Basel III Pillar 3 Market Disclosure
June 2020

ไทยพาณิชย์ SCB

INCLUSIVE GROWTH

Contents

1. INTRODUCTION

To further strengthen the risk measurement and management practices, Siam Commercial Bank PCL (SCB) and its Financial Group have adopted Basel III, the latest global regulatory framework for assessing bank capital adequacy and liquidity, on January 1, 2013. The Bank's implementation of Basel III strictly follows the Basel Committee on Banking Supervision's guidelines and the Bank of Thailand (BOT)'s regulations.

In September 2017, the Bank was designated as one of the Domestic Systemically Important Banks (D-SIBs) by the BOT, which resulted in a requirement to maintain an additional Common Equity Tier 1 (CET1) of 1.0%, on top of the capital conservation buffer of 2.5%. In addition, a countercyclical capital buffer (CCyB) of no more than 2.5% is currently being considered by the BOT. The CCyB buffer is intended to strengthen the Thai financial system and to prevent excess credit growth which may lead to a credit bubble and ultimately a financial crisis. However, even if the BOT decides to adopt the CCyB buffer, this additional capital buffer is likely to be set at 0% this year given that the Thai economy and businesses have been heavily hit by the COVID-19 pandemic.

Following the TFRS 9 adoption in January 2020, commercial banks are required to hold minimum provisions relative to a defined list of performing and under-performing assets and off-balance sheet items. If the available provisions fall short of the minimum requirements, the Bank must adjust for such differences in the capital fund items starting from January 1, 2020 according to the following schedules: 0.33% in 2020, 0.67% in 2021, and 1.0% for 2022 onwards.

In addition, Thai commercial banks are faced with more stringent capital requirements and risk-weighted asset calculation, as well as technological changes that affect business operations. Nonetheless, those factors are already incorporated into the Bank's short-term and long-term capital planning process.

The current Basel Capital Accord comprises three pillars, each of which is essential for promoting the stability of financial institutions:

Pillar I provides guidelines on minimum capital requirements for credit risk, market risk and operational risk.

Pillar II addresses the key principles of supervisory review processes and relevant internal risk assessment beyond Pillar I, with an emphasis on internal capital adequacy assessment process (ICAAP).

Pillar III leverages market mechanism for bank supervision by requiring public disclosure of key information on capital adequacy and risk exposure as well as risk assessment and management.

This Pillar III report presents detailed information on capital adequacy and risk-weighted asset calculations for credit risk, market risk in the trading book, and operational risk for both SCB (referred to as 'Bank-only') and its Financial Group (referred to as 'Consolidated'). Per the Basel III framework, this report discloses information on risk management guidelines and frameworks, risk components, measurement methodologies for risk monitoring and reporting, and capital adequacy requirements with both quantitative and qualitative information. Qualitative information is updated annually, or whenever there is any material policy change. The BOT requires Pillar III disclosure to be reported as of June 30 and December 31 and made available to market participants within four months of the report dates. The report is published on the Bank's website under the Investor Relations section at https://www.scb.co.th/en/investor-relations/financial-information.html

Beginning January 1, 2020, the BOT's disclosure requirement has been revised to include key prudential metrics to reflect the provisioning impact from TFRS 9. Moreover, the BOT also revised disclosure of general provision, which is eligible as Tier 2 capital, along with certain amendments on terminology to be in line with financial statements and updated the disclosed amount of capital during transitional period as per Basel III framework.

Although external audit is not required for this report, the Bank has an internal verification and approval process to ensure that the contents are consistent with the Bank's Pillar III disclosure policy which follows the Pillar III principles under the Basel III framework adopted by the BOT. There is no material difference from the information used internally by management and from the reports submitted to the BOT.

2. SCOPE OF APPLICATION

Standardized Approach

SCB and its Financial Group use the Standardized Approach (SA), which follows the BOT's guidelines on credit risk, market risk, and operational risk measurement, as a computational framework for regulatory capital requirements.

Accounting Consolidation

Consolidated financial statements present information on combined assets and liabilities of SCB and all its subsidiaries. The methodology for consolidating financial statements in accordance with the Thai Financial Reporting Standards can be found in SCB Annual Report for 2019.

Regulatory Consolidation [1/]

Regulatory consolidation consists of solo consolidation, which considers only financial entities for which SCB holds more than 75% of their shares, and full consolidation (referred to as 'Consolidated'), which includes all entities within the Financial Group. In this context, entities involved in the insurance business or other financial operations are excluded from the regulatory consolidation provided, in the latter case, that SCB holds more than 10% but less than 50% of their shares. Under Basel III, investment in these two types of entities is considered 'investment outside the scope of consolidation' and shall be calculated according to the BOT's guidelines.

The treatment of investment outside the scope of consolidation, e.g. insurance companies, depends on the proportion of issued common share capital held by the Bank with 10% being the threshold level:

- The Bank's investment does not exceed 10% (insignificant investment)

  If the aggregate holding exceeds 10% of the Bank's net common equity Tier 1 capital (CET1), then the amount above 10% is required to be deducted from the corresponding tier of capital (Corresponding Approach). The portion under 10% is assigned a risk weight according to the BOT's guidelines.

