Part 1

Company's Business

1. Policy and Business Overview

***Our Vision*:**

THE MOST ADMIRED BANK

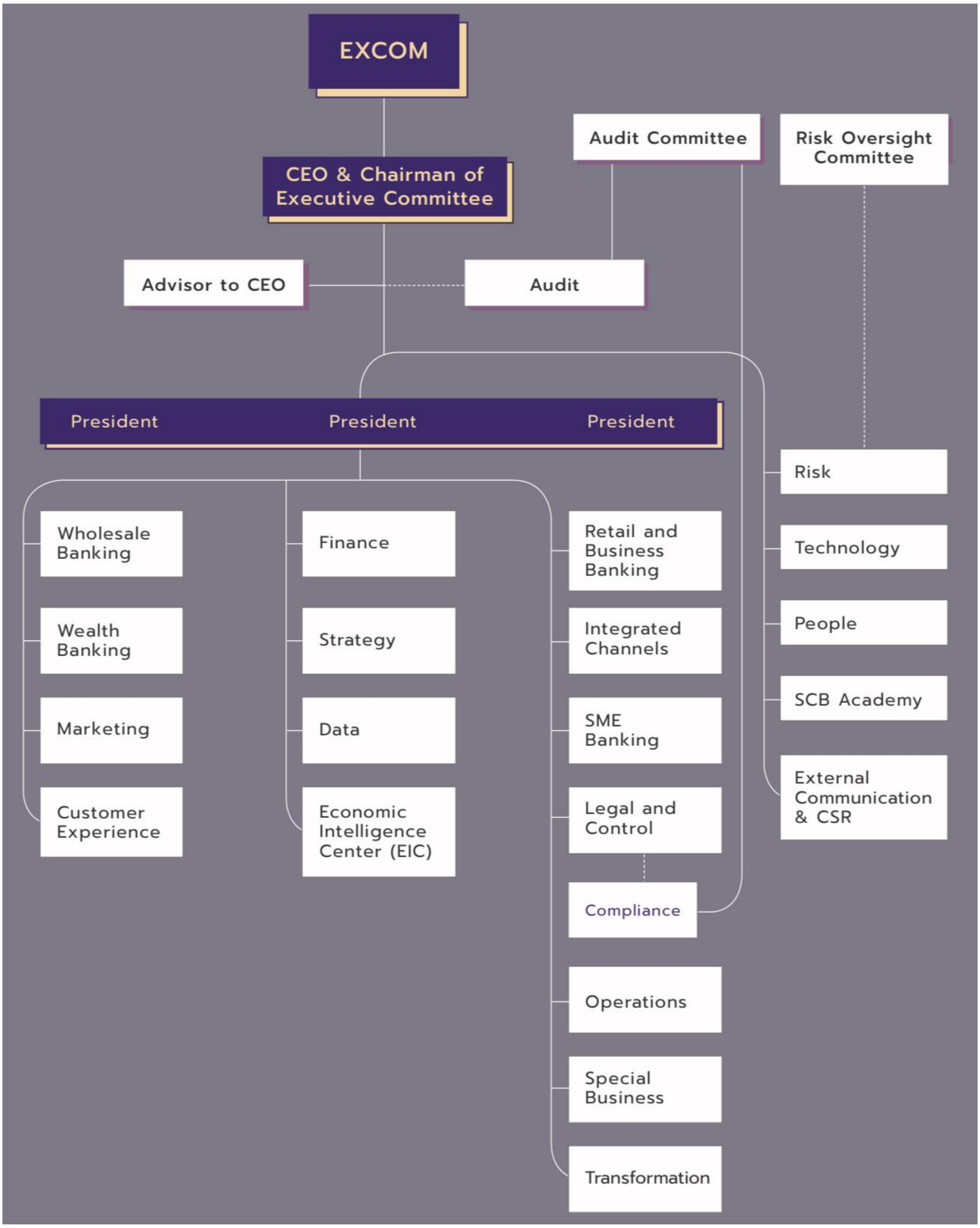
Background

Siam Commercial Bank (SCB) was established by Royal Charter as Thailand's first indigenous bank on January 30, 1906. Over the past 114 years, SCB has played a pivotal role in shaping the country's financial services landscape throughout many economic cycles and times of political change. Backed by the strong support of its major shareholder, the Bank has consistently managed to navigate change to become bigger, better and stronger.

Following Asia's financial crisis in 1997, the Bank undertook a major recapitalization by joining the Ministry of Finance's Tier 1 Capital Support Scheme (the August 14, 1998 Measure). As a result, the Ministry of Finance became one of the two largest shareholders of the Bank in May 1999, along with the Crown Property Bureau. The Ministry of Finance subsequently established the Vayupak Fund 1 and transferred a substantial part of its stake to the Fund on December 1, 2003. SCB's major shareholders as of March 4, 2020 were His Majesty King Maha Vajiralongkorn Phra Vajiraklaochaoyuhua (23.53%) (including total share of related party, CPB Equity Co., Ltd.) and Vayupak Fund 1 (23.10%).

Management structure

As of January 1, 2020



2. Nature of Business Performance

2.1 Products and Services Features

Business Overview

As one of the leading universal banking groups in Thailand, SCB provides a wide array of financial products and services to meet the needs of a broad range of customers. True to its role as a universal bank, SCB has a large presence throughout the financial services landscape in Thailand.

Complementing its core transaction services related to deposits and loans, the Bank provides a comprehensive range of products and services tailored to meet specific customer needs. Retail services include home loans, personal loans, car hire purchase, credit cards, debit cards, currency exchange facilities and overseas remittances as well as investment and bancassurance products. For corporate and SME customers, the Bank offers business cash management services, lending products, trade finance, treasury products, bond and equity products, investment banking & corporate advisory and other related financial services.

The Bank has two major subsidiaries to provide financial solutions that address customers' other specialized needs: SCB Securities Co., Ltd. and SCB Asset Management Co., Ltd. In 2019, the Bank sold its entire stake in SCB Life Assurance PCL. to FWD Group Financial Services Pte. Ltd. Upon successfully closing the share sale, SCB and FWD commenced a long-term distribution agreement to form a business collaboration in life insurance whereby SCB will offer the life insurance products of FWD and SCB Life to the Bank's customers through SCB's distribution channels for a period of 15 years. This bancassurance partnership will combine the strengths of both SCB and FWD to deliver a fresh customer experience, with easy-to-understand products, supported by digital technology.

Additionally, to strengthen our digital and data analytic capabilities, the Bank has set up SCB 10X, a new subsidiary that will focus on finding new areas of growth through enhancement of technological capabilities. SCB 10X along with our subsidiaries Digital Ventures Co., Ltd. and SCB Abacus Co., Ltd., which also focus on technology and data analytics, should lead the Bank toward securing exponential new growth areas that will help ensure long-term sustainability of the SCB Financial Group. The Bank continues to work with our established joint venture partner, Julius Baer, the Switzerland-based leading global private banking group, in providing world-class wealth management services for our ultra-high-net-worth customers.

Share of revenue by customer segment

(Consolidated, %)	**2019**	**2018**	**2017**
Multi Corporate & Corporate Segment*	16	20	20
SME Segment *,**	11	13	14
Retail & Wealth Segment *	48	55	54
Others***	25	12	12

* Including revenue from major subsidiaries allocated to each segment accordingly.

** Including Small SME segment.

*** Including Group Treasury, equity investments, subsidiaries and affiliates whose revenue is not included in the customer segments.

Performance in 2019

Rapid technological advancement has significantly changed the way banks operate and has caused constant disruption, which is now the industry's new normal. To adapt to these changes, SCB progressed to the last phase of our transformation journey in 2019. This has helped the Bank to create distinctive value propositions by providing a digital lifestyle solution for retail customers through our new mobile banking platform and supporting corporate and SME clients to grow their businesses in the digital era.

The SCB Transformation Program has already started to add value to the Bank through the process of digitization in various areas, resulting in lower cost to serve. Throughout the year, SCB has continued to add new features to our SCB EASY digital banking platform, with the objective to provide our customers a comprehensive range of services. SCB's total number of digital customers passed 10 million at the end of 2019. The Bank continues to reassess and enhance its distribution coverage and servicing channels in response to changing customer lifestyles by considering growth potential, business size, transaction volume and the number of branches or alternative service channels in the same local area. By using technology and new capabilities, the Bank has integrated its offline and online channels to create a seamless omnichannel offering.

Digital technology has allowed the Bank to improve internal processes, streamline customer service procedures and create new customer experiences. In 2019, for example, SCB rolled out cross-border payment via QR technology and used Ripple's blockchain solution to power real-time and cheaper remittance payments. Moreover, advanced technologies together with the Bank's data have been used to create machine learning and optimization models such as product propensity models.

Throughout the year, SCB continued expanding strategic partnerships with business partners, such as leading universities, retail businesses, logistics businesses and banking agents, to create ecosystems and platforms to deliver new customer experiences. Additionally, the Bank built an SME/digital ecosystem to help SME customers grow their business through digital platforms more quickly and sustainably. For example, SCB has partnered with Amazon Global Selling (AGS) to elevate Thai e-commerce to expand international business opportunities. Also, SCB and leading regional e-commerce company Lazada have jointly launched a new digital lending platform to serve Lazada's sellers.

As a service provider, the Bank believes in putting employees at the heart of our business to drive customer engagement and satisfaction. To constantly understand customer satisfaction and employee engagement, the Bank uses well-established methodologies like the net promoter score (NPS), which surveys customer satisfaction and the organizational health index (OHI), which evaluates employee engagement. The survey results show high levels of customer and employee engagement relative to industry benchmarks, which gives the Bank a unique competitive edge today and the best assurance of sustainable profitability for the future.

In 2019, the Bank reported pre-provision operating profit (PPOP) of Baht 95.6 billion, rising 29.9% from the preceding year, driven mainly by a one-time gain from the sale of SCB Life, higher net interest income and higher net fee income but partly offset by higher operating expenses (OPEX). Nevertheless, the Bank set aside higher provisions in 2019, resulting in an annual net profit (based on consolidated financial statements) of Baht 40.4 billion.

Total loans decreased by 1.3% yoy mainly because of loan repayments in the corporate segment. This was in line with the Bank's strategy to optimize its loan portfolio based on risk/return profile. The gross NPL ratio rose yoy to 3.41%. Loan quality deteriorated across all segments, which reflected a challenging business environment as economic headwinds intensified in the second half of 2019. The Bank's coverage ratio remained high at 134.1% at the end of 2019. Moreover, the total capital adequacy ratio under Basel III remained strong, at 18.1% of total risk-weighted assets and 17.0% of common equity Tier 1.

The Bank has maintained its leadership in a broad range of products and services across customer segments and sustained one of the largest networks in the country. At the end of 2019, the Bank had 958 traditional branches, 14 investment centers, 3 business centers, 9,372 ATMs and 68 foreign exchange kiosks.

SCB Strategic Roadmap

The financial services industry continues to face constant challenges, which have intensified over time. Rapid technological advancement has significantly changed the way the banking business is run and caused continual disruption, which has become the new normal. The competitive landscape and revenue structure of the industry have also undergone significant change. Revenue from the Bank's transaction fees has been in decline as a result of both intense competition and tighter regulations.

To prepare for the industry's challenges, SCB has undergone a wide and deep digital transformation during the past three years. This transformation has had a significant positive impact on consumers' behavior. In 2019, SCB witnessed a surge in digital transactions, which already accounted for 60% of total transactions. Fewer customers visited the branches and only 4% of total transactions were made through this traditional channel. The Bank plans to continue enhancing digital customer engagement.

With the aspiration to become a technology company that provides banking services, SCB focuses on creating customer-centric platforms to serve customer needs. The Bank will develop new capabilities and utilize technology to deliver the best customer experiences. Once customers are fully engaged in using our digital platforms for financial services, and this banking approach is embedded in their lives, the Bank can grow sustainably and capture more opportunities in the future.

Emerging digital technology allows the Bank to instantly identify customer needs and provide personalized solutions. As more customers interact more frequently through our electronic platforms, especially the mobile apps, the Bank gets a much better understanding of customer behaviors and preferences including location, timing and channel. This data can be used to power artificial intelligence and machine learning. The use of this powerful technology will help the Bank to shape its future business model and customer service approach. SCB plans to move from “platform and partnership” banking toward predictive banking to improve customer experiences and become the customer’s financial partner. To achieve this goal, the Bank will continue to invest in technology and keep pace with fast-changing customer behaviors.

Toward our vision of becoming **“the Most Admired Bank,”** SCB is committed to creating balanced value propositions for all stakeholders including customers, employees, shareholders, regulators and society. The Bank aspires to be the most preferred partner for our customers, a caring employer for our staffs, an attractive investment for our shareholders and investors, a prudent bank working closely with our regulators, and a responsible corporate citizen for our society and environment.

