Basel III Pillar 3 Market Disclosure
June 2019

ไทยพาณิชย์
SCB

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# 1. INTRODUCTION

Since January 1, 2013, 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, to further strengthen their risk measurement and risk management practices. The Bank's implementation of Basel III follows the guidelines of the Basel Committee on Banking Supervision and strictly complies with 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 0.5% in 2019 and increased to 1.0% in 2020. This D-SIBs buffer will be added on top of the capital conservation buffer of 2.50% in 2019. Moreover, a countercyclical capital buffer (CCyB) of no more than 2.5% is currently being deliberated by the BOT although this additional capital buffer is anticipated to be 0% given no evidence of excessive credit growth in Thailand. The CCyB buffer is intended to strengthen the Thai financial system as well as preventing a credit bubble which may lead to a financial crisis. In addition, Thai commercial banks are faced with regulatory changes on more stringent capital requirements and risk-weighted asset calculation, changes in financial reporting standards (TFRS 9) having a significant impact on loan loss provisioning, as well as technological changes that affect business operations. Nonetheless, those factors are already considered and 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 a bank's 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'). In accordance with 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 any material changes to the underlying policy occur.

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*

Although there is no external audit requirement 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 and that there is no material difference from the information used internally by management and from the reports submitted to the BOT.

Note that quantitative disclosure in this report follows the Pillar III principles under the Basel III framework which was adopted by the BOT, rather than the convention of Thai Financial Reporting Standards. Therefore, Pillar III disclosure is not directly comparable with SCB's financial statements. For example, this disclosure includes undrawn portions of committed credit lines as part of credit risk assets computation whereas Thai Financial Reporting Standards do not require such consideration.

# 2. SCOPE OF APPLICATION

**Standardized Approach**

SCB and its Financial Group have adopted the Standardized Approach (SA), which complies with the BOT's guidelines for measuring credit risk, market risk, and operational risk, as a computational framework for regulatory capital requirements.

**Accounting Consolidation**

The consolidated financial statements present information on the 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 the SCB Annual Report for 2018.

**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 has more than 10% but less than 50% of shareholding. 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, i.e. insurance companies, is determined by 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%.

  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. The portion under 10% is assigned a risk weight according to the BOT's guidelines.

