

SCB
ไทยพาณิชย์



Management Discussion and Analysis

For the second quarter and first half ended June 30, 2021

The Siam Commercial Bank Public Company Limited

9 Ratchadapisek Road, Jatujak, Bangkok 10900 THAILAND

Tel: +66 2 544-1000

Website: www.scb.co.th

Investor Relations Email: investor.relations@scb.co.th

Tel. +66 2 544-4269

Reuter: SCB.BK, SCBf.BK, SCB_p.BK

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1. Executive Summary

Siam Commercial Bank and its subsidiaries reported consolidated net profit of Baht 8.8 billion for the second quarter of 2021, up 5.4% yoy. Pre-provision operating profit also increased 4.8% yoy to Baht 21.1 billion mainly due to higher non-interest income and reduced operating expenses. For the first half of 2021, net profit increased 7.3% yoy to Baht 18.9 billion.

For the second quarter of 2021, net interest income declined 1.3% yoy to Baht 23.5 billion given the current low interest rate environment and the Bank's shift toward high quality loans.

Non-interest income increased 4.0% yoy to Baht 13.0 billion largely from recurring non-interest income from bancassurance and wealth management businesses.

Expenses declined 4.7% yoy to Baht 15.4 billion due to lower staff related expenses. The Bank's cost-to-income ratio for the second quarter went down from last year to 42.2%.

Given the current economic uncertainty, the Bank set aside Baht 10.0 billion of provisions in the second quarter and Baht 20.0 billion in total for the first half.

Non-performing loan (NPL) ratio remained stable at 3.79% at the end of June 2021. This reflected the Bank's proactive NPL management. Nonetheless, the Bank still maintained NPL coverage ratio at a high level of 142.3% as well as a strong capital adequacy ratio at 17.9%.

2. Thailand's Economic Outlook

Thailand's GDP shrank 2.6% yoy in 1Q21, after falling by 4.2% yoy in the previous quarter. During this period, the economy benefited from a strong export recovery aided by improved global economic and trade conditions as well as higher government spending, especially in construction, as a result of a low base due to last year's delayed budget approval. However, the tourism sector continued to struggle and a nascent recovery in private consumption was interrupted (contracted by 0.4% qoq with seasonal adjustments) by the second wave of COVID-19 at the start of 2021. Moreover, the detailed economic data indicated uneven recovery whereby agriculture, manufacturing and construction sectors have shown improvement due to increased output, exports, and public investment respectively while service and tourism sectors, e.g. hotels and restaurants, continued to languish with the transportation sector contracting sharply.

The Thai economy has been severely hit by the third wave of COVID-19 since 2Q21 which led to a downward revision of the growth forecast to 0.9% for 2021 with further potential downside risk. Thailand's latest COVID-19 situation is worrisome as daily infection, hospitalization, and death rates continue to climb coupled with delayed vaccination and low efficacy of its predominant vaccines against the Delta variant. The Bank expects that it will take the country until the end of November, an 8-month battle since the beginning in April, to bring the current outbreak under control. This outbreak will likely wipe out Baht 770 billion of private consumption (about 4.8% of GDP) given lockdown measures, infection concerns, heightened uncertainties, and declining income of businesses and workers in many sectors despite increasing popularity of online transactions. Moreover, a prolonged outbreak may deepen economic scars in the form of weaker business dynamism, a more fragile labor market, and higher household debt burden that metastasizes into a debt overhang problem. These deeper economic scars will present major obstacles to future economic recovery.

However, the Thai economy benefits from consistent export growth but not without higher risk which requires close monitoring. Even though overall international trade has slowed down somewhat, it still grows at a respectable rate following strong rebound among advanced economies, as indicated by a high level of "Global PMI: Export orders" index and export values of regional countries. The Bank anticipates exports to grow at 15.0% in 2021 but with emerging risks, especially supply disruption caused by factory shutdowns in Thailand and other countries within the same supply chain. Other risks are weakened demand caused by the pandemic especially in ASEAN countries which are Thailand's major trading partners, a container shortage that keeps freight rates high, and a semiconductor shortage that affects automotive and electronic industries.

Thailand's partial reopening that has just begun will not do much in reviving the tourism sector. Recently launched pilot projects, such as Phuket sandbox and Samui-plus, will lay a foundation and provide necessary infrastructure to facilitate the next phase of tourism recovery, which includes tourist screening and testing, vaccine passports, and getting businesses in the tourism industry ready for full reopening. However, this partial reopening may not be able to attract many tourists this year because most countries where tourists are from still impose border restrictions for fear of new variants. The

worsening third outbreak in Thailand also discourages tourists from coming. As a result, SCB forecasts only 300,000 tourists in 2021, down from 6.7 million in the previous year.

Government measures are key to shoring up the economy and reducing scarring effects this year. However, relief measures announced so far during the third wave are found lacking in three important dimensions: geographical coverage, duration, and amount. From the reduced economic activities, economic pain has been felt in every province throughout the country, not just limited to those under lockdowns, and is likely to last well into in the third quarter. Therefore, the latest relief measures targeting employees and business owners in lockdown provinces lasting only 1-2 months fall short of fully compensating for the overall economic impact. The Bank expects the government to issue additional stimulus measures worth at least Baht 200 billion drawn from the Baht 500-billion stimulus measure act that was royally gazetted on May 25, 2021.

For monetary policy, SCB expects the policy rate to remain unchanged at 0.5% throughout this year, but the scenario of one more rate cut within this year has become more likely. In the latest meeting on August 4, the MPC voted 4 to 2 to keep the policy rate at 0.5%. If the current outbreak plays out according to the MPC's base case scenario which expects containment by early 4Q21, the Bank thinks that the MPC will likely keep rate unchanged to preserve policy space and focus its attention on improving the efficacy of liquidity measures. Nonetheless, there is a higher probability (30%) that the MPC will cut policy rate once more this year given the risk of worsened and protracted outbreak from slow vaccination progress. Under this scenario in which the overall economic impact is more severe than expected, the MPC may cut rate further by 0.25% within this year. Key factors to watch for are effectiveness of containment measures, speed of inoculation, and size of fiscal stimulus. On the exchange rate front, SCB expects THB/USD to depreciate from 2020 end-of-year rate to around 32-33 at the end of 2021 due to severe economic impact from COVID-19 and because the current account is likely to be in deficit this year from service account deficit following a sharp contraction in tourist revenue.