- To achieve this vision, SCB directs its efforts toward understanding and meeting customer needs with products and services that deliver distinctive customer experiences and differentiated value propositions. The Bank also strives to invest for the future and foster digital innovations by forming strategic partnerships and developing internal capabilities within the Bank and its subsidiaries.
- SCB sets its human resource management strategy to attract, develop and retain the best talents, promote career advancement as well as ensure fair and equal treatment of employees. Moreover, the Bank focuses on fostering a customer-centric culture and an agile and innovation mindset without compromising its risk management rigor.
- To create sustainable growth and profits for shareholders, the Bank places great emphasis on long-term stability, ensuring the build-up of sustainable competitive advantage while constantly balancing financial returns with acceptable risk-taking throughout the entire organization.
- In addition, SCB conducts business with strict adherence to good governance principles and transparency as well as full compliance with regulatory requirements for financial institutions both in market conduct and support for government policies.
- To fulfill its social responsibility, the Bank focuses on improving people’s quality of life by increasing financial inclusion with a comprehensive range of products that address customer needs as well as promoting financial literacy for people of all ages to lay a foundation for long-term sustainable growth.

In 2020, SCB will continue with our "Going Upside Down" strategy. The Bank aims to create sustainable revenue amid a slowing global economy and achieve cost excellence with the focus on improving our operating model with the following strategic direction:

1. **Core business growth**: The Bank aims to drive to deliver "The Better Main Bank," which targets sustaining long-term business growth by rethinking brand identity and differentiation. The Bank will continue to capitalize on the SCB Transformation Program by connecting new capabilities, enhancing strategic partnerships and building ecosystems/platforms to deliver new digital customer experiences. At the same time, this will enable the Bank to capture new revenue streams while lowering the cost base through focusing on:

    - **Growth from lending business**: Loan growth is targeted at 3-5% in 2020 as SCB expects the domestic economy to remain fragile. The Bank will continue to balance lending growth with portfolio quality. Public sector investments present an opportunity for the Bank to engage in corporate lending. For medium-size business customers, SCB foresees challenges to the portfolio quality given the relatively weak economic environment. However, while focusing on managing the portfolio quality the Bank will stand by its existing customers to achieve their business goals. The Bank expects to continue growing in the areas of retail personal loans, credit card loans and SSME loans. To achieve this goal, SCB will utilize end-to-end digital lending infrastructure to make the credit approval process fast and convenient as well as to strengthen customer engagement both before and after credit approval. We will capture relevant customer data to design products and services that better address customer needs and facilitate service. The proportion of personal loans that was approved through the digital lending channel was around 20% in 2019 and is expected to increase this year.

    - **Business under responsible banking direction**: SCB aspires to uphold prudent and responsible banking principles, doing business with responsibility toward society and the environment. The Bank will implement responsible lending policies in line with international standards and continue integrating environmental, social and governance (ESG) factors into our business practices. Additionally, our development of digital lending will improve the inclusiveness of financial access for all types of customers, including retail customers, SME customers and any customers without collateral. The Bank will use artificial intelligence (AI) and machine learning to analyze customer data and identify high-quality borrowers in order to provide a personalized interest offering.

    - **Growth from wealth management business**: The wealth management business in Thailand has been consistently growing in recent years. To capture this opportunity, the SCB Group, including SCB Asset Management Co., Ltd. and SCB Securities Co., Ltd. aims to enhance wealth management capabilities and the customer experience by creating an investment platform. The platform will offer convenient services and access to a full range of investment products and wealth advisory. Advanced technologies that include artificial intelligence (AI) and robo-advisor service will be used to deliver personalized offerings and solutions.

    - **Growth from bancassurance partnership with FWD**: Given its low penetration rates, Thailand does have significant potential short-term and long-term growth in the life insurance business. The Bank plans to improve its insurance distribution channels under our new business model.

The Bank's bancassurance partnership with FWD will also enhance product capabilities, enabling the Bank to offer a wider range of insurance products to customers.

2. **Disruptive business model for exponential growth**: The Bank's strategy to become a tech company will continue from the previous year through the digital transformation program. With continual digital disruptions from various sources, the Bank needs to extend new capabilities by constantly updating and upgrading its own digital capabilities. To meet the abrupt changes of the market and customer behavior, the Bank will leverage its current data to understand more about customer needs and to create better engagement. Another priority of the Bank is to further invest for the future and foster digital innovations under a disruptive business model by partnering with leading companies as well as new start-ups, and creating internal capabilities through SCB 10X.

   SCB 10X has been set up to enhance the Bank's competitiveness in the long run by focusing on creating business through new capabilities such as blockchain solutions, AI service and 5G service; investing in new technologies and business models; and leveraging relationships with strategic partners that can enhance the Bank's potential. The Bank also places high emphasis on establishing a company culture that suits business practices in the digital era. This will enable SCB to better attract new talents and undertake the trial and error processes necessary for initiating new business innovations that will produce positive outcomes for the Bank.

   The combined strengths of Digital Ventures, SCB Abacus and SCB 10X will help reshape the Bank into "the Future Bank" developing sustainable solutions to constant and rapid changes in customer needs.

In addition to the above strategies, SCB is committed to continuously strengthening its people and culture foundations while adhering to proper risk management practices, all of which are critical to the success of the "Going Upside Down" strategy. When it comes to people and culture, the Bank focuses on agility by creating work teams with diverse expertise, fostering a customer-focus mindset and promoting innovation to enlarge the Bank's capabilities.

Key Performance Targets for 2020

The Bank expects to deliver competitive results, reflecting its sustainable performance and resilient strategies. Key performance targets for 2020 are:

- Loan growth of 3-5% (compared to -1.3% in 2019)
- Net interest margin (NIM) of 3.2-3.4% (compared to 3.34% in 2019)
- Non-interest income growth 7-10%[1/] (compared to 2.0%[1/] in 2019)
- Cost-to-income ratio in high-40s (compared to 48.7%[2/] in 2019)
- NPL ratio of about 3.4% (compared to 3.41% in 2019)
- Coverage ratio of ≥130% (compared to 134% in 2019)
- Credit cost of 1.20-1.30% (compared to 1.27%[3/] in 2019)

[1/] Excluding the one-time capital gain from the sale of all shares in SCB Life in 2019.

[2/] Excluding the one-time gain from the sale of all shares of SCB Life in 2019 and one-time staff costs to comply with the new labor law.

[3/] Excluding the one-time additional provision of Baht 9.1 billion in 3Q19.

Corporate Segment

In 2020, SCB will continue to focus on diversifying its corporate loan portfolio to reduce concentration risks in revenue from large corporates. At the same time, the Bank will focus on maintaining its strategic partnership position with corporate customers and continue to be the lead in major financing deals for both government and private-sector projects.

Key strategic initiatives include:

1. Increase the number of main operating accounts by creating a new experience in transactional services through cutting-edge technology such as blockchain.
2. Grow trade business to support corporate customers to expand internationally through trade initiatives such as business matching.
3. Improve the Bank's internal processes and uplift staff capability to deliver excellent customer experience.
4. Be a part of public sector mega-investment projects and contribute to the country's long-term competitiveness.

SME Segment

Due to the weakening in the domestic economy, the Bank will focus on the quality of growth for long-term sustainability. SCB will continue its commitment to support SME customers to achieve their business goals. In 2020, the Bank plans to transform its business model for the SME segment and grow this customer base with a focus on small SMEs (SSMEs) and self-employed customers, especially in the wholesale & retail industry and other service industries.

Key strategic initiatives include:

1. Build a "Digital Commerce Ecosystem" to support SME customers to grow their business through digital platforms more quickly and sustainably, e.g., digital payment through SCB EASY, SCB Business Anywhere and QR Payment as well as digital commerce consultancy.
2. Develop both secured and unsecured lending products to assist SSME customers to gain access to funding with a unique value proposition by leveraging new underwriting technology, enhanced collection and data capabilities.
3. Grow SSME customer base through bulk acquisition as well as leveraging data capabilities and digital platforms to allow for scale, lower costs and fast turnaround time.

Wealth Segment

SCB will focus on increasing its wealth management capabilities for all customers. This means creating attractive value propositions and introducing a new platform to uplift investment product offering capabilities. The Bank aims to grow the wealth customer base, assets under management and profitability by adopting digital technology.

Key strategic initiatives include:

1. Provide wealth management services to ultra-high-net-worth customers through strategic partnership with Julius Baer, the leading Swiss private banking group.
2. Deliver personalized offerings such as a retirement plan, a wide range of alternatives both from SCB Group and the Bank's strategic partners through an open architecture solution and platform, and life insurance products from FWD.
3. Enhance investment platform for the Bank's wealth customers to gain access to wider product and service offerings. Also, bring in artificial intelligence and machine learning tools to help in delivering personalized service solutions to wealth customers.
4. Position SCB Investment Center as one of the key channels for servicing the Bank's wealth customers.
5. Uplift capabilities of wealth advisors through intensive training and coaching by SCB Wealth Academy and leveraging digital advisory tools to offer holistic wealth management advisory both in-branch and out-of-branch.

Retail Segment

In response to SCB's long-term digital banking strategy, the Bank's Retail Segment strategic priorities are to grow the customer base, especially main operating accounts, capture new revenue streams and lower cost to serve through applying cutting-edge technology.

Key strategic initiatives include:

1. Grow customer base and increase main operating accounts by improving digital and physical services and creating a "Lifestyle Ecosystem" through leveraged relationship with strategic partners.
2. Capture new revenue streams from high margin/alternative lending through in-depth analysis with improved risk management, end-to-end digital lending infrastructure and delightful "before and after" loan experience.
3. Lower cost to serve by increasing digital acquisition and migration, optimizing service channels and revamping call service center while experimenting with chatbot technology to effectively serve customers.

Business Operation of Key Subsidiaries

SCB Securities Co., Ltd. (SCBS)

Established in 1995, SCB Securities Co., Ltd. is a wholly owned subsidiary of SCB that serves as the Bank's brokerage arm. It operates a securities business and offers equity products and services to institutional and retail investors. SCBS has won the trust of investors to become one of Thailand's leading securities companies, with its head office at SCB Park Plaza complemented by nine branches and an online channel (www.scbsonline.com).

In 2019, the market's daily average trading value for equities (excluding proprietary trading) was at Baht 46 billion, decreasing by 9% from Baht 51 billion in 2018. This decrease mainly reflected a lower volume of trading by retail investors, whereas foreign investors contributed a higher trading volume than in 2018. This change in the trading mix led to a decline in average trade commissions for the entire industry, however, because the rates charged to foreign investors are generally lower than those charged to retail investors.

Amid fierce competition from new entrants, especially foreign brokers, SCBS had a market share of 3.4%, a slight decrease from 3.7% in 2018. Consequently, the rank of SCBS among the Thai market's 39 brokers dropped to No. 12, from No. 11 in the preceding year.

During 2019, SCBS remained committed to continue improving our customer service and satisfaction to become Thailand's "Most Admired Investment Broker." We enhanced and augmented the customer experience in each of our channels in order to provide the utmost convenience, under the concept "Easy & Smart." SCBS improved its standard brokerage account by upgrading it to become a multifunctional "SCBS Investment Account," providing a broader menu of product and service options. Our new digital onboarding platform, "iOnboard," improved service at every branch of SCB nationwide for any customer wishing to open a new brokerage account. Alternatively, a customer can open an account online via the SCB EASY App or SCBS Let's Invest App. In 2019, SCBS began uplifting our staff of account officers by enhancing their knowledge and roles toward becoming financial advisors who can better serve high net worth customers.

SCBS continues to develop and provide new digital investing capabilities for our customers. The introduction of a mobile application known as "Easy Invest," for example, now provides a multi-trading platform that includes a discretionary automated mandate service, i.e., algorithmic trading of Thai stocks, as well as a basic robo advisor for local mutual funds called "Goal Invest."

In 2019, SCBS won Best Securities Company Award, Retail Investors in the SET Awards 2019 competition for the second consecutive year. These laurels are a strong testament to the Company's rigorous commitment to providing client service at the highest level of quality.

SCB Asset Management Co., Ltd. (SCBAM)

The Bank provides asset management services by offering products in the form of mutual funds, provident funds and private funds through its wholly owned subsidiary, SCB Asset Management Co., Ltd. As of December 31, 2019, SCBAM had sustained its No. 1 rank in Thailand in terms of assets under management (AUM), with total AUM of Baht 1.64 trillion (including mutual funds for resolving financial institution problems), up 11% from the prior year.

Solid investment performance and effective distribution through SCB enabled SCBAM to gain a 19% market share in the mutual fund business, with AUM of Baht 1,022 billion, representing growth in AUM of 7.3% from the prior year, including property funds (Type I) and infrastructure funds with total AUM of Baht 185 billion, as well as real estate investment trusts (REITs) with net asset value of Baht 57 billion under SCBAM trusteeship.