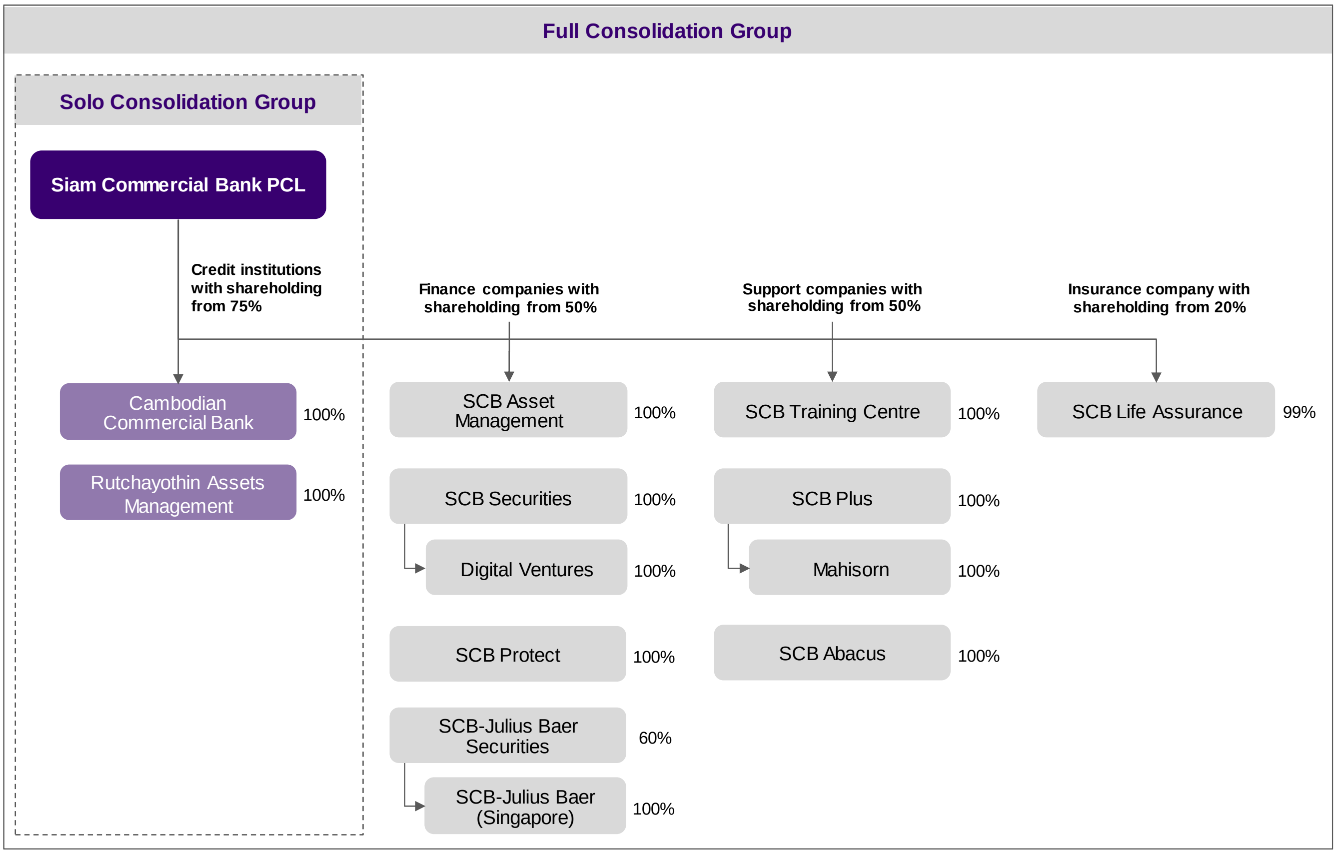
- The Bank owns significant investments (more than 10% of the issued common share capital of the entity or a threshold approach).

  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 a shortfall, 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



# 3. REGULATORY CAPITAL

## 3.1 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 imminent regulatory changes.

## 3.2 Capital Structure and Adequacy

### Capital Structure

Regulatory capital under Basel III is based on strict definition of capital and higher levels of minimum capital ratios. The components of Basel III regulatory capital are as follows:

**(1) Common Equity Tier 1 Capital (CET1)** represents the highest-quality component of capital that allows banks to enter into financial commitments without any restriction, 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 AFS 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 a business imperative for financial institutions. Therefore, 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 as well as to 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 that have been designated as Domestic Systemically Important Banks (D-SIBs) must maintain additional CET1 of 0.5% in 2019 and 1% in 2020 to enhance their ability to absorb losses and minimize any potential spillover to the overall financial sector and the economy.

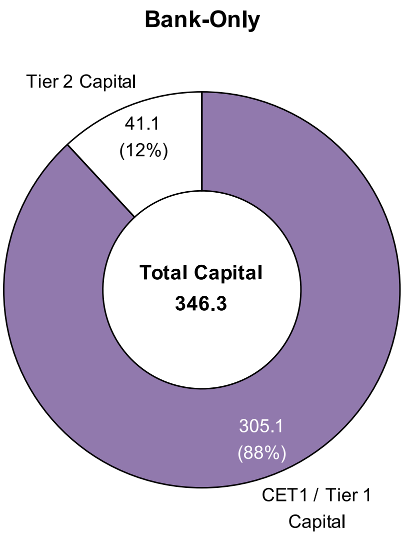
As a result, throughout 2019, the Bank must maintain the minimum ratios of Common Equity Tier 1 (CET1) at 7.5%, Tier 1 capital at 9.0%, and total CAR at 11.5%.

As of June 30, 2019, the Bank's total CAR was 17.10% on a Consolidated basis and 16.43% on a Bank-only basis, while CET1 capital stood at 15.18% on a Consolidated basis and 14.48% on a Bank-only basis.