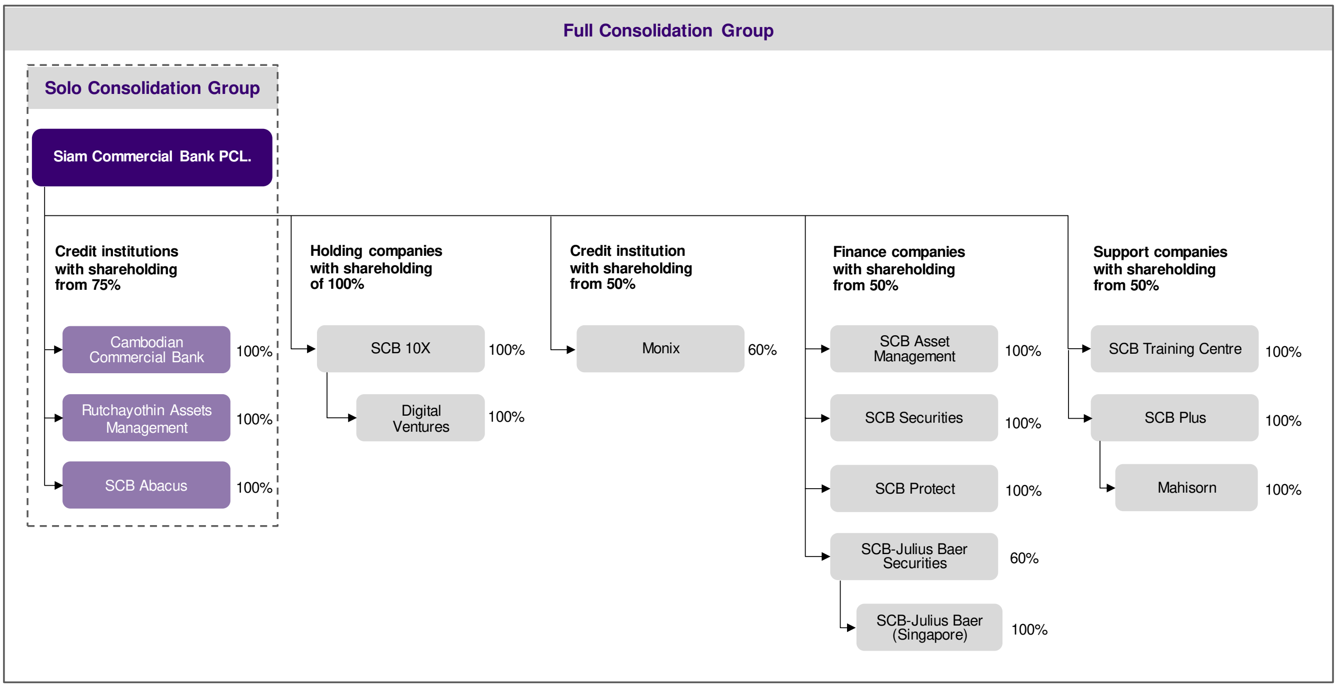
- The Bank owns significant investments (more than 10% of issued common share capital of the entity or a threshold approach).

  If the aggregate holding exceeds 10% of the Bank's net common equity, then the amount above 10% is required to be deducted from the corresponding tier of capital. If there is insufficient amount in the corresponding tier, the remaining amount will be deducted from the next higher tier of capital, whereas the amount under the 10% of net CET1 will be assigned a risk weight of 250%.

Quantitative information in this document is presented in both Bank-only and Consolidated basis.

[1/] See more details on regulatory consolidation in the Appendix.

Figure 1: List of Companies and Business Types within the SCB Financial Group as of June 30, 2020



3. KEY PRUDENTIAL METRICS

Table 1: Key Prudential Metrics

Unit: Baht million, %

		Bank-Only		Consolidated	
		30 Jun 20	31 Dec 19	30 Jun 20	31 Dec 19
1.	**Available Capital (amounts)**				
1.1	Common Equity Tier 1 (CET1)	360,566	317,312	362,490	352,691
1.2	Fully loaded ECL CET1	360,566	317,312	362,490	352,691
1.3	Tier 1	360,566	317,312	362,490	352,691
1.4	Fully loaded ECL Tier 1	360,566	317,312	362,490	352,691
1.5	Total capital	383,643	339,744	385,592	375,206
1.6	Fully loaded ECL total capital	383,643	339,744	385,592	375,206
2.	**Risk-weighted assets (amounts)**				
2.1	Total risk-weighted assets (RWA)	2,124,195	2,060,169	2,134,539	2,075,492
3.	**Risk-based capital ratios as % of RWA**				
3.1	Common Equity Tier 1 ratio (%)	16.97%	15.40%	16.98%	16.99%
3.2	Fully loaded ECL Common Equity Tier 1 (%)	16.97%	15.40%	16.98%	16.99%
3.3	Tier 1 ratio (%)	16.97%	15.40%	16.98%	16.99%
3.4	Fully loaded ECL Tier 1 ratio (%)	16.97%	15.40%	16.98%	16.99%
3.5	Total capital ratio (%)	18.06%	16.49%	18.06%	18.08%
3.6	Fully loaded ECL total capital ratio (%)	18.06%	16.49%	18.06%	18.08%
4.	**Additional CET1 buffer requirements as % of RWA**				
4.1	Capital conservation buffer requirement (%)	2.5%	2.5%	2.5%	2.5%
4.2	Countercyclical buffer requirement (%)	0.0%	0.0%	0.0%	0.0%
4.3	Higher loss absorbency for D-SIB (%)	1.0%	0.5%	1.0%	0.5%
4.4	Total capital buffer requirements (%)	3.5%	3.0%	3.5%	3.0%
4.5	CET1 available after meeting the bank's minimum capital requirements (%)[1/]	9.6%	8.0%	9.6%	9.6%
5.	**Liquidity Coverage Ratio for Bank-Only basis**[2/]				
5.1	Total HQLA	692,753	688,586		
5.2	Total net cash outflows	386,445	339,831		
5.3	LCR ratio (%)	179%	203%		

1/ An excess of CET1 above the minimum regulatory capital adequacy ratio including minimum ratios for Tier 1, and Tier 2 which CET1 is used to maintain minimum capital requirement.