In the Company's private fund business, AUM reached Baht 482 billion at the end of 2019, which amounted to 15.3% growth year-on-year, while in the provident fund business, AUM reached Baht 145 billion at the end of 2019, amounting to 25.3% growth year-on-year.

In 2019, SCBAM won several awards from leading Thai and international publications and institutions, including Best Equity Fund (Equity General) for the SCB SET Index Fund (Accumulation) from *Money & Banking* magazine; Best Asset Manager (Money Market Funds), Best Asset Manager (Fixed Income Funds) and Best Asset Manager (Balanced Funds) from *Alpha Southeast Asia* (H.K.); and Top Investment House Asset Manager Thailand (Rank No. 2) and Most Astute Investor Thailand (Rank No. 1) from *The Asset* (H.K.).

2.2 Marketing and Competition

Industry and Competition Review

In 2019, Thai banks continued to face many challenges mainly from economic slowdown, intensive competition in digital banking, and various regulatory changes, such as Bank of Thailand's recent macroprudential policy on mortgage lending. Some banks started to restructure their activities through merger and acquisition and company spin-offs to enhance long-term prospects.

Comparison of SCB's Performance with Thai Commercial Banking Sector*
as of December 31, 2019

Unit: Baht billion

(Consolidated)	Thai Commercial Banking Sector* 2019	Thai Commercial Banking Sector* 2018	Change % yoy	SCB 2019	SCB market share %
Assets	17,936	17,535	2.3	2,964	16.5
Gross loans	12,353	12,128	1.9	2,114	17.1
Deposits	12,475	12,077	3.3	2,159	17.3
Net profit	209	203	2.9	40	19.4

* The Thai commercial banking sector as defined here consists of 11 commercial banks listed on the Stock Exchange of Thailand.

In 2019, the aggregate net profit of the Thai banking industry rose by 2.9% yoy due mainly to higher total income with growth in both net interest income and non-NII. Net interest income grew on the back of moderate loan growth despite a contraction in net interest margins from interest rate cuts while non-NII benefited from higher gain on investments of most banks. Some pockets of the industry saw higher provisions as some banks took a precautionary step in light of heightened economic volatility.

Total loans in the Thai commercial banking sector posted 1.9% growth yoy in 2019, primarily driven by strong retail demand especially for unsecured loans. Deposits also increased by 3.3% yoy with the major source of growth coming from both fixed and savings deposits.

The Thai commercial banking sector demonstrated a strong capital position with the total capital adequacy ratio (CAR) on a bank-only basis at 18.2% in 2019, which was higher than the minimum capital required under Basel III rules. The non-performing loan ratio of Thai commercial banks increased marginally to 3.25% while the coverage ratio remained high at 152% in 2019.

Given the current economic uncertainties, Thai commercial banks are likely to remain prudent and maintain a high level of capital to accommodate future regulatory changes from both the new accounting standards (IFRS) and new Basel capital requirements.

2.3 Product and Service Offering

Sources and Uses of Funds

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

Debt issued and borrowings

As at 31 December 2019 and 2018, debt issued and borrowings were as follows:

(in million Baht)

	Interest	Year of		2019			2018	
(Consolidated)	rate (%)	maturity	Domestic	Foreign	Total	Domestic	Foreign	Total
Bonds								
- US Dollar	2.75-4.40	2022-2029	597	57,171	57,768	726	52,753	53,479
- Baht	-	2020-2021	18,292	-	18,292	32,786	-	32,786
- Others	-	-	-	-	-	429	-	429
Subordinated bonds								
- Baht	-	-	-	-	-	20,000	-	20,000
Structured notes								
- Baht	0.25-1.72	2020	1,596	-	1,596	607	-	607
Others			296	-	296	260	-	260
Total			**20,781**	**57,171**	**77,952**	**54,808**	**52,753**	**107,561**

Lending Activities

SCB has set forth explicit credit policies, strategies, and lending targets with an emphasis on both credit quality and market opportunities. These credit-related goals and strategies are determined jointly by the business units and the Risk Management Office and are subject to regular reviews. The Bank's lending policy upholds good environmental, social, and governance practices by adhering to regulatory requirements while considering the overall economic growth and individual business trends. Another objective of the Bank's lending policy is to be ready for changes and various risks to maintain and foster public confidence in the Bank as part of sustainable development.

The Bank defines the Credit Policy Guide (CPG) to serve as the overall lending policy framework and sets underwriting standards to guide its business strategies for existing and new clients by specifying target groups, strategies for each target group, minimum underwriting standards, and other related criteria.

The Bank attaches great importance to proper checks and balances in credit underwriting by establishing a clear separation between business units and credit approval units.

Business units are responsible for managing relationships, acquiring new clients, creating new markets, and originating loans. These business units are organized based on the nature of each business to best serve different clients which are categorized into Corporate and SME segments.

Credit approval units under the Credit Risk Management Division provide independent advice and recommendations in accordance with the Credit Policy Guide to support authorized approvers in making credit decisions.

In addition, credit approval authority has been assigned to reflect different risk profiles and governed by the three-signature rule.

For the Bank's retail customers and SSMEs, credit approval will be carried out in accordance with product programs / test programs approved by the Executive Committee or the Retail Credit Committee. Credit approval authority and criteria, including exceptions, have been clearly and explicitly specified.

Lending Policy

The Bank's lending policy covers a wide range of business segments, including retail, SSMEs, SMEs, and corporate customers. For business lending, the Bank targets high-potential, high-growth businesses among both existing and new clients. The Bank makes credit decisions based primarily on clients' cash flows and repayment abilities while also considering collateral quality in terms of both valuation and liquidity to mitigate potential losses.

Credit Underwriting and Approval Process

The Bank strives to achieve appropriate risk diversification and reasonable risk-adjusted returns in its credit underwriting process. Regardless of their levels of credit approval authority, all employees involved in the credit process are expected to use appropriate judgement, avoid any conflicts of interest, and comply with the Bank's Credit Policy Guide and underwriting standards.

The Bank's credit approval authority is given at both employee and committee levels. Employees with credit approval authority are (1) the chief executive officer, (2) the presidents, (3) the chief risk officer, (4) the head of credit risk management function, (5) credit risk management senior managers (6) senior credit officers, and (7) credit officers including authorized employees in retail and SSME lending. Employees in the same position may or may not be granted credit approval authority which depends on the individual's experience and expertise considered on a case-by-case basis.

Committees with credit approval authority are as follows:

1. The Board of Directors has the authority to consider, review, and approve loans within the scope set forth by SCB's rules on credit approval authority. Any lending to SCB-related business entities, SCB major shareholders, or their related parties falls within the approval authority of the Board of Directors.
2. The Executive Committee has the authority to consider, review, and approve loans within the scope set forth by SCB's rules on credit approval authority and to make recommendations to the Board of Directors on cases that require the Board's approval.
3. The Credit Committee, Retail Credit Committee, and Special Assets Committee are responsible for approving loans under their areas of authority and to make recommendations to the Executive Committee on cases beyond their scope of authority.

Credit Quality Control and Review

After a loan has been approved, the Bank will monitor the customer's account regularly as well as conducting periodic customer reviews with an objective that goes beyond ex-post rationalization. The Bank focuses on forward-looking analysis to gain insight on both positive and negative changes in a specific industry or business pertaining to each customer, as well as the customer's future financial status. This approach enables the Bank to review and monitor risk of each customer in order to formulate appropriate business strategies and action plans going forward.

Relationship manager/special business officer is responsible for conducting customer reviews when warranted by events that have material impacts on customers or routine customer reviews within a specified timeframe at least once a year. Reports on customer reviews shall be prepared according to a specified format and submitted for approval.

For retail customers and SSMEs, the Bank reviews customer risk rating to gain insight on customer behavior and formulate an appropriate strategy for portfolio management, such as creating an early warning system. The review is conducted at least once a year or more frequently if warranted by material changes in customers' risk rating.

For retail customers and SSMEs with overdue payments, the Bank will pursue different collection strategies depending on borrowers' risk rating which will enable the Collection Units and the Special Business Unit to monitor and arrive at appropriate resolutions on a timely basis.

For Corporate and SME customers, the Bank has a policy to enhance monitoring efficiency and asset quality assessment to ensure quick, thorough and accurate identification of problem loans. The Special

Business Unit works closely with the business units to oversee and manage customers to prevent the occurrence of NPLs by approaching customers to understand their problems and challenges in order to remedy and prevent loans from turning into NPLs. Moreover, there is qualitative loan classification that reflects customer quality to ensure that adequate provision is set aside for potential losses.

However, once classified as non-performing loan (NPL), collection responsibility shall be transferred to the Special Business Unit within one month after 90-day delinquency of principal or interest for further action by work-out specialists.

Disclosure of Intra-Group Transaction Policy and SCB Group Risk Management Policy

Governance on Intra-Group Transactions

To enhance transparency for intra-group transactions within the SCB Group and to avoid any conflict of interest between SCB and other shareholders in businesses that are not wholly owned by SCB, the Bank has established the Intra-Group Transaction Policy, which has been approved and reviewed annually by the Board of Directors. This policy entails risk management for intra-group transactions and controls for material transactions which are classified into two types of significant transactions, namely, credit transactions (loans, investments and obligations or lending-like transactions) and non-credit transactions (those other than loans, investments or obligations). The policy ensures that such transactions comply with regulations and requirements of the Bank of Thailand, the Stock Exchange of Thailand and the Securities and Exchange Commission as well as local laws and regulations in the countries where SCB operates.

A key part of this Policy requires that intra-group transactions be executed without special terms and conditions that are materially different from other risk-equivalent transactions. In the absence of equivalent transactions, intra-group transactions must follow standard market practices with enforceable contracts, proper documentation and record keeping as well as approval authority based on risk and materiality.

3. Risk Factors

Risk Management and Risk Factors

Risk Management

SCB's strong performance in the past ten years has been accompanied by significant expansion in its assets and customer base. As the Bank's operations grow in complexity and size, the Bank must shift its priority toward sustainability. Moreover, the Bank's past success has also raised the expectations of customers, shareholders and other stakeholders. Against this backdrop, the Bank believes that effective risk management will continue to be the key to sustainable growth and profitability.

Risk management aims to create long-term stability for the business to achieve its goals within its risk appetite. It also mitigates risks in critical or uncontrollable situations. SCB is committed to continuously develop and strengthen its entire risk management system — including risk identification, risk assessment and measurement, risk control and mitigation, and risk monitoring — to be prepared for ongoing and future changes.

The backbone of SCB's risk management consists of the policy formulation process, implementation framework and audit process, in tandem with building a strong risk management culture by empowering our people with knowledge and accountability so that they can all participate in this crucial discipline.

SCB's overall risk management structure, policy and system comprise the following:

Risk Management System

SCB's risk management system has four major components:

1. Risk identification

Major risks of the Bank include transactions and activities involving customers and counterparties. These risks are strategic risk; credit risk; market risk; interest rate risk in the banking book; liquidity risk; and operational risk, which entails model risk, reputational risk, people risk and technology risk. These risk categories are discussed in detail below in the "Key Risk Factors for the Banking Business" section.

2. Risk assessment and measurement

To assess and measure each type of risk, the Bank employs a wide range of quantitative and qualitative methods based on internal ratings-based approaches and/or other appropriate internal models:

- **For strategic risk,** the Bank relies on and develops an assessment using primarily qualitative risk factors and quantitative economic indicators.
- **For credit risk,** measures include borrower risk ratings to gauge the probability of default (PD). The Bank applies credit scoring, such as application scores, and behavioral scores to assess risk profiles of retail clients and small SMEs. In addition, the Bank has developed risk models to estimate loss given default (LGD) and exposure at default (EAD). For derivative products, the

Bank relies upon the potential future exposure (PFE) methodology to measure credit risk exposure.

- **For market risk,** measurements include both statistical tools, such as value at risk (VaR), and non-statistical methods, including risk-factor sensitivity analysis, position measures and stress testing for trading book exposures.
- **For interest rate risk in the banking book (IRRBB)**, the Bank assesses the risk by measuring the impact of interest rate fluctuation on net interest income and economic value of equity (EVE) using interest rate volatility assumption under stress scenarios.
- **For liquidity risk**, the measures cover balance-sheet structure, cash flows of assets and liabilities, and off-balance-sheet items. The liquidity risk measurements include liquidity coverage ratio (LCR), net stable funding ratio (NSFR), liquidity ratio and maximum cumulative outflow (MCO).
- **For operational risk** measurement, the Bank uses end-to-end value chain risk and control self-assessment (RCSA) approaches as well as loss incident data to determine operational risk and internal control effectiveness for each function. Moreover, as part of its risk mitigation process, the Bank has established a business continuity management plan (BCM) to ensure continuity of key activities during any crisis event that may cause a business disruption. The Bank's operational risk management approach requires all new products and any material changes to existing products to undergo a risk profile review. This approach ensures that operational risk remains within the Bank's risk appetite to reduce the impact from potential operational risk events.
- **For model risk**, the performance of a model is measured by using statistical quantitative factors including key performance indicators and other quantitative indicators to validate that the employed model is suitable. Qualitative analysis and measurement are also conducted to validate risks arising from usage of a model.
- **For reputational risk, technology risk and people risk,** the Bank mainly applies risk analysis, including quantitative and qualitative risk management.