Note: In compliance with the BOT guidelines, the ratios as of June 30, 2019 excluded net profit after dividend payment for 1H19; otherwise, the capital would have been 15.08% and 17.03% for CET1/Tier 1 and CAR respectively on a Bank-only basis and 15.76% and 17.68% on a Consolidated basis.

**Figure 2: Basel III Capital Structure as of June 30, 2019**

(In Baht billion)



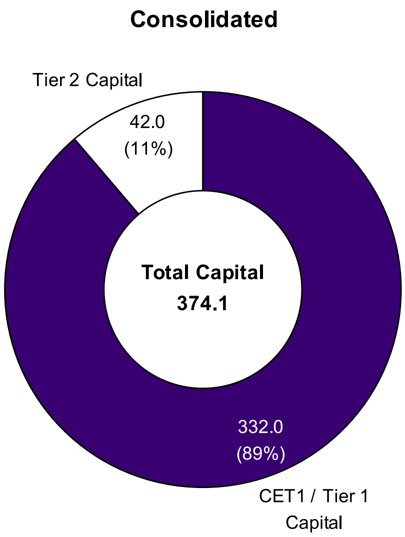
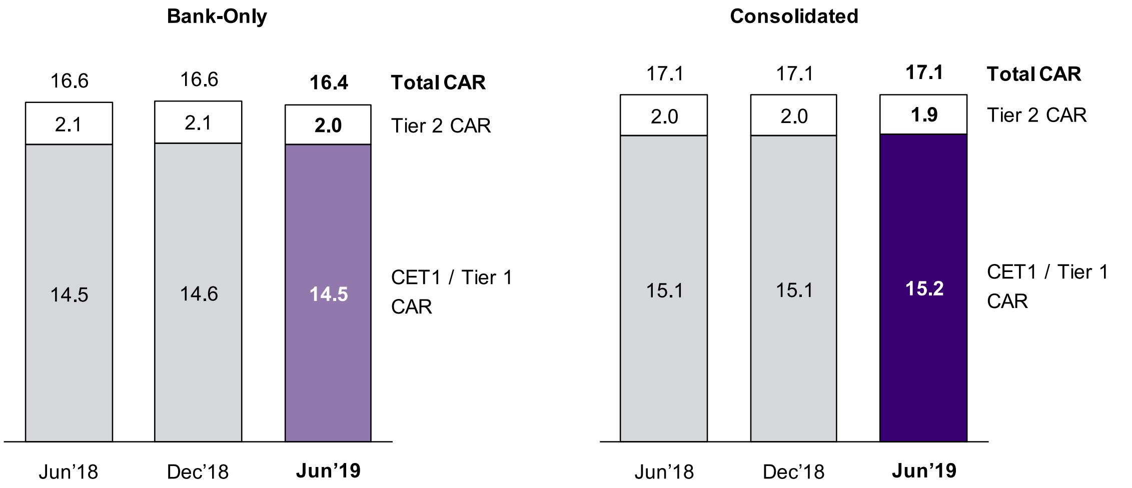



**Figure 3: Capital Adequacy Ratios under the Standardized Approach (SA) of SCB and its Financial Group**

(In % of RWAs)



## Table 1: Comprehensive Regulatory Capital and Capital Adequacy

(In Baht million)