The Thai economy still faces many downside risks that may further depress growth below the current projection, especially the third wave of COVID-19 that could be worse in terms of infection numbers and time to contain compounded by more vaccine delays. Factory shutdowns from COVID-19 is another risk that could affect manufacturing and export activities in addition to the risk that government stimulus may fall short of expectation. Lastly, new variants that are more vaccine-resistant may emerge that could derail global economic recovery.

3. Management Discussion and Analysis

For the second quarter and first half ended June 30, 2021

In the second quarter of 2021, Thai banks continued to face challenges from the COVID-19 pandemic. With the third wave outbreak spreading widely, the country's economic recovery will be further delayed.

Despite the slow recovery, relief loans declined in 2Q21. SCB has been proactively assisting customers throughout this crisis and is currently working with customers on comprehensive debt restructuring solutions to increase customers' long-term survival. The Bank's first-half results show moderate growth in operating profit, adequate coverage ratio and strong capital base with wealth and bancassurance businesses as well as cost control initiatives being the growth drivers. The Bank is cautiously optimistic about managing asset quality based on the Bank's prudent approach throughout this crisis.

SCB continues to grow its digital banking market share by expanding the ecosystem through both the Bank and SCB 10X. The Bank's food delivery platform, Robinhood, reached the one-million-user milestone in May, seven months after its launch. The Bank is planning to further expand the social enterprise model to assist hoteliers on their post-pandemic recovery.

Operating performance

For the first half of 2021, the Bank reported operating profit of Baht 43.7 billion, which is a moderate 5.7% growth from the same period last year. This growth was driven by sustained recurring income from wealth and bancassurance businesses, declining operating expenses, as well as mark-to-market gain from investments held by the Bank and SCB 10X.

Following the third wave of COVID-19 outbreak in late March and a subsequent soft lockdown imposed by the government, economic activities have slowed and investment mood subdued. Unsurprisingly, performance of wealth business was weaker in the second quarter of 2021 compared to the first quarter but is expected to gradually recover along with the pace of vaccination in Thailand. On the other hand, our partnership with FWD has shown promising progress and has helped the Bank expand its product suite. Greater product variety to meet customers' needs along with a shift to higher-margin products led to steady income growth in 2Q21 for the Bank.

The Bank's strict cost discipline in response to the pandemic has contributed to lower operating expenses. Not only has the Bank ensured effective cost control, but the Bank also worked on long-term cost-reduction initiatives, such as reconfiguring the physical network and implementing more targeted digital marketing strategy. These cost control efforts together with the Bank's strategy to generate sustainable growth in fee income have brought cost-to-income ratio down to 41.1% in the first half of this year.

With the Bank's strategy shifting toward high quality loans since last year, loans grew marginally by 1.8% on a year-to-date basis. Stiff market competition for quality customers and ample liquidity in the financial sector also contributed to this sluggish loan growth. The Bank, however, was able to manage its NIM reasonably well for the first half of this year.

Digital Initiatives

Thanks to the Bank's digital banking push, SCB now has 16.1 million digital users, a sharp increase from 2.5 million users four years ago. The Bank uses a multi-channel approach to provide digital lending services through both its own mobile banking platform (SCB EASY) and platforms of subsidiary companies. At the end of June 2021, digital loans accounted for approximately 20% of total unsecured loans with an exceptionally high growth rate at 87% yoy. Digital revenue in 2Q21 surged 47% yoy and accounted for 4% of total income.

Since its launch in October 2020, 1.2 million users have used Robinhood's services. With 2.3 million orders worth Baht 500 million being placed through the app, Robinhood has not only helped more than 90,000 small merchants in this crisis but also created job opportunities for over 15,000 delivery riders. The app's popularity and success among restaurant owners was in large part owing to its no gross profit (GP) fee or commission policy. Robinhood plans to expand its geographical coverage to other provinces and its scope of services to include grocery orders from convenience stores. Also, Robinhood plans to unveil an upgraded version called "Zero GP OTA" for hoteliers, featuring the same no GP fee policy.

Asset quality and impact from COVID-19

The ongoing third wave of COVID-19 was more severe than the first two judging by the magnitude of infections and the duration of the outbreak. The slower-than-expected vaccination program has been a major obstacle to managing the pandemic. As of mid-July, less than 5% of the population was fully vaccinated. The prolonged third wave necessitated the government in adopting a more restrictive lockdown measures in dark-red zones including Bangkok and its vicinity from July 12 for an initial period of 14-day. On July 18, the government stepped up the degree of movement restriction and extend the lockdown period. Moreover, concerns over virus variants among many countries will further delay global tourism recovery. Thus, for this year, SCB EIC revised down both its forecasts for the number of tourists to only 0.3 million and consequently Thailand's GDP growth to 0.9%.

Throughout this crisis, helping customers has been the Bank's key priority. The Bank has provided assistance to over 1.2 million customers with relief loans starting in 2Q20 at Baht 839 billion. In the second quarter of this year, relief loans declined 12% qoq to Baht 376 billion (16% of total loan book) with the declining pattern being observed across all segments. Despite new waves of the pandemic, our relief loans dropped sequentially as significant amounts of individual customers on payment holiday track exited without seeking further assistance. Compared with 1Q21, we observed an improvement in customer payment upon relief program exit in 2Q21 following a transition from debt holiday to comprehensive debt restructuring for certain groups of retail customers and a recovery in export-oriented SMEs.