To implement forward-looking risk management, the Bank also performs stress testing in addition to other risk measurement tools, particularly for market risk, credit risk and liquidity risk.

3. Risk control and mitigation

The Bank establishes a risk appetite statement (RAS) that is aligned with SCB Group's long-term goals to guide its overall risk considerations and controls. The Bank regularly reviews its capital adequacy and monitors and controls risk by establishing key risk indicators and risk limits for the exposure faced by the Bank at different levels: organization-wide, customer, product, transaction and others. The Bank has an internal control process to manage risks in accordance with the Bank's policies and procedures.

4. Risk monitoring

Risks in all categories are monitored and reported promptly and accurately to relevant functions and management on a regular basis to ensure effective risk management and control. Risk monitoring reports are created at the product level, the function level and for the overall risk of the Bank.

Risk Governance Structure

The risk governance structure comprises five key components:

1. Policies

The Board of Directors has the responsibility to review and approve the Bank's major risk management policies, such as the Risk Management Policy of SCB Financial Group, Intra-SCB Financial Group Transaction Policy, Credit Policy Guide, Internal Capital Adequacy Assessment Process Policy (ICAAP Policy), Recovery Plan Policy, Stress Testing Policy, Market Risk Policy, Trading Book Policy, Interest Rate Risk in the Banking Book Management Policy, Liquidity Risk Management Policy, Operational Risk Policy, Business Continuity Management Policy and Strategic Risk Management Policy.

In addition, the Board of Directors approves the other key related guidelines, i.e., Reputational Risk Management Guidelines, People Risk Management Guidelines, Technology Risk Management Policy and Model Risk Management Policy.

2. Authority

The Board of Directors has the responsibility to delegate approval authority to management and other committees. The authority includes credit approvals and decisions to underwrite different types of risks based on the underlying risk level (risk-based authority).

3. Committees with significant roles in risk management

Committees with significant roles in risk management has been categorized into two levels as specified below:

3.1 Sub-Board Committees

The Board of Directors has delegated its risk management duties to the management and other committees. The following committees have been appointed to oversee the Bank's risk management implementation:

3.1.1 **The Executive Committee** is responsible for considering and approving matters related to the business of the Bank according to the Bank's regulations — such as for credit, debt restructuring and investments — and to administer related functions as assigned by the Board of Directors.

3.1.2 **The Risk Oversight Committee** is responsible for reviewing the adequacy and efficiency of overall risk management policy, strategies and risk tolerance to ensure that they are effective and efficient, as mandated by the Board of Directors.

3.1.3 **The Audit Committee** comprises independent directors who are responsible for reviewing the adequacy of the Bank's internal control as well as the effectiveness of the Bank and SCB Group's risk management implementation.

3.1.4 **The Technology Committee** is responsible for providing support to the Board of Directors to forecast long-term technology trends and develop corresponding strategies, address the integrity of technology services and manage technology risk.

3.2 Management Committees relating to Risk Management of the Bank

In addition to the above-mentioned sub-board committees, the following management committees have also been set up to oversee the Bank's risk management processes:

3.2.1 **The Risk Management Committee** is responsible for reviewing and making recommendations on risk management policies and frameworks for risk management and control to the Risk Oversight Committee and the Board of Directors for approval. The Committee also manages the overall risk of the Bank.

3.2.2 **The Assets and Liabilities Management Committee** is responsible for managing liquidity risk and interest rate risk in the banking book.

3.2.3 **The Equity Investment Management Committee** is responsible for managing risk in the Bank's equity investment portfolio.

3.2.4 **The Credit Committee, Retail Credit Committee and Special Assets Committee** are responsible for approving loans within their approval authority. Any loan exceeding a committee's authority level requires approval from the Executive Committee and the Board of Directors as set forth in the Rules on Credit Approval Authority and the Rules on Credit Approval Authority for Non-Performing Loans and Non-Performing Assets. However, loans for Bank-related businesses, major shareholders or related persons must be approved by the Board of Directors. Loans viewed by the Executive Committee as contentious and having potential reputational risk may be referred to the Board for approval as deemed appropriate.

3.2.5 **The Underwriting Risk Committee** is responsible for reviewing and approving underwriting limits based on market risk considerations. The Committee makes recommendations to the Executive Committee or the Board of Directors for approval in any case of a high-risk transaction or when an underwriting limit exceeds its approval authority.

3.2.6 **The Model Risk Management Committee** is responsible for validating and overseeing all internal risk models employed by the Bank to ensure that model risk management frameworks perform as expected. The Committee is also responsible for approving models as well as validation of results.

3.2.7 **Other committees**, such as the Investment Committee.

4. Risk Governance

4.1 Credit risk governance

The Bank has long emphasized the importance of proper checks and balances in its organizational structure by separating business functions and credit approval functions for effective internal control. Credit approval authority is determined in accordance with risk level or expected loss, which will depend on credit line, borrower risk rating and severity class. For non-retail credit, the Bank assigns approval authority to both credit committees and individuals. For retail credit, the Bank monitors and controls retail lending by means of the established Credit Policy Guide and approval authority as well as underwriting criteria approved by the Executive Committee or the Retail Credit Committee. In addition, the Bank assesses and measures credit risk by product and customer segment.

4.2 Market risk governance

The Bank sets a variety of market risk limits for its trading portfolios, and these limits have been approved by the Executive Committee and the Board of Directors. For the Bank's key market risks, which are interest rate risk and foreign exchange risk, the Committee sets risk limits for trading positions based on information from a number of risk monitoring and assessment tools such as value at risk (VaR), risk sensitivity measures (basis point value), position measures and stress testing. In addition, trading portfolio performance is monitored and controlled by using management action triggers (MATs).

4.3 Interest rate risk in the banking book (IRRBB) governance

The Bank sets risk limits for IRRBB by measuring the impact of interest rate fluctuation on net interest income and economic value of equity (EVE) using interest rate volatility assumptions under stress scenarios. To monitor IRRBB, the Bank produces repricing gap reports for risk analysis and risk assessment. The analysis, assessment and risk management strategies are then reported to the Assets and Liabilities Management Committee (ALCO) for further action.

4.4 Liquidity risk governance

The Bank manages and controls liquidity risk to ensure that it maintains adequate sources of liquidity in order to maintain sufficient future cash flows to cover its activities under both normal and stress situations by using cash flow reports or liquidity gap reports. The Bank's policy is to maintain its liquidity coverage ratio (LCR), net stable funding ratio (NSFR) and liquidity ratio (liquid assets as a percentage of total deposits) at the 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.

4.5 Operational risk governance

The Bank has adopted the "Three Lines of Defense" model as a core principle in its risk management practices. Front-line business functions constitute the first line of defense by applying the risk management and control principles to their day-to-day operations (i.e., continuous monitoring of key activities such as suspicious access to customer data). The second line of defense is made up of the oversight functions (e.g., Risk Management Function, Compliance Function, etc.) to ensure that all business functions have effective risk management practices.

The third line of defense comprises independent assurance providers (e.g., internal audit and other independent assurance providers), who provide independent review and objective assurance on the effectiveness of the Bank's internal control system.

Additionally, the Risk Management Function holds regular meetings with business-level committees to discuss operational risk issues and provides risk management information to management across key functions to facilitate their business decision-making.

4.6 People risk governance

The Bank applies the Three Lines of Defense model to manage people risk in the same manner as for operational risk. The first line of defense involves the People Function, business functions and relevant support functions. The second line of defense involves a shared service group, which is responsible for providing recommendations, support, alerts and testing for approaches adopted by the People Function to manage people risks. The shared service group comprises Operational Risk Management, Compliance & Operational Control, Technology Security & Risk, Fraud Control and others. Lastly, the third line of defense is carried out by independent units, which conduct tests on processes and procedures set out by the People Function (including the people risk management process). The last line of defense, which is under the responsibility of the Audit Division, provides assurance to the Audit Committee and the Board of Directors that the Bank and SCB Group companies have effective control measures for people risk.

4.7 Model Risk Management Oversight

The Bank has established a unit responsible for Model Risk Management to have a balance of authority and work independently to validate models and to increase the effectiveness of model usage as the second line of defense and serve to offer consultation, support and validation to the first line of defense. Model risk management oversight covers the validation of models using both quantitative and qualitative approaches to ensure that the usage of models achieves the expected target and controls have been put in place according to model governance to prevent any misuse of models and minimize model risks.

Regarding risk management of SCB Group, the Bank as the core company has an oversight responsibility for the risk management of subsidiary companies. The Bank's subsidiaries are responsible for establishing risk and internal control policies and practices to ensure effective risk management at a level equivalent to that of the Bank and consistent with the Bank of Thailand's guidelines on consolidated supervision. The Board of Directors has approved the Risk Management Policy of SCB Financial Group, which requires each subsidiary to: formulate a risk management policy, set up an appropriate organizational structure, set risk tolerance limits, establish risk management approaches, and prepare risk reports as specified by the Bank's risk management guidelines, which depend on the nature of the subsidiary's business.

For the Intra-SCB Financial Group Transaction Policy, the Bank follows the principle of good governance by requiring that these transactions be conducted under no special terms and conditions. Any company that is wholly owned or substantially owned by the Bank, which is considered equivalent to a business unit of the Bank, can use the Bank's shared services/resources or provide services to the Bank at prices, terms and conditions that are reasonable and acceptable to both sides.

5. Chief Risk Office

The Chief Risk Office, which reports directly to the Chief Risk Officer (CRO) and the Chief Executive Officer and the Chairman of the Executive Committee, is responsible for setting the risk management framework, making risk policy recommendations, as well as reporting and monitoring major types of risk. The Chief Risk Office is responsible for bringing the Bank's risk management policies and practices up to global standards and for ensuring that the Bank and its subsidiaries have a comprehensive and integrated risk management framework. Moreover, other relevant functions are responsible for specific risks. For example, the Chief Financial Office is responsible for liquidity risk and interest rate risk in the banking book (IRRBB); the Chief People Office is in charge of people risk; the Chief Strategy Office handles strategic risk; and Chief Marketing Office is responsible for reputational risk.

Key Risk Factors for the Banking Business

Risks from economic uncertainties

Thailand's economy expanded at 2.4% in 2019, the slowest pace in the past five years. The key factors were a slump in the export sector owing to the U.S.-China trade war and the baht's steep appreciation. Shrinking exports dragged on manufacturing output, private investment, employment and wages. The stronger currency also dented tourism and exports. Nevertheless, the government's stimulus package helped steady the domestic economy particularly during the year's second half.

SCB forecasts that Thailand's GDP growth will continue to decelerate in 2020, easing to 0.4%. The outlook for world trade had started to look better in January after the U.S. and China agreed on a "phase one" deal to drop some of the tariffs imposed during recent bilateral disputes. But soon after, the coronavirus epidemic looked set to disrupt economic activity in many countries. The impact will be high during early period of the outbreak as strict countermeasures are implemented. SCB expects that as a result, exports will continue to contract, although not as sharply as in 2019. The epidemic will also directly affect Thailand's extensive tourism sector by reducing arrivals from China as well as other countries.

As for the domestic economy, growth in private consumption and investment will slow on the back of weaker employment in manufacturing and tourism; lower farm income due to drought; and high household debt. Private investment is likely to slow due to anemic domestic purchasing power, higher inventories and excess capacity in industry. Investment will get some support, however, from capital spending on 5G mobile network infrastructure. The Thai government will play a bigger role in driving the country's economic expansion through its infrastructure projects, despite delays in getting legislative approval of the national budget. Moreover, the government might undertake an additional stimulus package in 2020, which could aid the economy during the year.

External risks confronting the Thai economy in 2020 include the possibility that the coronavirus impact could become worse than expected; uncertainty in U.S. trade policy vis-à-vis partner countries, especially China and in Europe; and geopolitical risks, particularly the U.S.-Iran conflict which might cause oil prices to soar. As for internal challenges, Thailand faces a growing financial fragility among Thai households and SMEs, especially those with high debts or that are affected by technological transformation and extremely fierce business competition. A potential severe drought in the first half of 2020 is another risk, since a delay in seasonal rain would slash farm output and incomes.