| | Bank-Only | | | Consolidated | | |
|---|---|---|---|---|---|---|
| | 30 Jun 19 | 31 Dec 18 | 30 Jun 18 | 30 Jun 19 | 31 Dec 18 | 30 Jun 18 |
| **Tier 1 capital** | **305,148** | **305,183** | **298,679** | **332,040** | **326,679** | **321,551** |
| **Common Equity Tier 1 (CET1)** | **305,148** | **305,183** | **298,679** | **332,040** | **326,679** | **321,551** |
| 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 | 258,937 | 258,691 | 245,462 | 294,768 | 287,738 | 274,509 |
| Disclosed reserves | | | | | | |
| Other comprehensive income | 14,338 | 13,985 | 15,904 | 23,719 | 15,943 | 15,371 |
| Others owner changes items | - | - | - | (2,365) | (2,365) | (2,365) |
| Regulatory deduction to CET1 capital | (20,243) | (19,610) | (14,803) | (36,198) | (26,754) | (18,081) |
| **Additional Tier 1** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Tier 2 capital** | **41,146** | **42,953** | **42,659** | **42,017** | **43,793** | **43,462** |
| Proceeds from issuing subordinated debt securities | 18,000 | 20,000 | 20,000 | 18,000 | 20,000 | 20,000 |
| General provision | 23,146 | 22,953 | 22,659 | 24,017 | 23,793 | 23,462 |
| **Total Regulatory Capital** | **346,294** | **348,136** | **341,338** | **374,057** | **370,472** | **365,013** |
| **Risk-weighted assets** | | | | | | |
| Credit risk | 1,851,685 | 1,836,207 | 1,812,696 | 1,921,383 | 1,903,409 | 1,876,969 |
| Market risk | 47,653 | 48,926 | 44,449 | 51,219 | 50,778 | 48,339 |
| Operational risk | 208,440 | 205,937 | 202,594 | 214,980 | 212,187 | 208,919 |
| **Total Risk-Weighted Assets** | **2,107,778** | **2,091,071** | **2,059,739** | **2,187,582** | **2,166,374** | **2,134,226** |
| **Total capital/ Total risk-weighted assets** | **16.43%** | **16.65%** | **16.57%** | **17.10%** | **17.10%** | **17.10%** |
| **Total Tier 1 capital/ Total risk-weighted assets** | **14.48%** | **14.59%** | **14.50%** | **15.18%** | **15.08%** | **15.07%** |
| **Total CET1 capital/ Total risk-weighted assets** | **14.48%** | **14.59%** | **14.50%** | **15.18%** | **15.08%** | **15.07%** |
| **Minimum regulatory capital adequacy ratios:** | | | | | | |
| Minimum total capital/ Total risk-weighted assets | 8.50% | 8.50% | 8.50% | 8.50% | 8.50% | 8.50% |
| Minimum Tier 1 capital/ Total risk-weighted assets | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% |
| Minimum CET1 capital/ Total risk-weighted assets | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% |
| Capital conservation buffer requirements [1/] | 2.50% | 1.875% | 1.875% | 2.50% | 1.875% | 1.875% |
| Higher loss absorbency for D-SIBs [2/] | 0.50% | 0.00% | 0.00% | 0.50% | 0.00% | 0.00% |
| Total minimum CAR including capital buffers | 11.50% | 10.375% | 10.375% | 11.50% | 10.375% | 10.375% |

1/ Capital conservation buffer requires additional CET1 of 0.625% per annum from January 1, 2016 onwards until reaching 2.5% in 2019.

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

## Table 2: Capital Requirements by Risk Type

(In Baht million)

| | Bank-Only | | | Consolidated | | |
|---|---|---|---|---|---|---|
| **Risk Types** | **30 Jun 19** | **31 Dec 18** | **30 Jun 18** | **30 Jun 19** | **31 Dec 18** | **30 Jun 18** |
| **Credit risk - Standardized Approach** | | | | | | |
| Performing | | | | | | |
| Governments, Central Banks, MDBs[1/] and PSEs[2/] treated as Sovereign | 173 | 118 | 58 | 370 | 455 | 267 |
| Banks and PSEs[2/] treated as banks | 2,829 | 2,817 | 2,832 | 2,933 | 2,866 | 2,923 |
| Corporates[3/] and PSEs[2/] treated as corporates | 89,805 | 90,533 | 90,472 | 90,100 | 90,858 | 90,767 |
| Retail | 35,253 | 33,105 | 31,378 | 35,298 | 33,149 | 31,428 |
| Retail mortgage loans | 17,672 | 17,372 | 16,993 | 17,672 | 17,372 | 16,993 |
| Other assets[4/] | 8,707 | 8,929 | 9,082 | 13,964 | 13,858 | 13,873 |
| Non-performing | 2,954 | 3,204 | 3,264 | 2,980 | 3,231 | 3,292 |
| First-to-default credit derivatives and securitization | - | - | - | - | - | - |
| **Minimum capital requirements for credit risk** | **157,393** | **156,078** | **154,079** | **163,318** | **161,790** | **159,542** |
| **Market risk - Standardized Approach** | | | | | | |
| Interest rate risk | 3,753 | 3,538 | 3,230 | 3,755 | 3,539 | 3,231 |
| Equity position risk | - | - | - | 8 | 8 | 124 |
| Foreign exchange risk | 297 | 621 | 548 | 590 | 769 | 753 |
| Commodity risk | - | - | - | - | - | - |
| **Minimum capital requirements for market risk** | **4,050** | **4,159** | **3,778** | **4,354** | **4,316** | **4,109** |
| **Operational risk - Standardized Approach** | | | | | | |
| **Minimum capital requirements for operational risk** | **17,717** | **17,505** | **17,221** | **18,273** | **18,036** | **17,758** |
| **Total minimum capital requirements[5/]** | **179,161** | **177,741** | **175,078** | **185,944** | **184,142** | **181,409** |