The latest outbreak triggered the BOT to issue additional relief measures for borrowers during the past few months (please see details of BOT measures in the appendix). The BOT also announced a 2-month debt moratorium for retail and SME customers in the dark-red zones, starting in July. The Bank will keep monitoring those customers in high-risk zones. We believe our overall asset quality is well under

control given our prudent measures in relation to provision setting and qualitative NPL recognition throughout the pandemic.

Comprehensive debt restructuring solutions

With a view on the longer horizon, we have started working with our customers on comprehensive debt restructuring solutions with the key principles to migrate the affected customers in the relief program towards long-term solutions to increase customer survival such that overall net interest income downside from debt restructuring will be significantly outweighed by provision savings.

The comprehensive debt restructuring program is expected to migrate the viable pandemic-affected customers from short-term relief measures to longer-term solutions that would increase their ability to weather this crisis and eventual survival. Customers will be assessed based on their operating circumstances such as risk profile, projected new cash-flows, industry/sector recovery trajectory and tailored packages that could include, among others, tenor extension, installment reprofiling, lower rate, step-up rates, etc. Where necessary, certain temporary relaxation of underwriting criteria could be considered. We have migrated certain groups of customers to the comprehensive debt restructuring program already and expect the program to be completed by the end of the year.

Following the comprehensive debt restructuring, customers will be closely monitored and their loan classification and provisioning will be in accordance with regulators' guidelines. Given time, we expect that these viable customers would recover in tandem with, or even faster than, the national economic recovery.

At the end of the second quarter, the Bank's NPL ratio was relatively stable at 3.79%. The Bank prudently maintained a high level of provision at 176 bps in 1H21; though this amount is lower than the peak last year. The Bank's coverage ratio rose slightly to 142.3%.

2Q21 and 1H21 Performance

Siam Commercial Bank reported (audited) consolidated **net profit** of Baht 8,815 million for the second quarter of 2021, a 5.4% yoy increase from Baht 8,360 million in 2Q20. Higher net fee income and lower operating expenses were the key drivers of net profit growth, although net gain on investments, net interest income (NII) and net gain on financial instruments measured at FVTPL were lower.

On a **quarter-on-quarter** basis, net profit decreased by 12.6% qoq. Higher NII was offset by lower net fee income and reduced net gain on financial instruments measured at FVTPL.

For the **first half of 2021**, net profit stood at Baht 18,902 million, a 7.3% yoy increase from Baht 17,611 million in 1H20 mainly due to higher net fee income, higher net gain on financial instruments measured at FVTPL and lower operating expenses. These positive factors were partly offset by lower NII and lower net gain on investments.

Table 1. Net Profit and Total Comprehensive Income

Consolidated Unit: Baht million	2Q21	% qoq	% yoy	1H21	% yoy
Net interest income	23,475	0.4%	-1.3%	46,850	-5.5%
Non-interest income	12,994	-9.6%	4.0%	27,371	12.3%
Total operating income	36,469	-3.4%	0.5%	74,222	0.4%
Operating expenses	15,376	1.8%	-4.7%	30,478	-6.3%
Pre-provision operating profit	21,093	-6.9%	4.8%	43,744	5.7%
Expected credit loss	10,028	0.2%	3.0%	20,036	3.0%
Income tax	2,304	-11.3%	9.2%	4,900	10.7%
Non-controlling interests	(54)	NM	NM	(94)	NM
Net profit (attributable to shareholders of the Bank)	8,815	-12.6%	5.4%	18,902	7.3%
Other comprehensive income (loss)	119	NM	NM	(569)	NM
Total comprehensive income	8,934	-5.0%	7.6%	18,333	3.7%
ROAE	8.4%			9.1%	
ROAA	1.1%			1.2%	

NM denotes "not meaningful"

Table 2. Share Information

Unit: Baht	2Q21	% qoq	% yoy	1H21	% yoy
EPS	2.59	-12.6%	5.4%	5.56	7.3%
BVPS	124.13	0.3%	4.6%	124.13	4.6%
Closing price	98.00	-12.1%	35.2%	98.00	35.2%
Shares outstanding* (Million shares)	3,399	0.0%	0.0%	3,399	0.0%
Market capitalization (Baht billion)	333.1	-12.1%	35.2%	333.1	35.2%

* Include both common and preferred shares

Income statement for the second quarter and first half ended June 30, 2021**(Consolidated basis)****Table 3. Net interest income**

Consolidated Unit: Baht million	2Q21	% qoq	% yoy	1H21	% yoy
Interest income	27,653	-0.2%	-5.3%	55,372	-9.9%
Loans	23,304	0.1%	-3.4%	46,590	-8.5%
Interbank and money market	661	2.1%	-29.7%	1,308	-33.9%
Hire purchase	3,077	0.1%	-5.0%	6,150	-5.4%
Investments	602	-14.9%	-31.6%	1,309	-34.8%
Others	9	70.5%	-47.1%	15	-78.6%
Interest expenses	4,178	-3.8%	-22.8%	8,522	-28.4%
Deposits	2,338	-7.2%	-32.2%	4,858	-37.6%
Interbank and money market	183	1.1%	-20.5%	363	-38.7%
Borrowings	224	3.6%	-39.4%	440	-48.7%
Contribution to the Deposit Protection Agency & FIDF	1,432	0.6%	5.2%	2,856	7.6%
Others	1	-80.5%	-64.0%	5	-75.4%
Net interest income	23,475	0.4%	-1.3%	46,850	-5.5%

- **Net interest income** in 2Q21 fell 1.3% yoy to Baht 23,475 million despite 7.1% yoy loan growth because of two factors: net interest margin (NIM) compression by 16 bps yoy from interest rate cuts last year and the Bank's strategy in shifting toward high quality loans.
- On a **quarter-on-quarter** basis, net interest income increased slightly as a result of both improved net interest margin from lower funding cost and loan growth of 0.8% qoq.
- In the **first half of 2021**, net interest income decreased by 5.5% yoy to Baht 46,850 million despite 7.1% yoy loan growth largely due to NIM compression by 39 bps yoy from interest rate cuts last year, increasing mix of lower-yield soft loans and the Bank's shift toward high quality loans.

