

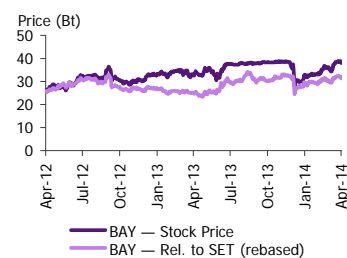
## SELL

(Downgrade from Neutral)

## Stock Data

Last close (Apr 18) (Bt)	37.75
12-m target price (Bt)	28.00
Upside (Downside) to TP (%)	(25.83)
Mkt cap (Btbn)	229.30
Mkt cap (US\$mn)	7,128
Bloomberg code	BAY TB
Reuters code	BAY.BK
Risk rating	L
Mkt cap (%) SET	1.83
Sector % SET	17.23
Shares issued (mn)	6,074
Par value (Bt)	10
12-m high / low (Bt)	40.3 / 27.5
Avg. daily 6m (US\$mn)	6.43
Foreign limit / actual (%)	25 / 25
Free float (%)	28.0
Dividend policy (%)	≥ 30

## Price Performance



Source: SET, SCBS Investment Research

## Share performance

	1M	3M	12M
Absolute	7.1	17.1	14.4
Relative to SET	3.7	7.6	25.5

Source: SET, SCBS Investment Research

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## Sell: Huge miss in 1Q14, cut 2014 EPS and TP 15%

■ **1Q14 far below expectations**, falling 19% YoY (QoQ was up 230% on normalizing provisions) to Bt3.3bn, 12-14% below SCBS and consensus forecast of Bt3.7-3.8bn. Net interest margin, non-interest income and asset quality all deteriorated more than anticipated. Key points:

1. Loan growth: In line with estimates, there was MoM expansion in commercial loans in March that led YTD loan growth to -0.4% from -2.8% as of February.
2. Net interest margin: Far steeper drop than expected, -30 bps. Yield on earning assets plunged 37 bps without the comparative Bt523mn windfall from debt restructuring and interest rate cuts. Cost of funding eased 8 bps QoQ. If the windfall is excluded, NIM would be down 12 bps QoQ.
3. Non-interest income: Also below expectations at -13% YoY (fee income, other income, and absence of dividend from the Vayupak fund) and -16% QoQ (fee income and investment gain). Fee income was disappointingly down 4% YoY and 7% QoQ on weaker fees related to lending and credit card business.
4. Cost to income ratio: Slightly eased both YoY and QoQ to 50.3%.
5. Asset quality: Far worse than expected, NPLs rose 15% QoQ, mainly SME and retail loans. Provisions were up 33% YoY but fell 40% YoY, equivalent to credit cost of 174 bps, well above the full-year guidance of 160 bps. LLR coverage dropped to 134% from 149%.

Figure 1: Quarterly results

P & L (Bt mn)	1Q13	2Q13	3Q13	4Q13	1Q14	%YoY ch	%QoQ ch	% full year
Interest income	16,918	17,446	18,078	18,939	18,275	8	(4)	25
Interest expense	6,316	6,453	6,832	6,841	6,778	7	(1)	26
Net interest income	10,602	10,993	11,246	12,099	11,497	8	(5)	24
Non-interest income	5,764	6,443	5,283	5,959	5,028	(13)	(16)	22
Operating expenses	8,312	7,631	8,475	9,196	8,306	(0)	(10)	24
Pre-provision profit	8,053	9,805	8,055	8,861	8,219	2	(7)	24
Less Provision	3,081	5,908	3,148	6,822	4,084	33	(40)	24
Pre-tax profit	4,972	3,898	4,907	2,039	4,135	(17)	103	23
Income tax	967	860	1,126	989	894	(8)	(10)	25
MI and Equity	40	1	13	(61)	25	(36)	142	NA
Net profit	4,045	3,039	3,794	989	3,266	(19)	230	23
EPS (Bt)	0.67	0.50	0.62	0.16	0.54	(19)	230	23
B/S (Bt mn)	1Q13	2Q13	3Q13	4Q13	1Q14	%YoY ch	%QoQ ch	% full year
Gross loans	837,237	864,341	889,207	943,502	939,843	12	(0)	NM
Deposits	702,449	731,731	736,439	764,050	780,597	11	2	NM
BVPS (Bt)	19.35	19.66	19.81	19.98	20.60	6	3	NM
Ratios (%)	1Q13	2Q13	3Q13	4Q13	1Q14	%YoY ch*	%QoQ ch*	% full year
Yield on earn. asset	6.63	6.64	6.72	6.87	6.50	(0.14)	(0.37)	NM
Cost of funds	2.81	2.79	2.88	2.81	2.73	(0.08)	(0.08)	NM
Net interest margin	4.16	4.18	4.18	4.39	4.09	(0.07)	(0.30)	NM
Cost to income	50.8	43.8	51.3	50.9	50.3	(0.53)	(0.66)	NM
NPLs/total loans	2.62	2.64	2.82	2.77	3.20	0.58	0.43	NM
LLR/NPLs	147	151	142	149	134	(13.51)	(15.44)	NM