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 0.5% for 2019 were included, total capital requirements at end of June 2019 would have been Baht 242,394 million on a Bank-only basis and Baht 251,572 million on a Consolidated basis.

## Table 3: Main Features of Regulatory Capital Instruments

| | Ordinary share | Subordinated debt 2/2012 |
|---|---|---|
| Issuer | The Siam Commercial Bank PCL | The Siam Commercial Bank PCL |
| Unique identifier | ISIN Code: TH0015010000 | ISIN Code: TH0015034901 |
| **Regulatory treatment** | | |
| Instrument type | Common Equity Tier 1 capital | Tier 2 capital |
| Qualified or non-qualified Basel III | Qualified | Non-qualified |
| Non-qualified Basel III features | - | No Basel III loss absorption |
| Phased-out or full amount | Full amount | Phased-out (at 10% p.a.) |
| Eligible at Solo / Group / Group and Solo | Group and Solo | Group and Solo |
| Amount recognized in regulatory capital | 33,992 million Baht[1/] | 18,000 million Baht |
| Par value of instrument | 10 Baht | 1,000 Baht |
| Accounting classification | Shareholder's equity | Amortized debt |
| Original date of issuance | Multiple | September 17, 2012 |
| Perpetual or dated | Perpetual | Dated |
| Original maturity date | No maturity | September 17, 2024 |
| Issuer's authority to call prior to supervisory approval | No | No |
| Optional call date, contingent call date and redemption amount | N/A | September 17, 2019 / Full redemption amount |
| Subsequent call dates, if applicable | N/A | At any coupon payment dates, 7 years after original issue |
| **Coupons / dividends** | | |
| Fixed or floating dividend / coupon | Discretionary dividend amount | Fixed rate |
| Coupon rate and any related index | The ordinary shares receive distributable profit that has been declared as dividend. | 4.65% p.a. |
| Existence of a dividend stopper | No | No |
| Fully discretionary, partially discretionary or mandatory | Fully discretionary | Mandatory |
| Existence of step up or other incentive to redeem | No | No |
| Non-cumulative or cumulative | Non-cumulative | Non-cumulative |
| Convertible or non-convertible | Non-convertible | Non-convertible |
| Write-down feature | No | 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. | The subordinated notes rank pari passu with all subordinated debt (Basel II) issued by the issuer. |

1/ Preferential rights of the Bank's preferred shares (Baht 37 million) expired on May 10, 2009. Since then, preferred shareholders have had the same rights as ordinary shareholders.

## Table 4: Reconciliation of Capital from Consolidated Financial Statements

(In Baht million)