Table 4. Yield and cost of funding

Consolidated Unit: Percentage	2Q21	1Q21	4Q20	3Q20	2Q20
Net interest margin	3.04%	3.01%	3.02%	3.12%	3.20%
Yield on earning assets	3.59%	3.57%	3.63%	3.76%	3.93%
Yield on loans	4.61%	4.65%	4.84%	5.01%	5.16%
Yield on interbank and money market	0.51%	0.48%	0.46%	0.51%	0.67%
Yield on investment	0.86%	0.93%	0.99%	1.04%	1.21%
Cost of funds ^{1/}	0.64%	0.66%	0.70%	0.75%	0.86%
Cost of deposits ^{2/}	0.64%	0.66%	0.71%	0.76%	0.85%

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

^{1/} Cost of funds = Interest expenses (including the contribution to DPA & FIDF) / Average interest-bearing liabilities.

^{2/} Cost of deposits includes the contribution to the Deposit Protection Agency and FIDF fee.

NIM was down yoy to 3.04% mainly from interest rate cuts last year. However, on a qoq basis, NIM improved 3 bps from higher loan mix within total earning assets, higher yield on interbank and money market (+3 bps) and lower cost of funds (-2 bps) following higher mix of low-cost CASA. Please refer to Table 19 on page 19 for the breakdown of loan yield by segment/product.

Table 5. Interest rate

SCB Interest Rates	Jan 4, 19	Aug 15, 19	Nov 8, 19	Feb 7, 20	Mar 24, 20	Apr 10, 20	May 25, 20	Feb 9, 21	Mar 12, 21
Lending rate (%)									
MLR	6.025	6.025	6.025	5.775	5.775	5.375	5.25	5.25	5.25
MOR	6.87	6.745	6.745	6.745	6.495	6.095	5.845	5.845	5.845
MRR	7.37	7.12	6.87	6.87	6.745	6.345	5.995	5.995	5.995
Deposit rate* (%)									
Savings rate	0.50	0.50	0.50	0.50	0.50	0.50	0.25	0.25	0.25
3-month deposits	0.90-1.15	0.90-1.15	0.65-0.90	0.60	0.50	0.50	0.375	0.37	0.32
6-month deposits	1.15-1.40	1.15-1.40	0.90-1.15	0.80	0.60	0.60	0.50	0.45	0.40
12-month deposits	1.40-1.65	1.40-1.65	1.15-1.40	0.90	0.65	0.65	0.50	0.45	0.40
* Excluding special campaigns which generally offer significantly higher rates but have different terms and conditions from the 3, 6, 12 month term deposits.									
	Mar 12, 14	Mar 11, 15	Apr 29, 15	Dec 19, 18	Aug 7, 19	Nov 6, 19	Feb 5, 20	Mar 23, 20	May 20, 20
Policy rate (%)	2.00	1.75	1.50	1.75	1.50	1.25	1.00	0.75	0.50

Table 6. Non-interest income

Consolidated	2Q21	% qoq	% yoy	1H21	% yoy
Unit: Baht million					
Net fee and service income	9,812	-6.0%	27.7%	20,251	22.0%
Fee and service income	12,462	-2.3%	28.0%	25,214	18.9%
Fee and service expenses	2,650	14.5%	28.9%	4,963	7.7%
Net gain on financial instruments measured at FVTPL	2,658	-15.7%	-9.9%	5,813	14.6%
Share of profit from investment in associate	38	-90.7%	NM	449	NM
Dividend income	78	188.3%	-18.4%	104	-25.7%
Other income	414	67.9%	-66.8%	661	-48.3%
Non-interest income excluding net gain on investments	13,000	-9.0%	9.3%	27,277	18.6%
Net gain on investments	(6)	NM	NM	94	-93.1%
Total non-interest income	12,994	-9.6%	4.0%	27,371	12.3%

NM denotes "not meaningful"

- **Non-interest income** increased by 4.0% yoy to Baht 12,994 million in 2Q21 largely due to recurring income from bancassurance business, wealth management business, and transactional banking activities that were higher than last year when the country was under lockdown. However, non-recurring fees such as net gain on financial instruments measured at FVTPL and net gain on investments were both down.
- On a **quarter-on-quarter** basis, non-interest income decreased by 9.6% qoq largely due to lower recurring income from wealth management businesses as a consequence of a lower level of customer sentiments amidst the third wave of the COVID-19 pandemic and lower net gain on financial instruments measured at FVTPL.
- In the **first half of 2021**, non-interest income increased by 12.3% yoy to Baht 27,371 million. This increase was largely due to strong recurring income from bancassurance and wealth management, quarterly recognition of performance-linked compensation on bancassurance as well as higher gains on financial instruments measured at FVTPL in the investment portfolio of the Bank and its subsidiary.

Table 7. Non-interest income breakdown

Consolidated Unit: Baht million	2Q21	% qoq	% yoy	1H21	% yoy
Transactional banking *	2,860	-2.1%	6.7%	5,782	-6.1%
Lending related **	1,312	0.6%	7.2%	2,617	-1.5%
Wealth management ***	2,424	-25.3%	31.9%	5,670	46.9%
Bancassurance	4,037	6.8%	53.3%	7,815	34.9%
Recurring income	10,633	-5.5%	27.0%	21,884	18.5%
Non-recurring and others	2,361	-24.5%	-42.7%	5,488	-6.9%
Total non-interest income	12,994	-9.6%	4.0%	27,371	12.3%

* 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

Table 8. Operating expenses

Consolidated Unit: Baht million	2Q21	% qoq	% yoy	1H21	% yoy
Employee expenses	7,072	-11.8%	-14.8%	15,090	-7.3%
Premises and equipment expenses	2,453	-19.4%	-12.6%	5,497	-11.7%
Taxes and duties	922	0.2%	3.2%	1,843	-3.3%
Directors' remuneration	17	-43.8%	-45.4%	46	-20.0%
Other expenses	4,913	59.0%	19.4%	8,002	-0.9%
Total operating expenses	15,376	1.8%	-4.7%	30,478	-6.3%
Cost to income ratio	42.2%			41.1%	