Source: SCBS Investment Research

Note: \* Percentage points

■ **15% cut in 2014 EPS and TP (to Bt28)**, factoring in the 1Q14 miss and the hit to the economy from the prolonged political unrest. We cut net interest income growth to 5% from 7% (vs. +12% in 2013) after reducing loan growth to 5% from 7% (vs. 14% in 2013), accompanied by a small 4 bps downward revision in NIM (equivalent to -14 bps YoY for 2014F vs. +1 bps YoY for 2013) to factor in the negative implication of the expected 50 bps cut in policy rate in 1H14 (already cut 25 bps in 1Q14) and worse-than-expected 1Q14 NIM. We slash 2014F non-interest income growth to -3% from 6% (vs. +11% in 2013), mainly on lower fee income and investment gain. We raised 2014F credit cost by 10 bps to 170 bps (vs. 201 bps for 2013). Incorporating its cost control policy, we maintain 2014F cost to income ratio at 51%. These changes reduce our earnings growth forecast to +19% from 39%.

A key 2014 earnings growth driver is the lower extra provisions. 2014F pre-provision profit is expected to be essentially flat. Target price is cut to Bt33 from Bt28 (1.3 x 2014F BVPS).

**Figure 2: 2014F forecast changes**

	Old	New	Change from old forecast
Loan growth (%)	8.0	5.0	(3)
YoY change in NIM (%)	(0.09)	(0.10)	(0.01)
NII growth (%)	2.0	1.5	(0.5)
Credit cost (%)	0.90	1.00	0.10
Non-NII growth (%)	12	2	(10)
Cost to income ratio (%)	50	50	-
Net profit (Btmn)	8,325	7,409	-11%
EPS (Bt)	0.19	0.17	-11%
EPS growth (%)	45.1	29.1	(16)
BVPS (Bt)	1.6	1.5	-1%
ROE (%)	12.8	11.5	(1)
TP (Bt)	2.4	2.1	-11%

Source: SCBS Investment Research

- **Downgrade to Sell.** A 24% YTD rise in share price in the presence of the weakening operations in 2014 puts the stock well into overvalued territory.

#### Forecasts and valuation

Year to 31 Dec	Unit	2012	2013	2014F	2015F	2015F
Pre-provision profit	(Bt mn)	26,010	30,825	30,945	33,092	36,382
Net profit	(Bt mn)	14,625	11,867	14,103	17,043	19,049
PPP/Sh	(Bt)	4.28	5.07	5.09	5.45	5.99
EPS	(Bt)	2.41	1.95	2.32	2.81	3.14
BVPS	(Bt)	18.66	19.98	21.50	23.61	25.91
DPS	(Bt)	0.80	0.80	0.70	0.84	0.94
PER	(x)	15.68	19.32	16.26	13.45	12.04
P/PPP	(x)	8.82	7.44	7.41	6.93	6.30
EPS growth	(%)	57.87	(18.86)	18.85	20.85	11.77
PBV	(x)	2.02	1.89	1.76	1.60	1.46
ROE	(%)	13.55	10.11	11.19	12.44	12.67
Dividend yields	(%)	2.12	2.12	1.85	2.23	2.49

Source: SCBS Investment Research

## Financial statement

## Profit and Loss Statement (Btmn)

FY December 31	2012	2013	2014F	2015F	2016F
Interest & dividend income	64,640	71,381	73,439	78,764	85,453
Interest expense	24,687	26,442	26,333	28,292	30,713
<b>Net interest income</b>	<b>39,953</b>	<b>44,939</b>	<b>47,106</b>	<b>50,472</b>	<b>54,741</b>
Non-interest income	21,058	23,449	22,664	24,816	27,205
Non-interest expenses	30,798	33,614	35,319	37,989	40,895
Earnings before tax & provision	30,213	34,774	34,451	37,300	41,050
Tax	4,337	3,942	3,522	4,250	4,743
Equities & minority interest	(134)	7	(16)	(43)	(75)
Core pre-provision profit	26,010	30,825	30,945	33,092	36,382
Provision	11,385	18,959	16,842	16,049	17,333
<b>Core net profit</b>	<b>14,625</b>	<b>11,867</b>	<b>14,103</b>	<b>17,043</b>	<b>19,049</b>
Extra item	0	0	0	0	0
<b>Net profit</b>	<b>14,625</b>	<b>11,867</b>	<b>14,103</b>	<b>17,043</b>	<b>19,049</b>
<b>EPS (Bt)</b>	<b>2.41</b>	<b>1.95</b>	<b>2.32</b>	<b>2.81</b>	<b>3.14</b>
<b>DPS (Bt)</b>	<b>0.80</b>	<b>0.80</b>	<b>0.70</b>	<b>0.84</b>	<b>0.94</b>