| Capital related items as of June 2019 | Balance sheet as per the published financial statements[1/] | Balance sheet under the regulatory scope of consolidation[2/] | References |
|---|---|---|---|
| **Assets** | | | |
| Cash | 37,440 | 37,440 | |
| Interbank and money market items, net | 368,974 | 368,974 | |
| Derivative assets | 61,877 | 61,877 | |
| Investments, net | 288,445 | 289,857 | |
| Investments in subsidiaries and associates, net | 78 | 53,663 | |
| Investments exclude embedded goodwill and regulatory capital deduction | | 34,575 | |
| Embedded goodwill | | 3,805 | L |
| Investment in shares and warrants of the other financial institutes or financial groups that exceed 10% of its paid-up shares | | 14,970 | P |
| Investment in shares and warrants of CET1 capital of financial institutes or financial groups | | 312 | O |
| Loans to customers and accrued interest receivables, net | | | |
| Loans to customers | 2,191,193 | 2,191,193 | |
| Accrued interest receivables | 3,066 | 3,066 | |
| Total loans to customers and accrued interest receivables | 2,194,259 | 2,194,259 | |
| Less Deferred revenue | (32,946) | (32,946) | |
| Less Allowance for doubtful accounts | (101,390) | (101,390) | |
| General provision | | (24,017) | R |
| Specific provision | | (77,373) | |
| Less Revaluation allowance for debt restructuring | (3,969) | (3,969) | |
| Total loans to customers and accrued interest receivables, net | 2,055,955 | 2,055,955 | |
| Properties for sale, net | 15,860 | 15,860 | |
| Premises and equipment, net | 41,223 | 41,223 | |
| Goodwill and other intangible assets, net | 17,110 | 17,110 | |
| Goodwill | 1,270 | 1,270 | M |
| Other intangible assets | 15,840 | 15,840 | N |
| Deferred tax assets | 123 | 123 | |
| Other assets, net | 377,809 | 24,661 | |
| **Total assets** | **3,264,895** | **2,966,744** | |
| **Liabilities** | | | |
| Deposits | 2,190,620 | 2,190,728 | |
| Interbank and money market items | 121,103 | 121,103 | |
| Liabilities payable on demand | 16,389 | 16,389 | |
| Liabilities to deliver securities | 60 | 60 | |
| Derivative liabilities | 58,766 | 58,766 | |
| Debt issued and borrowings | 122,318 | 122,318 | |
| Debt instruments that are qualified as capital | | 18,000 | Q |
| Debt instruments that are non-qualified as capital | | 104,318 | |
| Provisions | 10,938 | 10,938 | |
| Deferred tax liabilities | 491 | 491 | |
| Other liabilities | 348,502 | 54,299 | |
| **Total liabilities** | **2,869,188** | **2,575,092** | |

Table 4 (Cont.)

(In Baht million)

| Capital related items as of June 2019 | 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 | 37 | 37 | **A** |
| Common shares | 33,955 | 33,955 | **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 | 15,900 | 15,900 | |
| Qualified as capital | | 13,585 | **G**[3/] |
| Non-qualified as capital | | 2,315 | |
| Surplus (deficit) on remeasuring available-for-sale investments | 9,226 | 9,226 | **H** |
| Foreign currency translation differences | (487) | (487) | **I** |
| Other owner changes items | (2,365) | (2,365) | **K** |
| Surplus (deficit) from value of cash flow hedge reserve | 1,396 | 1,396 | **J** |
| Retained earning | | | |
| Appropriated retained earning | | | |
| Legal reserve | 7,000 | 7,000 | **E** |
| Unappropriated retained earning | 318,931 | 315,284 | |
| Net profit after appropriation to capital | | 294,768 | **F**[4/] |
| Net profit unappropriated to capital | | 20,516 | |
| Total shareholders' equity | 394,717 | 391,070 | |
| Non-controlling interest | 990 | 582 | |
| **Total owner's equity** | **395,707** | **391,652** | |
| **Total liabilities and owner's equity** | **3,264,895** | **2,966,744** | |

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 full consolidation basis under the BOT's regulation which excludes subsidiaries operating in the insurance business.

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 shareholders' resolutions or profit for the first half of the year in accordance with the Bank's prescribed rules.

Table 4 (Cont.)