- **Operating expenses** fell 4.7% yoy to Baht 15,376 million in 2Q21 due to lower employee expenses following the voluntary early retirement programs done in 2020. Premises and equipment expenses also decreased as part of the cost reduction benefits from accelerated digital migration. However, other expenses increased yoy in preparation for several marketing and sales campaigns going forward.
- On a **quarter-on-quarter** basis, operating expenses rose slightly by 1.8% qoq largely due to an increase in other expenses as explained earlier which was partly offset by lower employee expenses and lower premises and equipment expenses.
- In the **first half of 2021**, operating expenses decreased by 6.3% yoy to Baht 30,478 million with the Bank's continued cost control measures as well as realized cost reduction benefits from accelerated digital migration.

The Bank's cost-to-income ratio was 42.2% in 2Q21, and 41.1% for the first half of 2021 which was within the low-to-mid 40s target owing to the Bank's strict cost discipline. With uneven and uncertain income

outlook for the remaining of the year, the Bank will continue to exercise strict control over discretionary expenses.

Table 9. Expected credit loss (ECL)

Consolidated Unit: Baht million	2Q21	% qoq	% yoy	1H21	% yoy
Expected credit loss	10,028	0.2%	3.0%	20,036	3.0%
Credit cost (bps)	175			176	

- In 2Q21, the Bank set aside **expected credit losses** in the amount of Baht 10,028 million, or 175 bps of total loans which was the similar level to the previous quarter. This amount not only took into account the pro-cyclicality of forward-looking Expected Credit Loss (ECL) models as required by the TFRS 9 framework but also included management overlay given the current deteriorating economic environment.

Balance sheet as of June 30, 2021 (Consolidated basis)

As of June 30, 2021, the Bank's total assets increased 2.9% yoy to Baht 3,202 billion largely due to loan growth of 7.1% yoy and an increase of financial assets measured at FVTPL despite a decline in interbank and money market items and investments. Details on consolidated balance sheets are provided in the following sections:

Table 10. Net loans and accrued interest receivables

Consolidated Unit: Baht million	Jun 30, 21	Mar 31, 21	Dec 31, 20	Jun 30, 20
Total loans	2,296,617	2,277,458	2,255,242	2,144,385
<i>Add</i> Accrued interest receivables and undue interest receivables	13,446	13,497	14,508	7,921
Total loans and accrued interest receivables and undue interest receivables	2,310,063	2,290,955	2,269,750	2,152,306
<i>Less</i> Unamortised modification losses	(2,920)	(2,188)	(2,124)	(1,378)
<i>Less</i> Allowance for expected credit loss	(141,780)	(139,644)	(137,318)	(115,845)
Total loans and accrued interest receivables, net	2,165,363	2,149,123	2,130,308	2,035,083

Table 11. Loans by segments

Consolidated Unit: Baht million	Jun 30, 21	Mar 31, 21	% qoq	Dec 31, 20	% ytd	Jun 30, 20	% yoy
Corporate	845,133	845,723	-0.1%	844,089	0.1%	779,979	8.4%
SME	395,616	383,831	3.1%	368,622	7.3%	364,062	8.7%
Retail	1,055,868	1,047,904	0.8%	1,042,531	1.3%	1,000,344	5.6%
Housing loans*	685,574	678,947	1.0%	671,401	2.1%	655,277	4.6%
Auto loans	229,970	230,257	-0.1%	229,448	0.2%	218,282	5.4%
Unsecured loans	135,262	136,136	-0.6%	138,541	-2.4%	124,040	9.0%
Other loans	5,062	2,564	97.4%	3,141	61.1%	2,745	84.4%
Total loans	2,296,617	2,277,458	0.8%	2,255,242	1.8%	2,144,385	7.1%

* Including all home mortgage loans, some of which are from segments other than retail.

Total loans increased by 7.1% yoy, 0.8% qoq and 1.8% ytd at the end of June 2021. Changes in loan volume by customer segments are as follows:

- **Corporate** loans increased by 8.4% yoy but remained relatively flat qoq and ytd. Slow growth in 2021 was attributable to the Bank's shifted focus to higher quality corporate loans.
- **SME** loans rose 8.7% yoy, 3.1% qoq and 7.3% ytd as a result of lower repayments from loans under the relief programs as well as more lending in the form of soft loans to qualified customers and targeted loans to existing small SME customers assessed as high quality. The Bank's primary focus for this segment has been to ensure adequate relief efforts for qualified customers who have experienced cashflow difficulties during the pandemic. Given this objective, the Bank has proactively provided financial assistance in the form of relief programs and soft loans which contributed to the observed loan growth of this segment.
- **Retail** loans increased 5.6% yoy, 0.8% qoq and 1.3% ytd with the following details.
 - **Housing loans** increased 4.6% yoy, 1.0% qoq and 2.1% ytd largely due to demand in high-end housing developments coupled with the effect of payment holiday for customers under the Bank's relief programs.
 - **Auto loans** increased 5.4% yoy but remained relatively flat qoq and ytd. In 2021, growth from higher demand for new cars was offset by sluggish demand for used cars and payment holiday for customers under the relief measures.
 - **Unsecured loans** (personal loans and credit card receivables) increased 9.0% yoy but fell 0.6% qoq and 2.4% ytd. The qoq and ytd decreases reflected the seasonality pattern of credit card spending which normally peaks at year end as well as the second and third waves of COVID-19 in the first half of 2021 making customers more cautious of their spending.