As for the Bank's management of risk in the face of uncertain economic conditions, SCB dutifully monitors the credit quality of its borrowers on a regular basis in order to ensure sufficient allowance for doubtful accounts. Similarly, the Bank closely monitors its portfolios in terms of the concentration of credit loans in order to react promptly in the face of an economic shock. In addition, SCB conducts a stress-testing process in order to appraise the adequacy of funds. This process is part of the ICAAP requirement that the Bank of Thailand demands of all commercial banks.

1. Credit Risk

1.1. Concentration risk

Concentration risk relates to any single exposure or group of exposures in an entity or a business sector with a potential to produce large losses for the Bank if problems arise in that entity or sector.

The Bank manages credit concentration risk by setting concentration limits based on loss potential for each borrower group. Specifically, the Bank controls and monitors lending ratios under the following guidelines:

- Lending, investment, contingent liabilities or lending-like transactions with any major borrower and related parties or project must not exceed, without regulatory approval, 25% of Consolidated Group's capital.
- The sum of lending, investment, contingent liabilities or lending-like transactions with all major borrowers and related parties, of which total debts exceed 10% of the Bank's total capital, must not exceed three times the Bank's total capital.

Additionally, the Bank requires that lending not be concentrated in any one specific industry. This is determined from industry trends, business opportunity, probability of loss and probability of default. The Bank has applied statistical tools to determine industry limits, such as the Herfindahl-Hirschman Index (HHI), which is an index adopted for measuring industry concentration.

1.2. Counterparty risk

Counterparty risk is the risk of losses from counterparties violating contract agreements, particularly for derivatives contracts, such as interest-rate swaps, currency swaps, equity instruments and forward rate agreements. Generally, the Bank enters into derivative contracts with customers that need to square their positions and minimize their risk exposure. To keep market risk exposure under the limit, the Bank may hedge its risk exposure in part or in whole by entering into offsetting agreements (back-to-back) with foreign banks in the OTC derivatives markets, which creates counterparty risk with these banks.

The Bank sets a risk limit for each counterparty based on the same underwriting process as for credit customers. To determine counterparty limits, the Bank takes into consideration the counterparty's credit ratings and level of Tier 1 capital. The Bank also establishes a country limit for each country. For risk monitoring, the Bank closely monitors counterparties' credit conditions based on aggregate exposure, credit default swap (CDS) spread, changes in credit ratings and changes in equity prices. This information is reported to senior management on a daily basis as input to assist with keeping the risk level within the Bank's risk appetite during normal and stress situations.

To mitigate counterparty risk, the Bank signs ISDA credit support annexes (CSAs) with its major counterparties, which require posting collateral in the form of cash or highly liquid securities when a contract's fair market value changes more than the threshold.

1.3. Country risk

When the Bank engages in international lending or a cross-border transaction, it undertakes not only customary credit risk but also country risk arising from the economic, social and political conditions of a country. The Bank sets out a risk management framework to ensure that adequate policies and processes are in place to identify, measure, evaluate, monitor, report and control or mitigate country risk, both direct and indirect, on a timely basis.

The Bank manages country risk by setting a maximum exposure limit and a country limit for each country, based on a sovereign scorecard model and external credit ratings and the Bank's level of Tier 1 capital.

1.4. Non-performing loan (NPL) risk (bank basis)

NPLs arise when borrowers fail to repay their debts according to the agreed schedules, which may cause the Bank to lose not only interest income, but sometimes part or all of the principal, with an impact on the Bank's profitability and capital adequacy.

At the end of 2019, Bank-only NPLs stood at Baht 84,349 million, or 3.4%, up in absolute terms from Baht 69,383 million, or 2.8%, in 2018. (Further explanation regarding NPLs is provided in the Management Discussion and Analysis section of this Annual Report.) These NPLs can be classified into four categories: restructured debts 76.1%, debts pending completion of restructuring negotiations 4.9%, debts pending the outcome of legal proceedings 8.6%, and debts pending legal execution 10.4%.

The Bank manages its NPL risk by setting aside adequate loan loss provisions for expected losses. At the end of 2019, the Bank had total loan loss provisions of Baht 113,628 million, covering 134.7% of NPLs.

1.5. Off-balance-sheet risk

To adhere to the Generally Accepted Accounting Principles, some of the Bank's obligations with customers and counterparties are classified as off-balance-sheet items, which have underlying credit risk from the potential of failure to comply with contract terms.

At the end of 2019, the Bank's obligations from aval and guarantees, liabilities under unmatured import bills, and letters of credit amounted to Baht 53,663 million, down by 33.9% from the year before.

To manage off-balance-sheet exposure, the Bank treats such obligations as a form of loan, and business units are required to follow the normal credit approval process. The Bank controls this risk by setting a counterparty risk limit for each customer along with country risk limit. Monitoring is also done by keeping abreast of the current situation and related information.

For the credit risk of a derivative transaction, unlike general credit risk in which losses are often one-sided, both sides of a contract can face losses as a result of change in the contract's value from market movements. To quantify the credit equivalent amount of a derivative transaction, the Bank uses the Monte Carlo simulation and current exposure method, depending on product type, to determine the credit exposure of a derivative transaction with a counterparty.

Derivative transactions introduce additional market risk arising from change in a contract's value. The Bank controls its derivatives risk exposure to market volatility by setting limits using a variety of risk indicators, such as VaR, risk sensitivities including option greeks, loss action triggers and stress testing.

1.6. Risk from impairment in value of real estate collateral

Because most collateral is in the form of real estate, a sluggish property market and lower house prices will negatively affect the value of the Bank's collateral, which may result in higher losses from NPLs. The Bank has established the Collateral and Non-Performing Assets Appraisal Policy as part of the Credit Risk Management Policy to ensure that collateral and NPA values reflect fair market values, especially for setting loan loss provision and capital calculation as well as for consideration in credit approval and debt restructuring.

The Bank has managed impairment risk through the Collateral and Non-Performing Assets Appraisal Policy as mentioned above, which requires collateral for credit lines exceeding Baht 20 million to be reassessed every five years. Collateral for non-performing loans (NPLs) is reassessed every three years unless any decision needs to be made that depends on collateral value, such as restructuring of a problem loan. In that case, collateral value must be reassessed within one year to reflect fair market value. For non-performing assets, collateral is re-appraised every year per BOT requirement.

For the choice of appraiser, the Bank is authorized by the Bank of Thailand to use its internal appraiser for loans of any size. According to the policy of the Bank, either an internal appraiser or an external appraiser may be an appropriate choice. The Bank has established a list of qualified criteria for use in selecting any external appraiser in order to be confident that it conforms to professional standards and ethics.

2. Market Risk and Interest Rate Risk in the Banking Book (IRRBB)

2.1. Foreign exchange risk

Fluctuation in exchange rates affects the value of the Bank's foreign currency-denominated assets and liabilities. Transactions exposed to foreign exchange risk include proprietary trading transactions and money transfers as well as payments related to international trade and foreign investment, which may result in the Bank's net currency position being short or long at any point in time. Thai baht appreciation against the currency in which the Bank has a net long position will result in foreign exchange losses, whereas baht depreciation will result in foreign exchange gains. On the other hand, if the Bank is in a net short position, the Bank will make a gain on the position when the baht strengthens but a loss when the baht weakens.

The Bank controls foreign exchange risk by setting risk limits on foreign exchange risk exposure both in terms of statistical limits, such as VaR, and monetary limits, such as net open position, open position by currency, management action triggers, etc.

As of December 30, 2019, the Bank's foreign currency position was net open position of $ -25.34 million (USD equivalent), with VaR of Baht 7.57 million.

2.2. Interest rate risk

Interest rate fluctuation affects the Bank's interest income and expenses as well as economic value of equity. Four main sub-types of interest rate risk are defined as follow:

- **Repricing risk** is the risk from maturity/timing mismatches of the Bank's assets and liabilities, which cause interest rates at reset to differ due to yield curve movements. For example, assuming all other factors are constant, if the Bank's assets can be repriced faster than liabilities (a positive gap), interest margins increase when interest rates rise. On the other hand, if the Bank's ability to reprice assets is slower than liabilities (a negative gap), then interest margins narrow when interest rates rise.
- **Yield curve risk** arises from interest rates at different maturities changing differently.
- **Basis risk** occurs when the Bank's assets and liabilities are based on different reference interest rates, e.g., fixed-deposit rates, interbank lending rates, THBFIX interest rates, etc. Therefore, any change in reference rates will affect interest rates tied with assets and liabilities differently.
- **Options risk** arises from implicit and explicit options in the Bank's assets and liabilities and off-balance-sheet items, where exercising these options might affect the Bank's revenue and costs. For example, an option on three-month deposit that allows early withdrawal before maturity will, if exercised, cause the Bank's costs to rise sooner than expected.

To manage its interest rate risk, the Bank sets risk tolerance limits for both the trading book and banking book. For trading book exposures, there are limits on VaR, sensitivities to yield curve and basis shifts (basis point value), and stress testing. For banking book exposures, limits are determined based on percentage of income and capital.

As of December 30, 2019, VaR of interest rate risk exposure in the trading book was Baht 40.47 million. For the banking book, a 1% increase in interest rates for a period of one year would decrease net interest income by Baht 1.38 billion

3. Liquidity risk

Liquidity risk is the risk that the Bank may not be able to meet its obligations as they fall due, because of an inability to realize assets or to cover funding requirements at an appropriate price, thus resulting in losses to the Bank.

In order to manage liquidity risk, the Bank has established the Liquidity Risk Management Policy. The policy has been approved by the Board of Directors, with the Assets and Liabilities Management Committee taking an oversight responsibility to ensure compliance with the policy.

The Bank manages and controls liquidity risk to ensure that it maintains adequate sources of liquidity in order to maintain sufficient future cash flows to cover its activities during both normal and stress situations by using cash flow reports or liquidity gap reports to monitor and control the Bank's overall liquidity risk. The Bank's policy is to maintain its liquidity coverage ratio (LCR), net stable funding ratio (NSFR) and liquidity ratio (liquid assets as a percentage of total deposits) at the 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 scenarios of the Bank of Thailand 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's average of month-end liquidity coverage ratio (LCR) for the 4th quarter of 2019 was 203%, which illustrates that the Bank has ample liquidity. In addition, the Bank has a policy to maintain its daily liquidity ratio at 20% or higher, measured as total liquid assets to total deposits. At the end of December 2019, the Bank's liquid assets represented 31% of total deposits, which ensures that there will be adequate liquidity under both normal and crisis situations.

4. Strategic risk

Strategic risk refers to the risk of a current and/or prospective impact on the Bank and its Financial Group's earnings, capital, reputation or standing arising from factors such as changes in the environment the Bank operates in, adverse strategic decisions, improper implementation of major strategies, or lack of responsiveness to industry, economic and technological changes. The Board of Directors has adopted a Strategic Risk Management Policy as a framework to formalize and provide a structured approach in managing strategic risk. Strategic risk is managed throughout the strategy setting process itself and through the assessment of strategic risk. The strategy process — including strategic planning, alignment and change management, implementation and monitoring, and performance evaluation and feedback — is designed to ensure the sufficiency of information taken into consideration in formulating and implementing strategy. The risk assessment, which is a part of the Bank's risk materiality assessment framework, is performed to monitor potential strategic risk arising from both external and internal factors.

The Strategy Group is currently the strategy process owner responsible for supporting the Board and senior management to formulate and review strategy as well as recommend remedial action (if required). Also, the Strategy Group is responsible for conducting the strategic risk assessment on a regular basis.

5. Operational risk

The Bank defines operational risk, based on Basel II's definition, as the risk of losses resulting from inadequacy or failure of internal processes, people or systems or from external events, which also includes legal risk, and the impact on reputation from operational risk, but excluding strategic risk.

(Details regarding reputational risk are discussed in item No. 6 below). Operational risk factors can arise from both internal and external environments, such as changes in key personnel, organizational structure, processes, systems, products, natural disasters, riots, etc.

The Bank realizes that the business must face operational risk and therefore places great emphasis on operational risk management and has continually improved this crucial process over time.

Business and support functions within the Bank are responsible for managing their operational risk by applying the methodologies and approaches that the Bank has adopted. Each function performs a risk and control self-assessment (RCSA), which entails identifying key risks, evaluating the effectiveness of controls, and establishing action plans to mitigate or prevent these risks to limit them to within the level of risk appetite appropriate for each function. The Bank has reviewed the previous RCSAs and identified key risks at the Bank level for which senior management must establish mitigation and prevention measures to control such risks to be within the risk appetite. Each function must specify key risk indicators (KRIs) for certain important risks that require monitoring to ensure that risks are within the risk appetite and managed in a timely fashion. In any case of loss, the Bank not only has a process to rectify the issue systematically, but also capitalizes on lessons learned by collecting the information to guide future prevention and mitigation plans.