2/ Average LCR for Q2/2020 and Q4/2019 were calculated using simple averages of month-end data for each quarter. For example, Q2 data were obtained by taking a simple average of month-end data in April, May and June.

Highlight of changes to the Bank’s capital and key drivers

As of June 30, 2020, the Bank's common equity Tier 1 (CET1) / Tier 1 capital increased significantly from December 2019, mainly due to appropriation of 2H19 net profit. This included profit from divestment of SCB Life Assurance PCL (“SCB Life”) in September 2019 net of Baht 4.75 per share of total interim dividend (i.e. Baht 0.75 per share of special dividend plus Baht 4.0 per share of normal dividend). During this period, there was also an increase in total risk-weighted assets which was largely driven by loan growth, especially in corporate and SME segments.

For SCB Financial Group, CET1 / Tier 1 capital ratios at the end of June 2020 were relatively stable compared to the end of 2019 mainly because consolidated net profit after appropriation and risk weighted assets increased at a similar pace. Note that Consolidated net profit for 2H19 was significantly lower than Bank-only largely because of lower gain on sale of SCB Life given the higher investment cost. This significant difference stems from the fact that historical investment cost was used for Bank-only while cost including SCB Life’s profit sharing (cost per equity method) was used for Consolidated.

Given its strong CET1 capital position, the Bank opted to recognize all capital impact arising from TFRS 9 Expected Credit Loss (ECL) right from the first day of adoption on January 1, 2020. Therefore, the Bank’s Common Equity Tier 1 / Tier 1 capital and fully loaded ECL Common Equity Tier 1 / Tier 1 capital are the same.

4. REGULATORY CAPITAL

4.1 Capital Management

Since capital is the most critical resource for the banking business, SCB and its Financial Group have adopted the Internal Capital Adequacy Assessment Process (ICAAP) to assess material risks and capital adequacy under both normal and stress conditions. Moreover, policies and procedures have been developed and put in place to ensure that SCB and its Financial Group's capital:

- Provides adequate cushion to absorb unexpected losses and builds market confidence in the Bank's financial strength by maintaining capital in excess of the minimum regulatory requirements at all times.
- Matches the risk profile of SCB and its Financial Group, facilitates growth based on their business strategies, and provides the ability to withstand potential risks from economic downturns or other adverse scenarios.
- Strikes the right balance between shareholders' returns and the Bank's capital position.

Senior management is responsible for reviewing capital adequacy periodically by considering business needs and any potential regulatory changes.

4.2 Capital Structure and Adequacy

Capital Structure

Regulatory capital under Basel III consists of 3 following categories:

(1) **Common Equity Tier 1 Capital (CET1)** represents the highest-quality component of capital which includes:

- Fully paid-up common shares
- Premium on common shares
- Appropriated retained earnings
- Legal reserves
- Other comprehensive income, i.e. revaluation surplus on land and premises, and revaluation surplus on FVTOCI investment

(2) **Additional Tier 1 Capital** consists of high-quality capital, which includes:

- Fully paid-up non-cumulative preferred shares
- Premium on the above-mentioned preferred shares
- Perpetual subordinated debt

(3) **Tier 2 Capital** consists of:

- Long-term subordinated liabilities
- General provisions (eligibility limited to 1.25% of credit risk-weighted assets)

Capital Adequacy

Maintaining adequate capital is crucial for financial stability of the Bank and its Financial Group since the capital will be used as cushion against risk that arises from the business operation. SCB and its Financial Group identify and manage risk by setting internal control procedures and performing stress tests as well as assessing and managing risk impacts through the capital planning process. Scenario analysis and stress tests are employed to assess the sensitivities of regulatory capital to business plans and adverse shocks from extreme yet plausible events. SCB and its Financial Group use these analytical tools to anticipate potential financial impacts from the business plans and capital requirements as well as formulating management action plans for impact mitigation should such adverse events or similar circumstances occur.

To comply with the regulatory requirements, SCB and its Financial Group must maintain capital at the level deemed sufficient to cover credit risk, market risk, and operational risk. In addition, the Bank is required to maintain a capital conservation buffer of 2.5% of CET1. Furthermore, banks designated as Domestic Systemically Important Banks (D-SIBs) by the BOT must maintain additional CET1 of 1% to enhance their ability to absorb losses and minimize any potential spillover to the overall financial sector and the economy.

As a result, throughout 2020, the Bank must maintain the minimum ratios of Common Equity Tier 1 (CET1) at 8.0%, Tier 1 capital at 9.5%, and total CAR at 12.0%.

As of June 30, 2020, the Bank's total CAR was 18.06% on a Consolidated basis and Bank-only basis, while CET1 capital stood at 16.98% on a Consolidated basis and 16.97% on a Bank-only basis.

Note: In compliance with the BOT's guidelines, the ratios as of June 30, 2020 excluded net profit after dividend payment for 1H20; otherwise, capital and CET1/Tier 1 would have been 17.83% and 18.92% respectively on both Bank-only basis and Consolidated basis.