Table 12. Deposits breakdown

Consolidated Unit: Baht million	Jun 30, 21	Mar 31, 21	% qoq	Dec 31, 20	% ytd	Jun 30, 20	% yoy
Demand	114,953	104,741	9.7%	93,336	23.2%	87,700	31.1%
Savings	1,733,415	1,709,644	1.4%	1,758,903	-1.4%	1,577,688	9.9%
Fixed	520,675	535,086	-2.7%	568,216	-8.4%	589,350	-11.7%
Less than 6 months	112,793	106,552	5.9%	114,006	-1.1%	130,321	-13.4%
6 months and up to 1 year	168,987	185,277	-8.8%	169,547	-0.3%	125,330	34.8%
Over 1 year	238,895	243,257	-1.8%	284,663	-16.1%	333,699	-28.4%
Total deposits	2,369,043	2,349,471	0.8%	2,420,455	-2.1%	2,254,738	5.1%
CASA - Current & Savings Accounts (%)	78.0%	77.2%		76.5%		73.9%	
Gross loans to deposits ratio	96.9%	96.9%		93.2%		95.1%	
Liquidity ratio (Bank-only)	30.3%	30.1%		32.6%		31.6%	

As of June 30, 2021, total **deposits** increased 5.1% yoy and 0.8% qoq but fell 2.1% ytd. The yoy and qoq increases were mainly from higher CASA which climbed to 78.0% at the end of June 2021 from 77.2% at the end of March 2021 and 76.5% at the end of last year. Gross loans to deposits ratio was relatively flat qoq at 96.9%. However, on the yoy and ytd basis, loan growth outstripped deposit growth leading to higher loans to deposits ratio yoy and ytd.

The Bank's daily liquidity ratio of 30.3%, as measured by total liquid assets to total deposits (at a bank-only level), was well above the 20% minimum threshold.

Table 13. Investment Classification

Consolidated Unit: Baht million	Jun 30, 21	Mar 31, 21	% qoq	Dec 31, 20	% ytd	Jun 30, 20	% yoy
Investments							
Financial assets measured at FVTPL	50,335	28,401	77.2%	28,033	79.6%	39,358	27.9%
Investments in debt securities measured at amortised cost	7,430	7,259	2.4%	7,259	2.4%	7,322	1.5%
Investments in debt securities measured at FVOCI	237,199	228,129	4.0%	302,378	-21.6%	247,672	-4.2%
Investments in equity securities measured at FVOCI	1,736	1,732	0.2%	2,159	-19.6%	2,222	-21.9%
Net investment *	246,365	237,120	3.9%	311,796	-21.0%	257,216	-4.2%
Investment in associate	509	542	-6.2%	-	100.0%	-	100.0%
Total	297,208	266,063	11.7%	339,828	-12.5%	296,574	0.2%

* Net investments comprise investments measured at amortised cost and measured at FVOCI

Investments at the end of June 2021 increased 11.7% qoq and 0.2% yoy but fell 12.5% ytd. The qoq increase was from higher financial assets measured at FVTPL, particularly in government and state enterprise securities as well as foreign debt securities.

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 gradually phased in at the rate of 0.625% p.a. and reached the 2.5% target in 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 results in a requirement to maintain an additional Common Equity Tier 1 (CET1) of 0.5% in 2019 and 1.0% from 2020 onward. This Higher Loss Absorbency requirement (or D-SIBs buffer) is added on top of the 2.5% capital conservation buffer 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.

Table 14. Minimum regulatory capital requirement

	2016	2017	2018	2019	2020	2021
Common Equity Tier 1	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Tier 1 capital	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Total capital	8.50%	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%	2.50%
D-SIB Buffer	-	-	-	0.50%	1.00%	1.00%
Common Equity Tier 1	5.125%	5.75%	6.375%	7.50%	8.00%	8.00%
Tier 1 capital	6.625%	7.25%	7.875%	9.00%	9.50%	9.50%
Total capital	9.125%	9.75%	10.375%	11.50%	12.00%	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 June 2021.

Table 15. Total capital

Unit: Baht million, %	Consolidated			Bank-only		
	Jun 30, 21	Dec 31, 20	Jun 30, 20	Jun 30, 21	Dec 31, 20	Jun 30, 20
Statutory Capital						
Common Equity Tier 1/ Tier 1	377,585	377,036	362,490	375,635	375,490	360,567
Tier 2 capital	24,468	23,875	23,102	24,444	24,015	23,076
Total capital	402,053	400,911	385,592	400,079	399,505	383,643
Risk-weighted assets	2,245,067	2,197,668	2,134,539	2,224,434	2,201,154	2,124,195
Capital Adequacy Ratio	17.9%	18.2%	18.1%	18.0%	18.1%	18.1%
Common Equity Tier 1/ Tier 1	16.8%	17.1%	17.0%	16.9%	17.0%	17.0%
Tier 2 capital	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%

At the end of June 2021, the Bank's consolidated common equity Tier 1/Tier 1 capital increased yoy, mainly as a result of appropriation of net profit which was partly offset by dividend payment of Baht 7.8 billion (Baht 2.30 per share). This strong capital position will enable the Bank to weather the current economic downturn and continue to offer needed assistance to customers during this pandemic.

Asset Quality

At the end of June 2021, **gross NPLs** (on a consolidated basis) increased 30.8% yoy to Baht 104.1 billion but remained stable qoq. **Gross NPL ratio** increased to 3.79% from 3.68% at the end of December 2020 and 3.05% at the end of June 2020 but was flat qoq. Stable NPLs on a qoq basis resulted from the Bank's progressive NPLs management (debt restructuring, write-offs and NPL sales at appropriate pricing) which offset the upward pressure from normal organic flow and some qualitative classification of SME portfolio. This current NPLs management approach may help the Bank avert a spike in NPLs when the BOT's temporary relaxation on loan classification rules expire at the end of this year. Prudence aside, this proactive approach is justified given that the reported NPL numbers (e.g. gross NPLs, gross NPL ratio and new NPLs) may not fully reflect current economic conditions as the true severity is masked by the BOT's relief measures.