The Bank's risk assessment and control process undergoes periodic reviews to identify new emerging risks and detect ineffective controls that worsen existing risks. The results are reported to relevant committees and senior management for approval and to determine action plans to reduce or eliminate such risks.

In 2018, it became apparent in many countries, including Thailand, that the security and privacy of customer data is a vitally important concern. The European Union, for example, launched its General Data Protection Regulation, a broad and strict law. Thailand's existing laws only provide protection for certain types of data/information in certain circumstances. To ensure that the Bank complies with regulations and addresses concerns regarding privacy and security, SCB established a variety of measures to protect customer data throughout its operations during 2018, and continually fine-tuned these measures throughout 2019.

Risk pertaining to changes in statutory policies, laws, rules and regulations is part of operational risk. Besides the operational risks already mentioned, the Bank, as a financial institution, has a duty to comply with laws, statutory rules, and regulations of several regulatory agencies, such as the Bank of Thailand, the Securities and Exchange Commission, the Stock Exchange of Thailand, the Anti-Money Laundering Office, and others. The Bank's Compliance and Operational Control Function is responsible for providing regulatory advice, clarifications and recommendations to other related functions to ensure that the Bank and SCB Group comply with laws, regulations and internal rules. The Compliance Function reports any material regulatory risks to senior management and related committees to ensure effective regulatory risk management.

6. Reputational risk

Maintaining an organization's reputation is a critical part of running a business, especially for any financial business, and the Bank's reputation results from the confidence and trust that have been built up over many years. Reputation is not easy to build, but it is easy to lose.

Recognizing the importance of reputational risk, SCB has developed a Reputational Risk Management Guideline and Process, which is applied to the Bank and SCB Group companies. Each business is required to take necessary preventive measures against potential reputational risk from both internal operations and external factors, whether its operations are income generating or not.

Application of the Reputational Risk Management Guideline depends on the nature of the business in terms of reputational risk exposure. Financial companies that are highly exposed to reputational risk must implement a reputation risk management policy with a clear reputational risk management process, whereas companies with non-material reputational risks are required to report any reputational risk incidents to senior management.

Any transaction that could negatively affect the Bank's reputation requires prior approval by the Executive Committee and may be reported to the Board of Directors if deemed appropriate by the Chairman of the Executive Committee.

The Marketing Function is responsible for working closely with other internal functions and SCB Group companies to determine reputational risk factors as well as for assessing and reporting reputational risk issues to the senior management and related committees.

7. People Risk

People risk refers to an organization's exposure to risk from people's actions or negligence and, vice versa, risks to people from an organization's actions or negligence. As people are the most important assets of an organization, people risk can influence other risk types, i.e., credit risk, market risk, liquidity risk, reputational risk, operational risk and strategic risk.

SCB recognizes the importance of people risk in the business and has made serious efforts to address this risk. The Board of Directors has set an effective framework for people risk management as well as for conducting overall risk review. Senior management oversees people risk management and control within their functions and coordinate with the People Function and other relevant functions.

The People Function, together with business functions and relevant support functions, is responsible for identifying people risks based on appropriate analysis given the business complexity of each function, as well as for assessing, controlling, monitoring and reporting risks to the Bank's management, with periodic reviews and updates regarding potential risks.

The people risk management framework involves three major considerations:

1. **People capacity and capability**: SCB's business approach is based on transforming employees and equipping them with the right skills and capabilities for future banking, and engaging them with the work and performance of the functions. The Bank expands the scope of employees' decision-making authority,

increases their capabilities, and provides learning opportunities and a conducive working environment to enable them to reach their full potential.

2. **People conduct**: SCB's business approach is based on all employees adhering to the highest levels of integrity and promoting risk ownership, defining accountabilities and collaboration among business units for a positive working culture.

3. **People health and safety**: SCB's business approach is based on a strong commitment to creating a safe working environment for people with due consideration to both physical and emotional health.

Failure to put any of the above considerations into practice may lead to varying degrees of people risk depending on the situation. Therefore, it is critical to assess, control and mitigate people risks to remain within the Bank's risk appetite.

People are vital resources in the banking business. Not only must the Bank provide suitable products and services that meet customer needs, but there are also rules and regulations on customer protection with which the Bank and its staff must comply to avoid market misconduct. Therefore, the Bank needs people capacity and capability to help achieve its business goals in a sustainable manner. SCB duly recognizes the importance of human resources, which have been subject to significant and constant challenges in today's environment. A key challenge is the advent of new technologies, which may replace existing service delivery platforms and put pressure on an organization to reform or transform itself. Such broad-scale organizational change increases the demands on human resources in terms of both quality and quantity. Specifically, an organization requires knowledgeable, well-rounded and adaptable people to drive changes within the organization. SCB has taken measures to mitigate such risks by building a risk culture whereby risk awareness and ownership are the norm, and risk mitigation and prevention are the responsibilities of all staff. Moreover, the Bank set up SCB Academy to build additional skills and knowledge for its people, such as product knowledge and data analytics skills related to business analysis and planning. The Bank also changed its organizational structure by separating its sales and services functions as well as putting an emphasis on helping people build their career paths to ensure business success and sustainable growth. The Bank places importance on providing a safe and conducive work environment to foster employee engagement.

For people risk management, the Bank and SCB Group also apply the "Three Lines of Defense" principle used in operational risk management to ensure effectiveness in people risk management and internal control.

8. Technology risk

Today's technology is changing rapidly. If the Bank cannot adapt or come up with a long-term plan to accommodate the changes, the Bank's business may not be sustainable. Specifically, the Bank may not be able to serve customers effectively in terms of meeting their product or pricing needs. Moreover, technology risk may also cause business and service disruptions, which may lead to lower profitability and market share for the Bank.

Because of these wide-ranging and interrelated impacts, managing technology risk is the Bank's priority. SCB has adopted a comprehensive technology risk management framework with the following key components: 1) risk identification; 2) risk assessment; 3) risk response; and 4) monitoring and reporting.

Furthermore, the Bank emphasizes, and has taken steps to build and enhance, the organization's risk culture, particularly for technology risk, by educating and training people; managing knowledge platforms on technology risk to be accurate and up-to-date; applying risk management tools that meet international standards; along with continually improving its risk management framework to be in line with global practices.

The technology risk management process enables the Bank to adequately manage technology risk at both the strategic and operational levels. At the strategic level, the Bank aims to build a modern, flexible and secure IT architecture to support omnichannel service delivery for customers, along with providing data management capabilities for marketing and credit management analysis. At the operational level, the Bank takes into consideration the IT organizational structure; system procurement and development; system accuracy and security; and critical data management, such as customer data; system capacity to support transaction workloads, including service continuity in case of any emergency or critical situation; IT outsourcing system management; and other factors, which help increase its competitiveness and profitability.

Emerging Risks

The Bank analyses emerging risks that may affect business operations in both the short-term (within 1 year) and long-term (3-5 years). Measures are developed to respond, manage and control impacts of these risks accordingly. In 2019, the Bank identified three key emerging risks:

- **Climate Change Risk**

Climate change - including rising temperatures caused by greenhouse gas emissions resulting directly or indirectly from human activities; altered precipitation patterns and rainfall; and more frequent or extreme events such as heatwaves, drought and storms - could adversely impact economic activity and stability of the financial system. Climate change and extreme events result in increasing the risk of business operation disruptions, natural resource and commodity scarcity and physical and financial damage. The Bank has committed to take part in reducing such negative impacts. As a financial institution, the Bank has pledged to take part in driving Thailand toward a low-carbon economy by lending to businesses and projects that help reduce greenhouse gas emissions, such as solar power projects, wind power projects and mass rapid transit projects. In addition, the Bank focuses effort on building a culture of eco-efficiency and fostering environmental awareness among employees to ensure that business is conducted on the basis of environmental protection and conservation.

- **Cybersecurity Risk**

Increasing reliance on advanced technology in the banking industry causes cybersecurity risks to evolve over time and become increasingly sophisticated. This cybersecurity risk could result in shutdown of essential services and critical infrastructure, security breaches and identity theft. A cyberattack could lead to a loss of customer confidence and potentially have a contagion effect in the economy. To achieve a secure digital platform, the Bank has invested in IT infrastructure and continually strengthened risk management and the three lines of defense framework. In addition, the Bank uplifts employee capabilities, and risk culture is deeply rooted at the corporate level.

- **Artificial Intelligence and Big Data Risk**

The use of artificial intelligence (AI) has transformed the financial industry. AI technologies enable the Bank to deliver more efficient operations, improved products and services and a better customer experience. The complex nature of AI solutions may, however, increase certain types of risks to the Bank, such as those related to data privacy, misuse of data, model risk and reputational risk. The Bank has acknowledged and prepared for the challenges regarding innovation and development in the digital transformation age. The Bank is strengthening its data architecture and infrastructure to ensure security of personally identifiable information (PII) and improving governance and control on the right to access, use and transfer personal data to comply with the new Thai Personal Data Protection Act, which will become effective in mid-2020. In addition, the Bank continues to enhance risk management frameworks such as model risk management framework, information security, data privacy and data protection, and deploy more talents to ensure that the AI and Big Data are used in a meaningful and transparent manner.

Capital Adequacy

In response to the global financial crisis in 2008, the Basel Committee on Banking Supervision announced in December 2010 a new set of regulatory guidelines, known as Basel III, for assessing capital adequacy and liquidity risk. The new guidelines aim to strengthen each bank's capital position and set a new standard for liquidity risk management. The Bank of Thailand (BOT) has adopted this framework with minor modifications to raise the standards of Thai commercial banks to the global level.

In September 2017, SCB was designated as one of the Domestic Systemically Important Banks (D-SIBs) by the BOT, which resulted in a requirement to maintain an additional minimum common equity Tier 1 capital as a capital buffer (so-called Higher Loss Absorbency) of 0.5% in 2019, increasing to 1.0% in 2020. This D-SIB buffer is added on top of the capital conservation buffer of 2.50% in 2019.

The minimum regulatory capital requirements, which include a capital conservation buffer and the D-SIB buffer (Higher Loss Absorbency) are shown in the table below.

Minimum regulatory capital requirement	**2016**	**2017**	**2018**	**2019**	**2020**
Capital Conservation Buffer	0.625%	1.25%	1.875%	2.50%	2.50%
D-SIB Buffer	-	-	-	0.50%	1.00%
Common Equity Tier 1	5.125%	5.75%	6.375%	7.50%	8.00%
Tier 1 Capital	6.625%	7.25%	7.875%	9.00%	9.50%
Total Capital	9.125%	9.75%	10.375%	11.50%	12.00%

Moreover, a countercyclical capital buffer (CCyB) of no more than 2.5% is currently being deliberated by the Bank of Thailand, although this additional capital buffer is anticipated to be 0%, given no evidence of excessive credit growth in Thailand. The CCyB will be part of the BOT's macroprudential instruments used to enhance the resilience of the banking sector during periods of stress when losses appear. It is designed to counter pro-cyclicality in the financial system by increasing capital buffer requirements when cyclical systemic risk is judged to be rising. This will help maintain the supply of credit, reduce the downswing of the financial cycle and dampen excessive credit growth during the upswing of the financial cycle.

Banks that cannot meet this minimum requirement may be subject to earnings-distribution restrictions, e.g., limits on dividend payouts, discretionary bonus payments, share buybacks, etc.

The Bank and its Financial Group adopted the Basel III guidelines in January 1, 2013, and they remain in place. The Bank continues to apply the standardized approach to assess regulatory capital adequacy for credit risk, market risk in the trading book and operational risk. Also, the Bank continues to manage, monitor, and report its capital adequacy position through the internal capital adequacy assessment process (ICAAP), which includes developing estimates for future capital requirements and stress testing. The Bank sets target capital ratios in the ICAAP report to reflect the Bank's capital targets vis-à-vis its overall risk appetite. The Bank submits the ICAAP report to the BOT on an annual basis by the end of March. Furthermore, in order to encourage market discipline, the BOT requires commercial banks to disclose key information on capital structure and adequacy, risk exposure, as well as risk assessment and management, on a semi-annual basis. This information appears on SCB's website under the heading "Pillar III Disclosure."

At the end of December 2019, under the Basel III framework, the Bank had total capital of Baht 340 billion (16.5% of risk-weighted assets), of which Baht 317 billion was classified as CET1/Tier 1 capital (15.4% of risk-weighted assets) and Baht 22 billion (1.1% of risk-weighted assets) was classified as Tier 2 capital. For SCB Financial Group, the total capital stood at Baht 375 billion (18.1% of risk-weighted assets), of which Baht 353 billion was classified as CET1/Tier 1 capital (17.0% of risk-weighted assets), and Baht 23 billion (1.1% of risk-weighted assets) was classified as Tier 2 capital.