Figure 2: Basel III Capital Structure as of June 30, 2020

(In Baht billion)

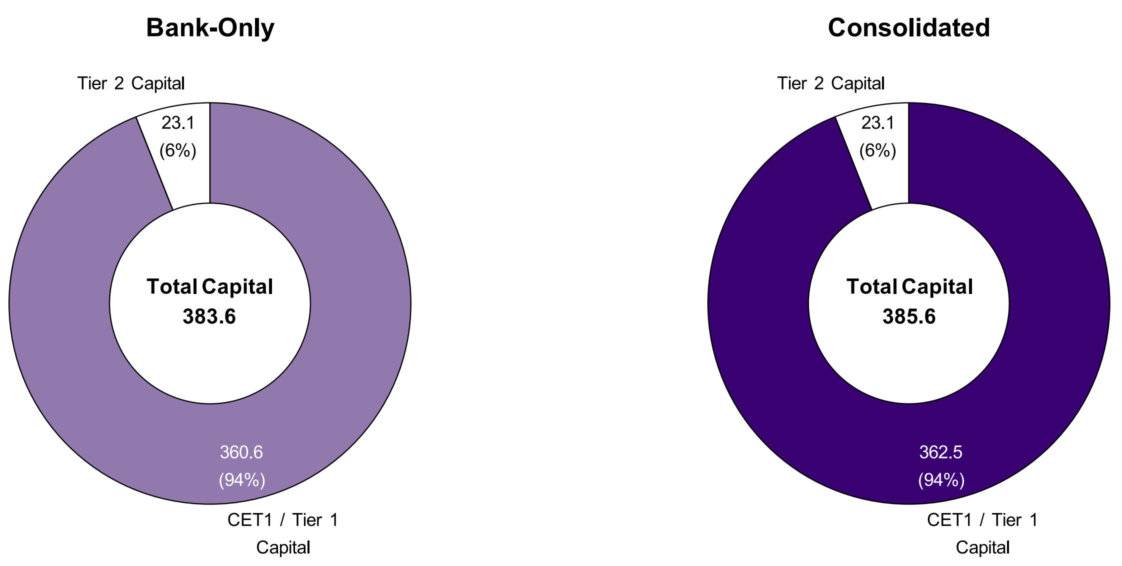


Figure 3: Capital Adequacy Ratios under the Standardized Approach (SA) of SCB and its Financial Group

(In % of RWAs)