In addition to provisioning required by the ECL model to match weakening macro-economic factors as discussed in the "Expected credit loss (ECL)" section, additional provisions may also be needed to cover a potential rise in NPLs at the end of the relief program for customers whose debt that may not be commercially restructured. At the end of June 2021, the Bank's **coverage ratio** was 142.3%, up 1.6% from the end of 2020 and 2.7% from the end of March 2021 as a result of higher allowance. Furthermore, the Bank's loan loss reserve as a percentage of total loans (LLR %) was at 6.3%, up 0.8% yoy and 0.1% qoq.

Table 16. Asset quality

Unit: Baht million, %	Jun 30, 21	Mar 31, 21	Dec 31, 20	Jun 30, 20
Consolidated				
Non-Performing Loans (Gross NPLs)	104,110	104,332	101,462	79,596
Gross NPL ratio	3.79%	3.79%	3.68%	3.05%
<u>Gross NPL ratio by segment/product</u>				
Corporate	3.87%	3.89%	3.99%	3.44%
SME	11.51%	11.59%	11.47%	7.22%
Retail	2.45%	2.57%	2.45%	2.65%
Housing loans	2.97%	3.17%	3.22%	3.21%
Auto loans	1.15%	1.50%	1.49%	1.86%
Total allowance*	148,187	145,653	142,813	121,353
Total allowance to NPLs (Coverage ratio)	142.3%	139.6%	140.8%	152.5%
Credit cost (Quarterly, bps)	175	177	257	184
Bank-only				
Non-Performing Loans (Gross NPLs)	102,943	103,189	100,333	78,459
Gross NPL ratio	3.75%	3.75%	3.64%	3.01%

* Total allowance include loans, interbank and loan commitments, and financial guarantee contracts.

Loan Classification and Allowance for Expected Credit Losses

Under TFRS 9, loans are classified into 3 stages based on changes in credit quality since initial recognition. Loans and allowance for expected credit losses at the end of June 2021, December 2020, and June 2020 were classified as follows:

Table 17. Loan and allowance for expected credit losses by stages

Consolidated Unit: Baht million	Jun 30, 21		Dec 31, 20		Jun 30, 20	
	Loans and interbank	ECL*	Loans and interbank	ECL*	Loans and interbank	ECL*
Stage 1 (Performing)	2,463,739	56,499	2,460,277	50,733	2,310,333	39,468
Stage 2 (Underperforming)	180,098	32,602	195,736	33,481	222,488	34,389
Stage 3 (Non performing)	104,110	59,086	101,462	58,598	79,596	47,496
Total	2,747,947	148,187	2,757,476	142,813	2,612,417	121,353

* Including ECL for loans, interbank and loan commitments and financial guarantee contracts.

Table 18. New NPLs by segment/product (%)

	2021		2020				2019			
	2Q21	1Q21	4Q20	3Q20	2Q20	1Q20	4Q19	3Q19	2Q19	1Q19
Total loans	0.44%	0.53%	0.75%	0.73%	0.45%	0.58%	0.73%	1.02%	0.54%	0.50%
Corporate	0.01%	0.08%	0.51%	0.51%	0.14%	0.11%	0.22%	1.77%	0.25%	0.12%
SME	1.14%	1.21%	2.90%	2.46%	0.85%	1.12%	1.97%	0.90%	0.75%	0.99%
Housing loans	0.43%	0.80%	0.54%	0.75%	0.55%	0.78%	0.78%	0.77%	0.83%	0.76%
Auto loans	0.49%	0.52%	0.45%	0.10%	0.25%	1.20%	0.85%	0.72%	0.68%	0.61%
New NPLs (Baht billion)	12.1	14.6	20.7	19.8	11.9	15.2	18.2	26.2	13.4	12.3

New NPL formation, at 0.44% in 2Q21, improved qoq from 0.53% in 1Q21. The improvement in new NPL in 2Q21 was across all segments despite qualitative classification of some SME loans.

Sources and Uses of Funds

As of June 30, 2021, deposits accounted for 74.0% of SCB's funding base. Other major sources of funds were: 13.2% from shareholders' equity, 5.8% from interbank borrowings, and 2.2% from debt issuance. Uses of funds for this same period were: 71.7% for loans, 15.6% for interbank and money markets lending, 9.3% for investments in securities, and 1.4% held in cash.

Table 19. Additional Financial Information

Consolidated Unit: Baht million, %	Jun 30, 21	Mar 31, 21	% qoq	Jun 30, 20	% yoy
Loans by Sector	2,296,617	2,277,458	0.8%	2,144,385	7.1%
Agricultural and mining	17,971	17,487	2.8%	18,738	-4.1%
Manufacturing and commercial	627,329	629,351	-0.3%	573,634	9.4%
Real estate and construction	194,283	187,095	3.8%	187,963	3.4%
Utilities and services	400,263	395,627	1.2%	364,153	9.9%
Housing loans ^{1/}	567,852	561,865	1.1%	545,744	4.1%
Other loans	488,919	486,033	0.6%	454,153	7.7%
Debt issued and borrowings	70,663	68,087	3.8%	69,849	1.2%
Debentures	60,828	59,465	2.3%	58,585	3.8%
Structured notes	5,596	4,833	15.8%	4,913	13.9%
Others	173	191	-9.4%	257	-32.7%
Hedge	4,066	3,598	13.0%	6,094	-33.3%
	2Q21	1Q21	2Q20	1H21	1H20
Yield on loans by segment					
Yield on loans	4.61%	4.65%	5.16%	4.63%	5.39%
Corporate	2.99%	2.99%	3.73%	2.99%	3.89%
SME	5.35%	5.32%	5.93%	5.35%	6.14%
Retail	5.85%	5.93%	6.15%	5.89%	6.39%
Housing loans	4.60%	4.63%	4.63%	4.62%	4.96%
Auto loans	5.32%	5.32%	6.01%	5.33%	5.94%
Credit card ^{2/}	13.42%	13.76%	15.90%	13.59%	15.98%
Speedy	16.89%	18.32%	19.74%	17.69%	20.49%
Auto loans portfolio					
New car	57.8%	57.3%	55.6%	57.8%	55.6%
Used car	24.1%	24.5%	25.7%	24.1%	25.7%
My car, My cash	18.1%	18.2%	18.7%	18.1%	18.7%
NPL reduction methodology					
Repayments, auctions, foreclosures and account closed	34.0%	41.8%	56.5%	37.7%	48.7%
Debt restructuring	12.7%	9.2%	6.9%	11.0%	5.2%
NPL sales ^{3/}	14.1%	21.4%	14.3%	17.7%	19.6%
Write off	39.2%	27.6%	22.3%	33.6%	26.5%

^{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 June 30, 2021, March 31, 2021, and June 30, 2020, was Baht 686 billion, Baht 679 billion, and Baht 655 billion, respectively.

