16	3Q16	2Q16	1Q16		
Total loans	0.48%	0.49%	0.44%	0.41%	0.49%	0.38%	0.45%	0.41%	0.52%	0.50%	0.40%	0.41%	1.80%	1.71%
Corporate*	0.14%	0.25%	0.02%	0.06%	0.09%	0.01%	0.03%	0.03%	0.18%	0.28%	0.00%	0.05%	0.46%	0.17%
SME*	0.68%	0.73%	0.68%	0.79%	0.67%	0.58%	1.08%	0.63%	1.08%	0.70%	0.60%	0.86%	2.90%	2.77%
Housing loans**	0.85%	0.81%	0.93%	0.70%	0.96%	0.70%	0.70%	0.76%	0.61%	0.68%	0.65%	0.51%	3.26%	3.07%
Auto loans***	0.67%	0.57%	0.51%	0.43%	0.54%	0.50%	0.50%	0.41%	0.50%	0.40%	0.43%	0.41%	2.10%	1.91%
New NPLs (Baht billion)	11.8	12.2	10.6	9.7	11.4	8.8	10.4	9.1	11.2	10.8	8.2	8.6	44.3	39.6

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

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

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

In 2018, overall new NPL formation trended up slightly from the previous year but remained within the expected range. An increase in new NPLs for corporates was mainly from qualitative loan classification of one corporate customer in the mining industry in 3Q18. New NPL formation for SMEs increased percentage-wise because of SME loan contraction but declined yoy in absolute terms. New NPL formation for mortgages was concentrated among old vintage loans and the self-employed segment. As the Bank's underwriting standards have been tightened in the past few years, new NPLs from housing loans are expected to show improvement.

Despite several external uncertainties, the Bank expects the NPL ratio for 2019 to be below 3%.

Sources and Uses of Funds

As of December 31, 2018, deposits accounted for 67.8% of SCB's funding base. Other major sources of funds were: 11.9% from shareholders' equity, 8.7% from liabilities under insurance contracts recorded by the Bank's insurance subsidiary (SCB Life Assurance PCL), 4.5% from interbank borrowings, and 3.4% from debt issuance. As of December 31, 2018, the funds were deployed as follows: 67.2% for loans, 17.8% for investments in securities, 11.9% for interbank and money market lending, and 1.5% held in cash.

Additional Financial Information

Consolidated	Dec 31, 18	Dec 31, 17	% yoy
Unit: Baht million, %			
Loans by sector	2,140,561	2,034,732	5.2%
Agricultural and mining	19,798	19,554	1.2%
Manufacturing and commercial	610,341	612,733	-0.4%
Real estate and construction	166,640	149,123	11.7%
Utilities and services	376,276	346,294	8.7%
Housing loans*	552,772	542,564	1.9%
Other loans	414,734	364,464	13.8%
Investment**	568,901	570,371	-0.3%
Trading securities and securities measured at fair value through P/L	13,415	16,193	-17.2%
Available-for-sale securities	432,663	432,064	0.1%
Held-to-maturity securities	120,645	120,671	0.0%
General investments	2,131	1,443	47.7%
Investment in associate	47	0	NM
Debt securities in issue and borrowings	107,561	78,538	37.0%
Bonds	86,694	54,542	58.9%
Subordinated bonds	20,000	20,000	0.0%
Structured notes	607	3,815	-84.1%
Others	260	181	43.4%
NPL breakdown by status (Bank-only)			
Restructured and being serviced	75.1%	66.2%	8.9%
Under negotiation for restructuring	2.9%	5.8%	-2.9%
In litigation	8.4%	15.0%	-6.6%
In foreclosure process	13.6%	13.0%	0.6%
Troubled debt restructured loans	33,493	35,723	-6.2%
Restructured loans which are classified as NPL	10,257	8,595	19.3%
Restructured loans which are not classified as NPL	23,236	27,128	-14.3%
	2018	2017	
Yield on loans	5.27%	5.38%	
Corporate	4.16%	4.15%	
SME	5.93%	6.13%	
Retail	6.16%	6.34%	
Housing loans	4.99%	5.25%	
Auto loans	6.29%	6.36%	
Auto loans portfolio			
New car	56.3%	56.3%	
Used car	27.3%	26.7%	
My Car, My Cash	16.3%	16.9%	
NPL reduction methodology			
Repayments, auctions, foreclosures and account closed	52.4%	39.1%	
Debt restructuring	7.0%	5.8%	
NPL sales***	28.3%	28.9%	
Write off	12.3%	26.1%	

* 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, 2018 and December 31, 2017, was Baht 645 billion and Baht 630 billion, respectively.

** 83.9% 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 17.4 billion in 2018 and Baht 11.7 billion in 2017.

Credit Ratings

Credit Ratings of Siam Commercial Bank PCL		December 31, 2018
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)