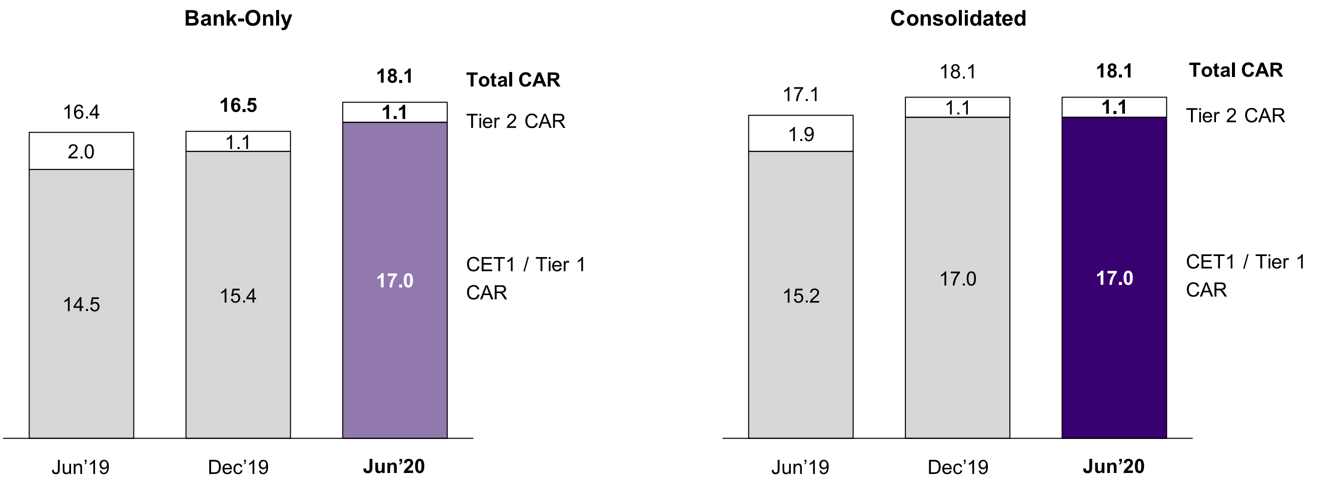


Table 2: Comprehensive Regulatory Capital and Capital Adequacy

Unit: Baht million, %

	Bank-Only			Consolidated		
	30 Jun 20	**31 Dec 19**	**30 Jun 19**	**30 Jun 20**	**31 Dec 19**	**30 Jun 19**
Tier 1 capital	**360,566**	**317,312**	**305,148**	**362,490**	**352,691**	**332,040**
Common Equity Tier 1 (CET1)	**360,566**	**317,312**	**305,148**	**362,490**	**352,691**	**332,040**
Paid-up common shares capital	33,992	33,992	33,992	33,992	33,992	33,992
Surplus (deficit) net worth	11,124	11,124	11,124	11,124	11,124	11,124
Legal reserve	7,000	7,000	7,000	7,000	7,000	7,000
Net profit after appropriation	313,546	271,824	258,937	315,926	307,654	294,768
Disclosed reserves						
Other comprehensive income	14,637	13,632	14,338	15,032	13,973	23,719
Others owner changes items	-	-	-	-	-	(2,365)
Regulatory deduction to CET1 capital	(19,733)	(20,260)	(20,243)	(20,583)	(21,052)	(36,198)
Additional Tier 1	**-**	**-**	**-**	**-**	**-**	**-**
Tier 2 capital	**23,076**	**22,432**	**41,146**	**23,102**	**22,514**	**42,017**
Proceeds from issuing subordinated debt securities	-	-	18,000	-	-	18,000
General provision	23,076	22,432	23,146	23,102	22,514	24,017
Total Regulatory Capital	**383,643**	**339,744**	**346,294**	**385,592**	**375,206**	**374,057**
Risk-weighted assets						
Credit risk	1,846,094	1,794,549	1,851,685	1,848,176	1,801,155	1,921,383
Market risk	62,496	55,074	47,653	65,303	57,783	51,219
Operational risk	215,605	210,546	208,440	221,060	216,553	214,980
Total Risk-Weighted Assets	**2,124,195**	**2,060,169**	**2,107,778**	**2,134,539**	**2,075,492**	**2,187,582**
Total capital/ Total risk-weighted assets	**18.06%**	**16.49%**	**16.43%**	**18.06%**	**18.08%**	**17.10%**
Total Tier 1 capital/ Total risk-weighted assets	**16.97%**	**15.40%**	**14.48%**	**16.98%**	**16.99%**	**15.18%**
Total CET1 capital/ Total risk-weighted assets	**16.97%**	**15.40%**	**14.48%**	**16.98%**	**16.99%**	**15.18%**
Minimum regulatory capital adequacy ratios:						
Minimum total capital/ Total risk-weighted assets	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Minimum Tier 1 capital/ Total risk-weighted assets	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Minimum CET1 capital/ Total risk-weighted assets	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Capital conservation buffer requirements	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Higher loss absorbency for D-SIBs[1/]	1.0%	0.5%	0.5%	1.0%	0.5%	0.5%
Total minimum CAR including capital buffer	12.0%	11.5%	11.5%	12.0%	11.5%	11.5%

1/ D-SIB buffer requires additional CET1 of 0.5% in 2019 with a step-up to 1.0% in 2020.

Table 3: Capital Requirements by Risk Type

Unit: Baht million

	Bank-Only			Consolidated		
	30 Jun 20	31 Dec 19	30 Jun 19	30 Jun 20	31 Dec 19	30 Jun 19
Credit risk - Standardized Approach						
Performing						
Governments, Central Banks, MDBs [1/] and PSEs [2/] treated as Sovereign	77	129	173	405	483	370
Banks and PSEs [2/] treated as banks	2,517	2,728	2,829	2,615	2,855	2,933
Corporates [3/] and PSEs [2/] treated as corporates	88,446	85,618	89,805	88,775	85,954	90,100
Retail	37,574	36,733	35,253	37,615	36,775	35,298
Retail mortgage loans	18,012	17,404	17,672	18,012	17,404	17,672
Other assets [4/]	7,780	6,334	8,707	7,144	6,011	13,964
Non-performing	2,512	3,590	2,954	2,530	3,615	2,980
First-to-default credit derivatives and securitization	-	-	-	-	-	-
Minimum capital requirements for credit risk	**156,918**	**152,537**	**157,393**	**157,095**	**153,098**	**163,318**
Market risk - Standardized Approach						
Interest rate risk	4,760	4,028	3,753	4,761	4,031	3,755
Equity position risk	334	271	-	353	276	8
Foreign exchange risk	218	383	297	436	605	590
Commodity risk	-	-	-	-	-	-
Minimum capital requirements for market risk	**5,312**	**4,681**	**4,050**	**5,551**	**4,912**	**4,354**
Operational risk - Standardized Approach						
Minimum capital requirements for operational risk	**18,326**	**17,896**	**17,717**	**18,790**	**18,407**	**18,273**
Total minimum capital requirements [5/]	**180,557**	**175,114**	**179,161**	**181,436**	**176,417**	**185,944**

1/ Multilateral development banks

2/ Public sector entities

3/ Including claims on individuals and their related parties when aggregated limits exceed conditions of claims on retail

4/ Other assets under Basel III include investment outside the scope of consolidation which carries a 250% risk-weight

5/ Minimum capital requirements are calculated based on the minimum regulatory capital adequacy ratio at 8.5%. If capital conservation buffer of 2.5% and D-SIB buffer of 1.0% for 2020 were included, total capital requirements at end of June 2020 would have been Baht 254,903 million on a Bank-only basis and Baht 256,145 million on a Consolidated basis.

Table 4: Main Features of Regulatory Capital Instruments

Ordinary share	
Issuer	The Siam Commercial Bank PCL
Unique identifier	ISIN Code: TH0015010000
Regulatory treatment	
Instrument type	Common Equity Tier 1 capital
Qualified or non-qualified Basel III	Qualified
Non-qualified Basel III features	-
Phased-out or full amount	Full amount
Eligible at Solo / Group / Group and Solo	Group and Solo
Amount recognized in regulatory capital	33,992 million Baht [1/]
Par value of instrument	10 Baht
Accounting classification	Shareholder's equity
Original date of issuance	Multiple
Perpetual or dated	Perpetual
Original maturity date	No maturity
Issuer's authority to call prior to supervisory approval	No
Optional call date, contingent call date and redemption amount	-
Subsequent call dates, if applicable	-
Coupons / dividends	
Fixed or floating dividend / coupon	Discretionary dividend amount
Coupon rate and any related index	The ordinary shares receive distributable profit that has been declared as dividend.
Existence of a dividend stopper	No
Fully discretionary, partially discretionary or mandatory	Fully discretionary
Existence of step up or other incentive to redeem	No
Non-cumulative or cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible
Write-down feature	No
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	The ordinary shares shall receive the return of capital in a winding-up, allowing the holders the rights to participate in any surplus profit or assets of the company after all senior obligations have been paid off.