(In Baht million)

| Component of regulatory capital as of June 2019 | 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 | 294,768 | **F** |
| Disclosed reserves | | |
| Revaluation surplus on land and building appraisal | 13,585 | **G** |
| Revaluation surplus (deficit) of equity and debt securities for sales | 9,226 | **H** |
| Gain (loss) from converting foreign currency operation to the Bank | (487) | **I** |
| Gain (loss) from fair valued cash flow hedge reserve | 1,396 | **J** |
| Other owner changes items | (2,365) | **K** |
| Total CET1 capital before regulatory adjustments and deduction | 368,239 | |
| Regulatory adjustments on CET1 | - | |
| **Regulatory deductions on CET1** | | |
| Goodwill | 5,075 | **L + M** |
| Other intangible assets | 15,840 | **N** |
| Deferred tax assets | - | |
| Investment in shares and warrants of CET1 capital of other financialinstitutes or financial groups | 312 | **O** |
| Investment in shares and warrants of the other financial institutes or financial groups that exceed 10% of its paid-up shares | 14,970 | **P** |
| Total regulatory deduction on CET1 | 36,198 | |
| **Total CET1 capital** | **332,040** | |
| **Additional Tier 1 capital** | | |
| Total Additional Tier 1 | - | |
| **Total Tier 1 capital** | **332,040** | |
| **Tier 2 capital** | | |
| Proceeds from issuing subordinated debt securiities | 18,000 | **Q** |
| General provision | 24,017 | **R** |
| Total Tier 2 capital before regulatory adjustments and deduction | 42,017 | |
| Regulatory adjustment and deduction on Tier 2 capital | - | |
| **Total Tier 2 capital** | **42,017** | |
| **Total regulatory capital** | **374,057** | |

## Table 5: Capital Position during Transitional Period

(In Baht million)

| | Bank-only | | Consolidated | |
|---|---|---|---|---|
| | Capital amount as of June 2019 | Net value of items with transitional phase subject to Basel III | Capital amount as of June 2019 | 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 | 258,937 | | 294,768 | |
| Disclosed reserves | | | | |
| Revaluation surplus on land and buidling appraisal | 12,711 | | 13,585 | |
| Revaluation surplus (deficit) of equity and debt securities for sales | 1,627 | | 9,226 | |
| Gain (loss) from converting foreign currency operation to the Bank | - | | (487) | |
| Gain (loss) from fair valued cash flow hedge reserve | (0) | | 1,396 | |
| Gain (loss) from hedge of net investment in foreign operation | - | | - | |
| Others owner changes items | - | | (2,365) | |
| CET1 capital before regulatory adjustments and deduction | 325,391 | | 368,239 | |
| Regulatory adjustments on CET1 | - | | - | |
| **Regulatory deduction on CET1** | | | | |
| Goodwill | (5,075) | | (5,075) | |
| Other intangible assets | (15,168) | | (15,840) | |
| Deferred tax assets | - | | - | |
| Investment in shares and warrants of CET1 capital of other financial institutes or financial groups | - | | (312) | |
| Investment in shares and warrants of the other financial institutes or financial groups that exceed 10% of its paid-up shares | - | | (14,970) | |
| Total regulatory deduction on CET1 | (20,243) | - | (36,198) | - |
| **Total CET1 capital** | **305,148** | **-** | **332,040** | **-** |
| Additional Tier 1 capital | - | | - | |
| **Total Tier 1 capital** | **305,148** | **-** | **332,040** | **-** |
| **Tier 2 capital** | | | | |
| Proceeds from issuing subordinated debt | 18,000 | (18,000)[1/] | 18,000 | (18,000)[1/] |
| General provision | 23,146 | | 24,017 | |
| Tier 2 capital before regulatory adjustments and deduction | 41,146 | (18,000) | 42,017 | (18,000) |
| Regulatory adjustments and deduction on Tier 2 capital | - | | - | |
| **Total Tier 2 capital** | **41,146** | **(18,000)** | **42,017** | **(18,000)** |
| **Total regulatory capital** | **346,294** | **(18,000)** | **374,057** | **(18,000)** |

1/ Non-Basel III compliant capital instruments have been phased out at 10% p.a. from the aggregate cap starting from January 1, 2013.

# 4. LIQUIDITY COVERAGE RATIO (LCR)

An important lesson learned from the 2008 financial crisis is that not only inadequate capital, but liquidity problem can also cause 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 for both short term and long term. Subsequently, the BOT has adopted the LCR standard for Thai commercial banks since January 1, 2016.