During the year, the Bank's CET1/Tier 1 capital increased significantly, mainly a result of capital released from the divestment of SCB Life Assurance PCL, as well as the appropriation of net profit. On the other hand, Tier 2 capital declined due to the early redemption of Tier 2 subordinated debentures of Baht 20 billion in September 2019.

Note that if the Bank's 2H19 net profit were to be included in the capital adequacy calculation, CET1/Tier 1 capital would be 18.2% on a bank-only basis and 18.1% on a consolidated basis.

SCB believes that its strong capital position, which is currently well above the minimum regulatory requirement, under both current regulations and future requirements, together with high loan loss provisions, will enable the Bank to withstand the impact of adverse shocks on the Bank or on the Thai economy. Moreover, its solid capital position will also enable the Bank to pursue any future growth opportunities.

Risks to Shareholders

Shareholders are subject to the risk that expected returns from their investments, either in the form of dividend income or capital gains, might not materialize. Dividend income is directly linked to the Bank's profits. Shareholders should expect to receive dividend income at a rate of not less than 30% of its consolidated annual net profit. This is a new dividend policy per the resolution of the Board of Directors' meeting on January 17, 2020. Capital gains are determined solely by SCB's share price, which is influenced by a variety of factors, such as the Bank's performance, domestic and global economic trends, domestic political stability, and foreign fund inflows and outflows, most of which are beyond the Bank's control.

The Bank's performance is the only factor under the Bank's control. At the beginning of each year, the Bank provides broad guidance on its financial targets, and shareholders face the risk that these financial targets might not be met in a particular year, which would affect both dividend and share price. SCB mitigates this risk by having a clear business policy with appropriate short-term to medium-term strategies, along with clear annual financial targets. In addition, the Bank has consistently delivered the highest net profit among Thai financial institutions in an environment of intense competition. Although past performance does not guarantee future results, it demonstrates the Bank's competitiveness, its strategic effectiveness in terms of both direction and implementation, and the quality of its management team, which help put the Bank in a better position than industry peers to face any adverse shocks.

In addition, since the proportion of shares held by the Bank's two largest shareholders is quite large, shareholders face the risk that major shareholders might materially reduce their position, which could significantly depress the share price. In such an event, SCB would nevertheless expect the effect to be short-term, given that the Bank's market capitalization is one of the highest in the stock market, making the stock highly liquid, with a high trading volume.

4. Business Assets

1. Main Fixed Assets for Business Operations

Premises and equipment, net

As at 31 December 2019 and 2018, the changes to the premises and equipment, net were as follows:

(in million Baht)

(Consolidated)	2019	2018
Land	18,368	18,489
Premises and building improvements	29,181	29,369
Equipment	19,205	20,027
Others	782	443
Total	67,536	68,328
Less Accumulated depreciation	(26,473)	(24,809)
Allowance for impairment	(286)	(313)
Premises and equipment, net	**40,777**	**43,206**

Operating leases

Leases as lessee

The Bank and its subsidiaries lease a number of branch offices rental, foreign exchange booths, ATM rental areas, cars and office equipment under operating lease. The leases typically run for an average period of 5 years, with an option to renew the lease after maturity date.

The rent paid to the lessors are adjusted to market rentals at regular intervals, and the Bank and its subsidiaries do not have an interest in the residual value of the rental assets. As a result, it was determined that substantially all of the risks and rewards of the rental assets are with the lessors.

(a) Future minimum lease payments

As at 31 December 2019 and 2018, the future minimum lease payments under non-cancellable leases were payable as follows.

(in million Baht)

(Consolidated)	Period	2019	2018
Land and/or premises	Within 1 year	2,051	2,320
	1 - 5 years	990	1,388
	Over 5 years	139	163
Equipment	Within 1 year	177	101
	1 - 5 years	0	9
Vehicles	Within 1 year	268	299
	1 - 5 years	281	539
Total		**3,906**	**4,819**

(b) Amount recognised in profit or loss

(in million Baht)

(Consolidated)	2019	2018
Lease expense	6,129	5,456

2. Loans to customers

As of December 31, 2019, loans (net of deferred revenue) were Baht 2,113,787 million, down Baht 26,774 million (-1.3%) from the end of 2018.

Asset Classification

The Business Security Act BE 2558 (effective 2 July 2016), states that individual or juristic persons offering collateral, whether borrower or guarantors, can use assets as collateral for loan repayment without having to deliver the collateral to a receiver.

To accommodate this Act, the Bank of Thailand amended Notification Sor Nor Sor 23/2561: Loan Classification and Provisioning Criteria of Financial Institutions, dated October 31, 2018.

Classified Assets

- Gross non-performing loans Non-performing loans are loans, including interbank and money markets, which are classified as substandard, doubtful, doubtful loss, and loss. As of December 31, 2019, non-performing loans in the consolidated financial statement were Baht 85,212 million, representing 3.4% of total loans, increase Baht 14,823 million from Baht 70,389 million (2.9%) in 2018.
- Classified debtors under the Bank of Thailand's criteria consist of loans and accrued interest receivables as follows:

Loans and accrued interest receivables*

(in million Baht)

(Consolidated)	2019	2018
Normal	1,966,438	2,019,500
Special Mention	64,996	53,968
Sub-Standard	36,234	23,034
Doubtful	17,821	13,246
Doubtful Loss	31,244	34,147
Total	**2,116,733**	**2,143,895**

* Net of deferred revenue

- Classified assets - Assets owned by the Bank and its finance and leasing related subsidiaries are classified under guidelines provided by the Bank of Thailand, which include loans and accrued interest receivables, loans to financial institutions and accrued interest receivables, investments, properties for sale, and other assets as follows:

Classified assets

(in million Baht)

(Consolidated)	2019	2018
Normal	2,352,271	2,347,064
Special Mention	65,081	53,973
Sub-Standard	36,253	23,037
Doubtful	17,839	13,251
Doubtful Loss	33,397	39,809
Total	**2,504,841**	**2,477,134**

Allowance for doubtful accounts

The allowance for doubtful accounts represents estimation of probable losses that may have occurred from loans and other lending business at the reporting date. The amount is in compliance with the minimum allowance for doubtful accounts required based on the BoT's guidelines. The guidelines require banks to categorise their loan portfolios into six categories. Each loan category is subject to different levels of provisioning based on percentages established by the BoT. The guidelines established the maximum collateral valuation limits for the purpose of calculating the allowance for doubtful accounts.

In addition, the BoT requires banks to perform qualitative reviews of their loans as an ongoing process. The Bank and its subsidiaries, which are financial institutions, are required to periodically report the result of their compliance with these guidelines to the BoT.

For corporate loans, the Bank considers a borrower's ability to repay the obligation on an individual basis based on recent payment history, ability to generate future cash flows and other qualitative factors and the net present value of proceeds from liquidating collateral, if the expected source of repayment is from the liquidation of collateral. For SME and consumer loans, the Bank uses credit portfolio statistics to do the statistical analysis (Migration Analysis) for estimation of the deterioration in the portfolio and related allowance for loans. For finance lease receivables, since 1 September 2012, the Bank has used the Collective Approach method which considers the historical loss experience of each loan cohort.

Allowances for doubtful accounts established during the year are recognised as bad debt and doubtful accounts expense in profit or loss. Bad debts recovery is presented net of bad debt and doubtful accounts expense in profit or loss.

Bad debt written off is recorded as a decrease in the allowance for doubtful accounts. Write offs are only made for loans which the Bank has sought collection but has no prospect of further recovery. These procedures comply with BoT's notification and guidelines.

Allowance for doubtful accounts

(in million Baht)

(Consolidated)	2019	2018
As at 1 January	99,405	85,699
Bad debt and doubtful accounts	39,136	27,051
Bad debts written off	(27,779)	(13,602)
Others	388	257
As at 31 December	**111,150**	**99,405**

Revaluation allowance for debt restructuring

(in million Baht)

(Consolidated)	2019	2018
As at 1 January	3,868	4,291
(Decrease) increase during the year	(746)	(423)
As at 31 December	**3,122**	**3,868**

Loans classified by quality as at December 31, 2019 (inclusive of accrued interest receivables)

(in million Baht)

(Consolidated)	Loans and accrued interest receivables	Individual approach (All loans except for finance leases)			Collective approach (Finance leases)		Total
		Net amount used to set the allowance for doubtful accounts	%used for setting the allowance	Allowance for doubtful accounts***	Loans and accrued interest receivables	Allowance for doubtful accounts***	
Minimum allowance of BoT regulations							
Normal	1,768,195	1,734,439 *	1	17,334	198,243	3,069	20,403
Special Mention	49,103	48,122 *	2	965	15,893	3,075	4,040
Sub-Standard	34,389	18,717 **	100	18,717	1,845	901	19,618
Doubtful	16,842	5,898 **	100	5,898	979	455	6,353
Doubtful Loss	29,054	15,717 **	100	15,717	2,190	1,046	16,763
Total	**1,897,583**	**1,822,893**		**58,631**	**219,150**	**8,546**	**67,177**
Allowance established in excess of BoT regulations							43,973
Total							**111,150**

* Net of cash and near cash collateral

** Net of PV cashflow from loan receivables including sale of collateral

*** Excluding revaluation allowance for troubled debt restructuring

Impairment loss on loans and debt securities

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

Suspension of Revenue Recognition for Outstanding Principal or Interest

The Bank recognises interest and discounts on loans as income on an accrual basis, except for interest on loans which are outstanding over 3 months at the date of the statement of financial position and interest from receivables under troubled debt restructuring agreements where the borrowers' ability to pay is uncertain. Such interest is recognised when received. The Bank reverses all accrued interest income for items which are no longer on an accrual basis. Interest on interbank and money market items and investments is recognised on an accrual basis.

Interest expenses are recognised in profit or loss on an accrual basis.

Interest income on restructured loans of the Bank and its subsidiaries are recognised on the same accrual basis as used for loans mentioned above, except for loans that are subject to monitoring for compliance with restructuring conditions, where the Bank and its subsidiaries recognise interest income on a cash basis until the borrowers have been able to comply with the restructuring conditions for a period of no less than three months or three installments, whichever is longer.

Interest or discounts, which are already included in the face value of notes receivable or loans, are deferred and taken up as income evenly over the term of the notes or loans.

3. Properties for sale, net

As at December 31, 2019, the changes to the properties for sale, net were as follows:

(in million Baht)

(Consolidated)	Beginning Balance	Additions/ Transfer in	Disposals/ Transfer out	Ending Balance
Foreclosed assets				
Immovable assets	11,690	4,419	(955)	15,154
Movable assets	630	6,701	(6,647)	684
Total	12,320	11,120	(7,602)	15,838
Others	1,689	1,231	(1,680)	1,240
Total properties for sale	14,009	12,351	(9,282)	17,078
Less allowance for impairment	(559)	(210)	333	(436)
Total properties for sale, net	**13,450**	**12,141**	**(8,949)**	**16,642**

4. Investments

The Bank classifies its investments in securities as trading securities, available-for-sale securities, held-to-maturity securities, general investments and investments in subsidiaries and associate. The Bank presents these investments in the statement of financial position as either investments or investments in subsidiaries and associate.

Debt securities and marketable equity securities that management acquires with the intention of holding for a short period of time in order to take advantage of anticipated changes in the underlying market values, are classified as trading securities are stated at fair value. Changes in fair value are recognised in profit or loss as gain on trading. Interest income on trading securities is recognised using the accrual basis of accounting.

Debt securities and marketable equity securities, other than those securities held for trading or intended to be held to maturity, are classified as available-for-sale investments are stated at fair value, with the valuation surplus or deficit on investments presented as a component of total equity until realised upon disposition or sale of the underlying securities. Debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are stated at amortised cost, less impairment losses, if any. Impairment losses and foreign exchange differences are recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

Equity securities which are not marketable and are not subsidiaries and associate are classified as general investments and are stated at cost, less impairment losses, if any.

The fair value of financial instruments classified as held-for-trading and available-for-sale is determined as the quoted bid price at the reporting date.

Investments in subsidiaries and associate in the Bank's financial statements are accounted for by the cost method less impairment losses, if any.

Investments in associate in the consolidated financial statements are accounted for by the equity method.

Valuation allowances are established and recognised in profit or loss, when impairment in the value of investments has occurred.

Disposal of investments

On disposal of an investment, the difference between net disposal proceeds and the carrying amount together with the associated cumulative gain or loss that was reported in equity is recognised in profit or loss.

If the Bank and its subsidiaries dispose of part of a holding of a particular investment, the deemed cost of the part sold is determined using the weighted average method applied to the carrying value of the total holding of the investment.

Provisioning for the Write-down of Securities

Debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are stated at amortised cost, less impairment losses, if any. Impairment losses and foreign exchange differences are recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

Equity securities which are not marketable and are not subsidiaries and associate are classified as general investments and are stated at cost, less impairment losses, if any.