1/ Preferential rights of the Bank's preferred shares (Baht 36 million) expired on May 10, 2009. Since then, preferred shareholders have had the same rights as ordinary shareholders.

Table 5: Reconciliation of Capital from Consolidated Financial Statements

Unit: Baht million

Capital related items as of June 2020	Balance sheet as per the published financial statements[1/]	Balance sheet under the regulatory scope of consolidation [2/]	References
Assets			
Cash	42,871	42,871	
Interbank and money market items, net	535,478	535,478	
Financial asstes measured at FVTPL	39,358	39,358	
Derivative assets	88,865	88,865	
Investments, net	257,216	257,216	
Investments in subsidiaries and associates, net	-	(0)	
Loans to customers and accrued interest receivables, net			
Loans to customers	2,144,385	2,144,385	
Accrued interest receivables and undue interest receivables	7,921	7,921	
Total loans to customers and accrued interest receivables and undue interest receivables	2,152,306	2,152,306	
Less Modification loss	(1,378)	(1,378)	
Less Allowance for expected credit loss	(115,845)	(115,845)	
General provision		(23,102)	O
Specific provision		(92,743)	
Total loans to customers and accrued interest receivables, net	2,035,083	2,035,083	
Properties for sale, net	16,251	16,251	
Premises and equipment, net	41,757	41,757	
Goodwill and other intangible assets, net	18,700	18,700	
Goodwill	1,270	1,270	K
Other intangible assets	17,430	17,430	L
Deferred tax assets	2,022	2,022	M
Other assets, net	32,966	32,966	
Total assets	**3,110,567**	**3,110,567**	
Liabilities			
Deposits	2,254,738	2,254,738	
Interbank and money market items	212,391	212,391	
Liabilities payable on demand	11,184	11,184	
Financial liabilities measured at FVTPL	5	5	
Derivative liabilities	78,244	78,244	
Debt issued and borrowings	69,849	69,849	
Provisions	16,279	16,279	
Deferred tax liabilities	138	138	N
Other liabilities	63,704	63,704	
Total liabilities	**2,706,532**	**2,706,532**	

Table 5 (Cont.)

Unit: Baht million

Capital related items as of June 2020	Balance sheet as per the published financial statements[1/]	Balance sheet under the regulatory scope of consolidation [2/]	References
Owner's Equity			
Share capital			
Issued and paid-up share capital			
Preferred shares	36	36	A
Common shares	33,956	33,956	B
Premium on share capital			
Premium on preferred shares	14	14	C
Premium on common shares	11,110	11,110	D
Disclosed reserves			
Surplus on revaluation of land and premises	15,436	15,436	
Qualified as capital		13,083	G[3/]
Non-qualified as capital		2,353	
Revaluation surplus (deficit) of investments classified at FVTOCI	2,490	2,490	H
Foreign currency translation differences	(542)	(542)	I
Surplus (deficit) from value of cash flow hedge reserve	-	-	J
Retained earning			
Appropriated retained earning			
Legal reserve	7,000	7,000	E
Unappropriated retained earning	334,028	334,028	
Net profit after appropriation to capital		315,926	F[4/]
Net profit unappropriated to capital		18,102	
Total shareholders' equity	403,528	403,528	
Non-controlling interest	507	507	
Total owner's equity	**404,035**	**404,035**	
Total liabilities and owner's equity	**3,110,567**	**3,110,567**	

1/ Balance sheet per the published financial statements refers to audited financial statements on a consolidated basis as reported to the Stock Exchange of Thailand.

2/ Balance sheet under the regulatory scope of consolidation refers to financial statements on a consolidated basis under the BOT's regulation.

3/ Surplus on revaluation of land and premises can be counted toward capital only for items that the BOT has approved.

4/ Net profit for the second half of the year after being appropriated in accordance with the approved resolutions from the shareholders' meeting or profit for the first half of the year in accordance with the rules as specified by the Bank.

Table 5 (Cont.)

Unit: Baht million

Component of regulatory capital as of June 2020	Regulatory capital reported by financial group	References based on balance sheet under the consolidated supervision
Tier 1 capital		
Common Equity Tier 1 (CET1) capital		
Paid-up common shares after deducting treasury shares	33,992	**A + B**
Surplus (deficit) net worth	11,124	**C + D**
Legal reserve	7,000	**E**
Net profit after appropriation	315,926	**F**
Disclosed reserves		
Revaluation surplus on land and building appraisal	13,083	**G**
Gain (loss) on investments designated at FVTOCI	2,490	**H**
Gain (loss) from converting foreign currency operation to the Bank	(542)	**I**
Gain (loss) from fair valued cash flow hedge reserve	-	**J**
Total CET1 capital before regulatory adjustments and deduction	383,073	
Regulatory adjustments on CET1	-	
Regulatory deductions on CET1		
Goodwill	1,270	**K**
Other intangible assets	17,430	**L**
Deferred tax assets	1,884	**M - N**
Total regulatory deduction on CET1	20,583	
Total CET1 capital	**362,490**	
Additional Tier 1 capital		
Total Additional Tier 1	-	
Total Tier 1 capital	**362,490**	
Tier 2 capital		
General provision	23,102	**O**
Total Tier 2 capital before regulatory adjustments and deduction	23,102	
Regulatory adjustment and deduction on Tier 2 capital	-	
Total Tier 2 capital	**23,102**	
Total regulatory capital	**385,592**	