The LCR requirement aims to ensure that a commercial bank has an adequate stock of unencumbered High-Quality Liquid Assets (HQLA) to meet its liquidity needs, specifically to cover total net cash outflows for a 30-calendar day 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 stress 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 cash inflows are capped at 75% of total expected cash outflows.

$$\text{Total net cash outflows} = \text{Total expected cash outflows} - \text{Total expected cash inflows}$$

- **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. Cash inflows can be categorized into 3 types as follows:

- Secured lending
- Fully performing loans
- Contractual obligations

## Minimum requirement as prescribed by the BOT

A commercial bank must maintain its LCR above 90% in 2019 with a 10% per annum step-up until reaching 100% on January 1, 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 2019 was a simple average of month-end LCR, HQLA, and total net cash outflows, respectively, in April, May and June 2019 (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 2019 was 155%. This level exceeded both the Bank's target and the BOT's minimum requirement at 90% in 2019 which further illustrates the Bank's ample liquidity.

### High-Quality Liquid Assets (HQLA)

The average HQLA for the 2nd quarter of 2019 was Baht 536,492 million, of which 99.1% 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 unencumbered by legal, regulatory, or operational restrictions for use to obtain funding as cushion and protection against a range of liquidity stress scenarios.

### Total net cash outflows (Net COF)

The average net cash outflows over the next 30 days for the 2nd quarter of 2019 was Baht 346,723 million. Most of the estimated cash outflows were from withdrawal of retail and wholesale deposit using the BOT's run-off rates. Meanwhile, most of the estimated cash inflows were from repayment of normal loans using the BOT's inflow rates.

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.

As of June 2019, the Bank's liquidity ratio (i.e. liquid assets to total deposits) stood at 27.3% (the Bank's liquidity ratio as of June 2018 was 24.9%).

The Bank also 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.

## Table 6: Liquidity Coverage Ratio (LCR)

(In Baht million)

| Bank-Only | Q2/2019 (Average)[1/] | Q2/2018 (Average)[1/] |
|---|---|---|
| (1) Total HQLA | 536,492 | 501,621 |
| (2) Total net cash outflows | 346,723 | 339,411 |
| **(3) LCR (%)[2/]** | **155** | **148** |
| *Minimum requirement by the BOT (%)* | *90* | *80* |

## Table 7: LCR data for comparison [3/]

(In percentage)

| Bank-Only | 2019 (Average)[1/] | 2018 (Average)[1/] |
|---|---|---|
| 1st Quarter | 164 | 162 |
| 2nd Quarter | 155 | 148 |

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

2/ Therefore, data of %LCR (in item 3) might not be equal to item 1 (Total HQLA) divided by item 2 (Total net cash outflows).

3/ LCR data will show Q1 and Q2 for the first half period and Q3 and Q4 for the second half period.

# 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 |

| Non-Solo Consolidation Group | Business Type |
|---|---|
| SCB Securities Co., Ltd. | Securities |
| SCB Asset Management Co., Ltd. | Asset management |
| SCB Life Assurance PCL* | Life insurance |
| Mahisorn Co., Ltd. | Property management |
| SCB Training Centre Co., Ltd. | Training center |
| SCB Plus Co., Ltd. | Collection |
| Digital Ventures Co., Ltd. | Financial technology |
| SCB Protect Co., Ltd. | Non-life insurance broker |
| SCB Abacus Co., Ltd. | Data Analytics |
| SCB-Julius Baer Securities Co., Ltd. | Securities |
| SCB-Julius Baer (Singapore) Pte. Ltd. | Securities |

* SCB Life Assurance PCL is not included in the Financial Statements under the regulatory scope of consolidation.

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

(1) **Solo consolidation** 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** includes the parent company and subsidiaries categorized as solo and non-solo consolidation subsidiaries. Non-solo consolidation subsidiaries refer to any of the Bank's subsidiaries engaging in finance or supporting business for which the Bank: a) holds more than 50% of issued and paid-up shares and b) has management control. (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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