Provisioning for the write-down of securities is based on the write-down of securities criteria under accounting standards. As of December 31, 2019, the Bank set aside investment in debt and equity securities in a total amount of Baht 235 million (consolidated statement). The Bank believes that such provisioning is sufficient.

Investment Policy

The Bank's investment in subsidiaries, affiliates, and relevant companies as of December 31, 2019 can be classified into 2 categories:

Investment in SCB Financial Group

The Bank founded SCB Financial Group to focus on long-term investments in financial services and support services for its banking business. Companies within the Financial Group work together to create the maximum synergy and benefits for the group in order to be 'the Most Admired Bank'.

Investment in Other Businesses

The Bank's objectives for investments outside the Financial Group are either to earn investment returns in the form of dividends and capital gains and/or to strengthen relationship with strategic business partners. Furthermore, the Bank has a policy to invest in FinTech business to enhance its long-term competitiveness and to better address customer needs.

Investment Supervision and Risk Management

The Bank's investment supervision is carried out through policy formulation, business operations, risk management for the overall group and individual businesses, and regular performance monitoring and risk assessment.

The Bank's executives serve on the boards of directors of all companies in SCB Financial Group as well as some companies outside the Financial Group to ensure that their business operations continue to meet the Bank's expectations.

Obligation associated with assets

- Nil -

Land and Building

The Bank owns the following plots of land and buildings, used as its office and branches to conduct business, which are free from any mortgages or pledges as of December 31, 2019:

Items	**Ownership**	**Value** (Million Baht)
Land	Owned	18,368
Building	Owned	29,181

5. Legal Dispute

SCB does not have an unsettled legal dispute which has the potential to negatively impact its assets, and the claimed amount is worth over 5% of net equity according to the financial statements for the accounting year ending on December 31, 2019.

6. General Information

THE SIAM COMMERCIAL BANK PUBLIC COMPANY LIMITED

Type of business	Banking
Company registration number	0107536000102
Head office	
Address:	9 Ratchadapisek Road, Jatujak, Bangkok 10900
Website:	www.scb.co.th
Tel:	+66-2544-1000
SCB Customer Center	+66-2777-7777
SCB Business Call Center	+66-2722-2222

Registrar

Ordinary and Preferred Shares	The Thailand Securities Depository Company Limited 93 Ratchadapisek Road, Dindaeng Dindaeng, Bangkok 10400 Tel: +66-2009-9000 Fax: +66-2009-9991
Senior Unsecured Notes USD 400 million 3.20% due July 2022	Deutsche Bank Luxembourg S.A. 2 Boulevard Konrad Adenauer L-1115 Luxembourg Luxembourg
Senior Unsecured Notes USD 500 million 2.75% due May 2023	Deutsche Bank Luxembourg S.A 2 Boulevard Konrad Adenauer L-1115 Luxembourg Luxembourg
Senior Unsecured Notes USD 500 million 3.90% due February 2024	Deutsche Bank Luxembourg S.A 2 Boulevard Konrad Adenauer L-1115 Luxembourg Luxembourg
Senior Unsecured Notes USD 500 million 4.40% due February 2029	Deutsche Bank Luxembourg S.A 2 Boulevard Konrad Adenauer L-1115 Luxembourg Luxembourg

Fiscal Agent

Senior Unsecured Notes USD 400 million 3.20% due July 2022	Deutsche Bank AG, Hong Kong Branch Level 52, International Commerce Centre 1 Austin Road West, Kowloon Hong Kong

Senior Unsecured Notes USD 500 million 2.75% due May 2023	Deutsche Bank AG, Hong Kong Branch Level 52, International Commerce Centre 1 Austin Road West, Kowloon Hong Kong
Senior Unsecured Notes USD 500 million 3.90% due February 2024	Deutsche Bank AG, Hong Kong Branch Level 52, International Commerce Centre 1 Austin Road West, Kowloon Hong Kong
Senior Unsecured Notes USD 500 million 4.40% due February 2029	Deutsche Bank AG, Hong Kong Branch Level 52, International Commerce Centre 1 Austin Road West, Kowloon Hong Kong

Auditor

Mrs. Wilai Buranakittisopon	Certified Public Accountant (Thailand) Registration No. 3920
or Mr. Charoen Phosamritlert	Certified Public Accountant (Thailand) Registration No. 4068
or Ms. Pantip Gulsantithamrong	Certified Public Accountant (Thailand) Registration No. 4208

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Tel: +66-2677-2000

Additional Information

In 2019, the Bank was fined in the amount of Baht 5,007,500 for misclassification of mortgage loans and for a submission error in the Data Set for Lending Movement Summary (DS_LMS) report. The fine was issued by the Bank of Thailand (BOT) in pursuance of the Financial Institutions Businesses Act B.E. 2551, Section 60 and Section 71. The Bank has rectified the errors and corrected the data.

During 2017-2018, the Bank was fined by the Bank of Thailand (BOT) for violation of the Financial Institutions Businesses Act B.E. 2551, Section 36, one time for the amount of Baht 3,210,000 and another time for violation of Section 46 in the amount of Baht 2,805,000. In addition, the Bank was fined by the Securities and Exchange Commission (SEC) for violation of Section 247 twice in the amount of Baht 220,000.

Investments of Siam Commercial Bank PCL in Other Companies

As of December 31, 2019 the Bank owned 10% or more of the issued shares of the following companies.

No.	Company name and Address	Type of business	Type of shares	Paid-up shares	Number of shares	% of ownership*
1	**CAMBODIAN COMMERCIAL BANK LTD.** 26 Monivong Rd., Sangkat Phsar Thmei 2, Khan Daun Penh, Phnom Penh, Kingdom of Cambodia Tel: 001-855 (23) 426-145, 213-601-2 Fax: 001-855 (23) 426-116	Banking	Ordinary	750,000	750,000	100.00%
2	**RUTCHAYOTHIN ASSETS MANAGEMENT CO., LTD.** 9 Rutchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2544-2477 Fax: 0-2544-2165	Asset Management	Ordinary	2,500,000	2,500,000	100.00%
3	**SCB ABACUS CO., LTD.** SCB Park Plaza Bldg. Tower 3 East, 22nd Floor, 19, Rutchadapisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2544-6566	Data Analytics and Lending	Ordinary	25,000,000	24,999,997	100.00%
4	**SCB SECURITIES CO., LTD.** SCB Park Plaza Bldg., Tower 3 East, 2nd, 20th-21st Floor, 19 Rutchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2949-1000 Fax: 0-2949-1001	Securities Company	Ordinary	240,000,000	240,000,000	100.00%
5	**DIGITAL VENTURES CO., LTD.** (2) 2525 Unit 2/1001-1002, 10th Floor, FYI Center Tower (Tower 2) Rama IV Rd., Khlong Toie, Bangkok 10110 Tel: 02-061-6166	Financial Technology and Venture Capital	Ordinary	4,000,000	4,000,000	100.00%
6	**SCB PROTECT CO., LTD.** SC Tower, 23rd, 25th Floor, 418 23-25 Fl. Phahon Yothin Road., Sam Sen Nai, Phaya Thai, Bangkok 10400 Tel: 0-2037-7899	Non-life Insurance Broker	Ordinary	200,000	199,997	100.00%
7	**SCB ASSET MANAGEMENT CO., LTD.** SCB Park Plaza Bldg., Tower 1 West, 7th-8th Floor, 18 Rutchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2949-1500 Fax: 0-2949-1501	Asset Management	Ordinary	20,000,000	20,000,000	100.00%
8	**SCB-JULIUS BAER SECURITIES CO., LTD.** Siam Commercial Bank PCL (Head office) 9, LB Floor Rutchadapisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2098-9999	Securities Company	Ordinary	180,000,000	107,999,999	60.00%
9	**SCB-JULIUS BAER (SINGAPORE) PTE. LTD. **** (2) 7 Straits View, #08-10A, Marina One East Tower, Singapore 018936 Tel: (65) 6973-2020	Securities Company	Ordinary	8,000,000	8,000,000	100.00%
10	**SCB PLUS CO., LTD.** G Tower Grand Rama 9, 12th and 14th Floor, 9 Rama 9 Rd., Huai Khwang, Huai Khwang, Bangkok 10310 Tel: 0-2792-3800, 0-2792-3900 Fax: 0-2255-1565	Collection Company	Ordinary	100,000	100,000	100.00%
11	**SCB TRAINING CENTRE CO., LTD.** 9 Rutchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2544-1702,1704,1707 Fax: 0-2544-1701	Training Center	Ordinary	5,490,000	5,490,000	100.00%
12	**MAHISORN CO., LTD.** (1) SCB Park Plaza, Tower East, 2nd Floor, 18-19 Rutchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2937-5400 Fax: 0-2937-5438	Property (building) Management	Ordinary	669,490	669,490	100.00%
13	**SOR.OR.KOR PCL.** (3) Siam Commercial Bank PCL (Head office) 19th Floor Zone C, 9, Rutchadapisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2544-2301-4 Fax: 0-2544-3317	Commercial	Ordinary	597,423,062	595,883,972	99.74%

No.	Company name and Address	Type of business	Type of shares	Paid-up shares	Number of shares held	% of ownership*
14	**SIAM SAT NETWORK CO.,LTD.** (2) (3) SCB Park Plaza Bldg., Tower 2 West, 21st Floor 18 Rutchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900	Sattelite Service	Ordinary	11,250,000	9,182,012	81.62%
15	**SIAM TECHNOLOGY SERVICE CO.,LTD.** (1) (3) SCB Park Plaza Bldg., Tower 1 West, 18 Rutchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900	Consultant	Ordinary	3,000,000	1,949,993	75.00%
16	**SAHAVIRIYA STEEL INDUSTRIES PCL** (4) Prapawit Bldg., 2nd-3rd Floor, 28/1 Surasak Rd., Silom, Bangrak, Bangkok 10500 Tel: 0-2238-3063-82 Fax: 0-2236-8890	Steel Industry	Ordinary	11,113,018,280	4,469,534,816	40.22%
17	**SIAM MEDIA AND COMMUNICATION CO., LTD.** (3) SCB Park Plaza Bldg., Tower 2 West, 17th-22nd Floor, 18 Rutchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900	Holding Company	Ordinary	7,000,000	2,333,800	33.34%
18	**BLOCKCHAIN COMMUNITY INITIATIVE (THAILAND) CO., LTD.** 5/13, 4th Floor, Moo 3, Chaengwattana Rd., Khlongkluea, Pak Kret, Nonthaburi 11120 Tel: 0-2264-0883-7 Fax: 0-2264-0888	Blockchain Platform	Ordinary	53,000,000	11,750,000	22.17%
19	**NATIONAL ITMX CO., LTD.** 5/13 Moo 3, Chaengwattana Rd., Khlongkluea, Pakkret, Nonthaburi 11120 Tel: 0-2558-7555 Fax: 0-2558-7566	Payment System Service Provider	Ordinary	500,000	94,950	18.99%
20	**SUPERNAP (THAILAND) CO., LTD.** Sindhorn Tower 3 Bldg. 18 Fl. 130-132 Wireless Rd. Lumpini, Pathumwan, Bangkok 10330 Tel: 0-3312-5114 Fax: 0-2558-7566	Data Center	Ordinary	200,000,000	20,000,000	10.00%
21	**THAI U.S. LEATHER CO., LTD.** (3) 39/98 Rama II Rd., Banghrachao, Muang, Samutsakhon 74000 Tel: (034) 490-082-7	Industry	Ordinary	25,000,000	2,500,000	10.00%
22	**NAVUTI CO., LTD.** 920/4 Moo7, Mae Fah Luang, Mae Fah Luang, Chiang Rai 57110 Tel: (053) 767-015 Fax: (053) 767-077	Agribusiness	Ordinary	600,000	60,000	10.00%
23	**THAI OBAYASHI CORP., LTD.** Nantawan Bldg., 11st Floor, 161 Soi Mahadlek Luang 3 Ratchadamri Rd. Lumpini, Pathumwan, Bangkok 10330 Tel: 0-2252-5200 Fax: 0-2252-5200	Construction	Ordinary	20,000	2,000	10.00%

Remarks

* In case of indirect investment by bank affiliates, in which the Bank hold more than 30% of theirs shares, the figures will depict the total percentage of shareholding and investment value of the Bank and its affiliates. (under Section 258 of Securities and Exchange Act.)

** In the process of capital injection

(1) Company held jointly by the Bank and a Bank affiliate in which the Bank holds more than 30% of shares.

(2) Company held by a Bank affiliate in which the Bank holds more than 30% of shares.

(3) Discontinued operations, or in process of dissolution or liquidation.

(4) Debt restructuring investment.