Table 6: Capital Position During Transitional Period

Unit: Baht million

	Bank-only		Consolidated	
	Capital amount as of June 2020	Net value of items with transitional phase subject to Basel III	Capital amount as of June 2020	Net value of items with transitional phase subject to Basel III
Tier 1 capital				
Common Equity Tier 1 (CET1) capital				
Paid-up common shares capital	33,992		33,992	
Surplus (deficit) net worth	11,124		11,124	
Legal reserve	7,000		7,000	
Net profit after appropriation	313,546		315,926	
Disclosed reserves				
Revaluation surplus on land and buidling appraisal	12,220		13,083	
Gain (loss) on investments designated at FVTOCI	2,490		2,490	
Gain (loss) from converting foreign currency operation to the Bank	(73)		(542)	
Gain (loss) from fair valued cash flow hedge reserve	-		-	
CET1 capital before regulatory adjustments and deduction	380,300	-	383,073	-
Regulatory adjustments on CET1	-		-	
Regulatory deduction on CET1				
Goodwill	(1,270)		(1,270)	
Other intangible assets	(16,663)		(17,430)	
Deferred tax assets	(1,800)		(1,884)	
Total regulatory deduction on CET1	(19,733)	-	(20,583)	-
Total CET1 capital	**360,566**	**-**	**362,490**	**-**
Additional Tier 1 capital	-		-	
Total Tier 1 capital	**360,566**	**-**	**362,490**	**-**
Tier 2 capital				
Proceeds from issuing subordinated debt	-	-	-	-
General provision	23,076		23,102	
Tier 2 capital before regulatory adjustments and deduction	23,076	-	23,102	-
Regulatory adjustments and deduction on Tier 2 capital	-		-	
Total Tier 2 capital	**23,076**	**-**	**23,102**	**-**
Total regulatory capital	**383,643**	**-**	**385,592**	**-**

5. LIQUIDITY COVERAGE RATIO (LCR)

An important lesson learned from the 2008 financial crisis is that not only inadequate capital, but also liquidity problem, can inflict tremendous damages to financial and real sectors. In response, the BCBS introduced new liquidity standards under Basel III, namely Liquidity Coverage Ratio (LCR) and Net Stable Fund Ratio (NSFR), to promote strong liquidity positions among commercial banks both short-term and long-term. In Thailand, LCR standards in line with the BCBS's guidelines have been imposed by the BOT since January 1, 2016.

The objective of this LCR requirement is to ensure that commercial banks maintain adequate amount of unencumbered High-Quality Liquid Assets (HQLA) to meet their liquidity needs, specifically to cover total net cash outflows for 30 calendar days in a severe liquidity stress scenario according to the BOT's computation methodology. The intent is to allow commercial banks, along with the BOT and relevant regulators, sufficient time to identify and implement appropriate measures to address the situation.

The LCR components:

$$\text{LCR} = \frac{\text{High-quality liquid assets}}{\text{Total net cash outflows}}$$

I. High-quality liquid assets (HQLA)

HQLA under the LCR requirement must have the following characteristics:

- Fundamental characteristics such as having low risk, straightforward valuation; and
- Market-related characteristics such as being actively traded, having low volatility, and attracting high demand during a crisis

Additionally, HQLA is categorized into two levels according to their convertibility under stress conditions.

- **HQLA Level 1** generally include cash, central bank reserves, and certain marketable securities issued or backed by governments and central banks which have the highest ratings and the highest liquidity.
- **HQLA Level 2** are considered lower tier in terms of asset quality and liquidity. This level of assets is further sub-categorized into Level 2A and Level 2B which consist of lower-rated government securities, and corporate bonds. Level 2 assets are subject to a range of haircuts as specified by the BOT. For a given commercial bank, Level 2 assets and Level 2B assets may not exceed 40% and 15% respectively of the bank's aggregate HQLA.

In addition, HQLA must meet certain operational requirements to ensure timely convertibility through a secondary market either by outright or repo transactions during periods of financial stress. Commercial banks should ensure that their HQLA portfolios are properly diversified even though certain classes of liquid assets are likely to remain liquid both under normal and stressed conditions. Banks should also impose limits to avoid concentration risk with respect to asset types, issue and issuer types, and currency within each asset class.

II. Total net cash outflows

Total net cash outflows are defined as total expected cash outflows less total expected cash inflows in a specified stress scenario for the subsequent 30 calendar days. In this computation, total expected cash inflows are capped at 75% of total expected cash outflows.

Total net cash outflows = **Total expected cash outflows** - **Total expected cash inflows**

Total expected cash outflows are the sum of outstanding balances of various categories of liabilities and off-balance sheet commitments multiplied by their expected run-off or drawdown rates over the next 30 days under severe liquidity stress scenario. Cash outflows can be categorized into 5 types as follows:

- Retail deposits and borrowings
- Unsecured wholesale funding
- Secured funding
- Contractual obligations
- Non-contractual obligations

Total expected cash inflows are the sum of outstanding balances of various categories of contractual receivables multiplied by their expected flow-in rates over the next 30 days under severe liquidity stress scenario. In this computation, total cash inflows are capped at 75% of total expected cash outflows. Cash inflows can be categorized into 3 types as follows:

- Secured lending
- Fully performing loans
- Contractual obligations

III. The BOT's minimum requirement

A commercial bank must maintain its LCR above 100% in 2020.