^{2/} Revolving only

^{3/} The Bank sold NPLs of Baht 1.7 billion in 2Q21, 2.5 billion in 1Q21, Baht 2.4 billion in 2Q20, Baht 4.3 billion in 1H21 and Baht 6.9 billion in 1H20. NM denotes "not meaningful"

APPENDIX**Relief Measures by the Bank of Thailand (BOT)****BOT Measures for Non-Retail Customers**

Key measures	Effective Date
Measures for SMEs under the Royal Decree's relief program <ul style="list-style-type: none"> • A loan payment holiday of 6 months for all companies with a line of credit not exceeding Baht 100 million to provide needed liquidity. • Soft loans to provide liquidity for customers with a credit line not exceeding Baht 500 million at a concessional interest rate of 2% per annum 	May to Oct 2020 (further extend to Dec 2021)
DR BIZ program <ul style="list-style-type: none"> • Coordinate assistance and debt relief for customers with multiple creditors • A standardized debt solution that creditors have agreed upon to ensure quick and comprehensive debt restructuring decisions. 	September 1, 2020
Financial rehabilitation measures to support business recovery post-COVID-19 <ul style="list-style-type: none"> • Business recovery loans in the amount of Baht 250 billion • Debt settlement through asset transfers with buy-back options in the amount of Baht 100 billion (Asset warehousing) 	April 10, 2021 (2-year measure)
Debt moratorium for 2 months <ul style="list-style-type: none"> • A 2-month payment holiday for SME customers affected by the government coronavirus containment measures. 	July 1 – August 31, 2021

BOT Measures for Retail Customers

Key measures	Effective Date
BOT Relief Measures Phase 1 <ul style="list-style-type: none"> Grant principal and/or interest payment holiday of 3-6 months for all term loans Reduce minimum credit card payment from 10% to 5% in 2020-2021, which will gradually rise to 8% in 2022 and fully revert back to 10% in 2023. 	April 1, 2020
BOT Relief Measures Phase 2 <ul style="list-style-type: none"> Reduce interest rate ceiling by 2-4% per annum Increase credit card, revolving loans, and installment loan limits (during Aug 1 – Dec 21, 2021) 	August 1, 2020 – October 31, 2021 (further extend to Jun 30, 2021)
Debt consolidation <ul style="list-style-type: none"> Allow customers who have mortgages with banks to consolidate other unsecured personal loans to utilize the same collaterals Eligible customers must have mortgage loans (non-NPLs) and unsecured loans (both non-NPLs and NPLs) with the same bank. Interests charged on unsecured loans will be capped at the Minimum Retail Rate (MRR). 	September 1 – December 31, 2020
BOT Relief Measures Phase 3 <ul style="list-style-type: none"> <i>Revolving and installment loans:</i> Relieve debt burden by extending repayment period and lowering interest rate <i>Car title loans:</i> Include a payment holiday option and, for severely affected borrowers, a repurchase option <i>Auto and motorcycle leases:</i> Ensure that effective interest rate (EIR) over the lease period does not exceed initial interest rate and adjust interest calculation during the payment holiday. Severely affected borrowers are to be offered a repurchase option. <i>Mortgages and home equity loans:</i> Offer principal payment holiday, partial interest payment option, step-up repayment schedule based on borrowers' ability to pay and debt consolidation. 	May 17 – December 31, 2021
Debt moratorium for 2 months <ul style="list-style-type: none"> A 2-month payment holiday for retail customers affected by the government coronavirus containment measures. 	July 1 – August 31, 2021

Please find more details from BOT website (www.bot.or.th)

Credit Ratings

Credit Ratings of Siam Commercial Bank PCL	June 30, 2021
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	Negative
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	F3
Outlook	Stable
Senior Unsecured	BBB
Viability Rating	bbb
<u>National</u>	
Long Term Rating	AA+(tha)
Short Term Rating	F1+(tha)
Outlook	Stable

4. Awards and Achievement

(Awards received in the second quarter of 2021)

Euromoney (U.K.)

- Best Bank in Thailand

The Asset (H.K.)

- Best Service Provider - Trade Finance
- Best Service Provider - Transaction Bank
- Transport Deal of the Year
- Renewable Energy Deal of the Year – Solar

Alpha Southeast Asia (H.K.)

- Best SME Bank in Thailand
- Best Retail Bank in Thailand
- Best Investment Bank in Thailand
- Best Wealth Management Bank in Thailand
- Best FX Bank for Corporates & FIs in Thailand
- Best FX Bank for Structured Hedging Solutions and Proprietary Trading Ideas

Asiamoney (H.K.)

- Best domestic private bank in Thailand

Asian Banking & Finance (S.G.)

- Domestic Retail Bank of the Year – Thailand
- Strategic Partnership of the Year – Thailand

FinanceAsia (H.K.)

- Best Investment Bank

The Digital Banker (U.K.)

- Best Digital Insurance Product for CX (Winner)
- Outstanding Digital CX - Payments (Highly Acclaimed)
- Best Private Bank for Wealth Creation & Preservation

World Business Outlook (S.G.)

- Best Financial Service Provider Thailand 2021
- Best SME Service Provider Thailand 2021
- Best Asset Management Company Thailand 2021

Asia Sustainability Reporting Awards (S.G.)

- Bronze award for Asia's Best Sustainability Report in the Stand-alone category