LCR report

This LCR disclosure presents information on a Bank-only basis and all data are simple averages of month-end observations of the previous quarter in Baht currency. Specifically, the Bank's average LCR, HQLA, and total net cash outflows for the 2nd quarter of 2020 are simple averages of month-end LCR, HQLA, and total net cash outflows in April, May and June 2020 (3 months).

Liquidity Coverage Ratio (LCR)

The Bank has been able to maintain its LCR well above the regulatory requirement on both Bank-only and Consolidated basis.

The Bank's average LCR for the 2nd quarter of 2020 was 179%. This level exceeded both the Bank's limit and the BOT's minimum requirement at 100% in 2020, showing the Bank's ample liquidity.

High-Quality Liquid Assets (HQLA)

The average HQLA for the 2nd quarter of 2020 was Baht 692,753 million, of which 99.2% were level 1 assets mainly consisting of government bonds and BOT debt instruments. It is the Bank's policy to hold high quality liquid assets as cushion against severe liquidity stress scenarios. These assets must be unencumbered by legal, regulatory, or operational restrictions and highly convertible into cash during a crisis.

Total net cash outflows (Net COF)

The average net cash outflows over the next 30 days for the 2nd quarter of 2020 was Baht 386,445 million. Most of the estimated cash outflows were from withdrawal of retail and wholesale deposits using the BOT's run-off rates while most of the estimated cash inflows were from repayment of normal loans using the BOT's inflow rates.

Risk Assessment and Control

The Bank manages and controls liquidity risk to ensure adequate liquidity and sufficient future cash flows to cover its activities under both normal and stress situations by using cash flows report or liquidity gap report to monitor and control the Bank's overall liquidity risk. The Bank's policy is to maintain Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and the liquidity ratio (liquid assets as a percentage of total deposits) at an appropriate level and to monitor net cash outflows over different time horizons to ensure that the Bank will be able to meet its liquidity needs on a timely basis.

Additionally, the Bank conducts stress testing on a regular basis under the BOT's scenarios and the Bank's own scenarios. Stress test results are incorporated into the Bank's contingency funding plan which establishes scenario-specific action plans and explicit roles and responsibilities for liquidity management in the event of crisis.

The Bank has a policy to maintain its daily liquidity ratio of at least 20%, measured as total liquid assets to total deposits. At the end of June 2020, the Bank's liquid assets represented 31.6% of total deposits.

Table 7: Liquidity Coverage Ratio (LCR)

Unit: Baht million

Bank-only	Q2/2020 (Average)[1/]	Q2/2019 (Average)[1/]
(1) Total HQLA	692,753	536,492
(2) Total net cash outflows	386,445	346,723
(3) LCR (%) [2/]	**179**	**155**
Minimum requirement by the BOT (%)	*100*	*90*

Table 8: LCR data for comparison [3/]

Unit: Percentage

Bank-only	2020 (Average)[1/]	2019 (Average)[1/]
1st Quarter	184	164
2nd Quarter	179	155

1/ Calculation is based on a simple average using month-end data for each quarter. For example, Q2 data were based on simple averages of month-end data in April, May and June.

2/ Data of item 3 (LCR) might not be equal to item 1 (Total HQLA) divided by item 2 (Total net cash outflows).

3/ The BOT requires that Q1 and Q2 LCR be disclosed in the first half of Pillar III report while Q3 and Q4 LCR be disclosed in the annual Pillar III report.

Appendix

Details of companies within SCB Financial Group (Solo and Full Consolidation)

Solo Consolidation Group	Business Type
Siam Commercial Bank PCL	Banking
Cambodian Commercial Bank Co., Ltd.	Banking
Rutchayothin Asset Management Co., Ltd.	Asset management
SCB Abacus Co., Ltd.	Data analytics and digital lending

Non-Solo Consolidation Group	Business Type
SCB Securities Co., Ltd.	Securities
SCB Asset Management Co., Ltd.	Asset management
Mahisorn Co., Ltd.	Property management
SCB Training Centre Co., Ltd.	Training center
SCB Plus Co., Ltd.	Collection
SCB 10X Co.,Ltd.	Holding company
Digital Ventures Co., Ltd.	Financial technology
Monix Co.,Ltd.	Digital lending
SCB Protect Co., Ltd.	Non-life insurance broker
SCB-Julius Baer Securities Co., Ltd.	Securities
SCB-Julius Baer (Singapore) Pte. Ltd.	Securities

The structure of the Consolidated Supervision Group can be divided into two levels:

(1) **Solo consolidation** which includes the Bank and its subsidiaries whose businesses involve lending or lending-related transactions for which the Bank holds more than 75% of issued and paid-up shares.

(2) **Full consolidation** which includes the parent company and subsidiaries categorized as solo and non-solo consolidation subsidiaries, whereby non-solo consolidation subsidiaries mean any of the Bank's subsidiaries engaging in finance or supporting businesses for which the Bank has management control and holds more than 50% of issued and paid-up shares. (The Bank is assumed to have management control over a subsidiary's business if the Bank holds more than 20% of issued and paid-up shares unless proven otherwise.)

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