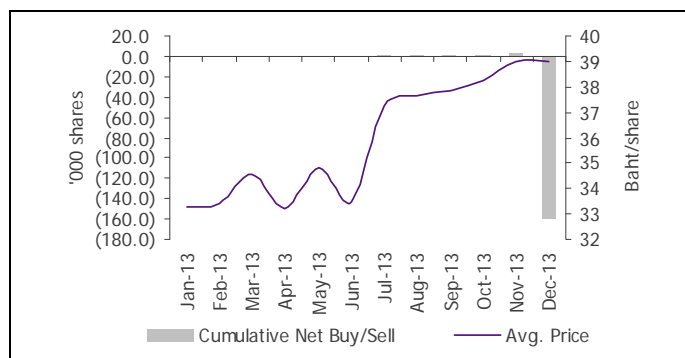
## Balance Sheet (Btmn)

FY December 31	2012	2013	2014F	2015F	2016F
Cash	25,079	28,216	29,278	30,247	31,352
Interbank assets	79,390	87,027	102,257	121,175	149,348
Investments	79,249	74,333	74,333	74,333	74,333
<b>Gross loans</b>	<b>830,008</b>	<b>943,502</b>	<b>990,678</b>	<b>1,069,932</b>	<b>1,155,526</b>
Accrued interest receivable	2,257	2,648	2,648	2,648	2,648
Loan loss reserve	31,029	38,986	53,351	66,725	81,169
<b>Net loans</b>	<b>801,236</b>	<b>907,164</b>	<b>939,975</b>	<b>1,005,855</b>	<b>1,077,005</b>
<b>Total assets</b>	<b>1,071,965</b>	<b>1,179,58</b>	<b>1,229,187</b>	<b>1,315,469</b>	<b>1,416,427</b>
Deposits	687,159	764,050	819,061	892,531	979,553
Interbank liabilities	79,249	55,497	55,497	55,497	55,497
Borrowings	154,629	174,605	174,605	174,605	174,605
<b>Total liabilities</b>	<b>958,479</b>	<b>1,057,93</b>	<b>1,098,295</b>	<b>1,171,765</b>	<b>1,258,787</b>
Minority interest	164	279	279	279	279
Paid-up capital	60,741	60,741	60,741	60,741	60,741
<b>Total Equities</b>	<b>113,322</b>	<b>121,369</b>	<b>130,613</b>	<b>143,425</b>	<b>157,361</b>
<b>BVPS (Bt)</b>	<b>18.66</b>	<b>19.98</b>	<b>21.50</b>	<b>23.61</b>	<b>25.91</b>

## Key Assumptions and Financial Ratios

	2012	2013	2014F	2015F	2016F
<b>Growth</b>					
YoY loan growth	15.36	13.67	5.00	8.00	8.00
YoY fee & insurance income growth	18.06	14.26	5.00	12.00	12.00
<b>Profitability</b>					
Yield on earn'g assets (%)	6.84	6.73	6.39	6.41	6.40
Cost on int-bear'g liab (%)	2.93	2.81	2.58	2.61	2.63
Spread (%)	3.91	3.93	3.81	3.80	3.77
Net interest margin(%)	4.23	4.24	4.10	4.11	4.10
ROE (%)	13.55	10.11	11.19	12.44	12.67
<b>Asset Quality</b>					
NPLs/Total Loans(%)	2.57	2.77	2.86	2.86	2.86
LLR/NPLs(%)	145.73	149.15	188.03	217.74	245.26
Provision expense/Total loans (%)	1.37	2.01	1.70	1.50	1.50
<b>Liquidity</b>					
Loans/Deposits & borrowings (%)	98.60	100.52	99.70	100.26	100.12
<b>Efficiency</b>					
Cost to income ratio (%)	51.83	50.54	51.36	51.14	50.52
<b>Capital Fund</b>					
Capital adequacy ratio(%)	16.97	14.69	14.82	14.59	14.33
Tier-1(%)	10.96	10.17	10.45	10.49	10.50
Tier-2(%)	6.01	4.52	4.37	4.10	3.82

## 12-Month Cumulative directors trade



Source: SEC

## Profit and Loss Statement (Btmn)

FY December 31	1Q13	2Q13	3Q13	4Q13	1Q14
Interest & dividend income	16,918	17,446	18,078	18,939	18,275
Interest expense	6,316	6,453	6,832	6,841	6,778
<b>Net interest income</b>	<b>10,602</b>	<b>10,993</b>	<b>11,246</b>	<b>12,099</b>	<b>11,497</b>
Non-interest income	5,764	6,443	5,283	5,959	5,028
Non-interest expenses	8,312	7,631	8,475	9,196	8,306
Earnings before tax & provision	8,053	9,805	8,055	8,861	8,219
Tax	967	860	1,126	989	894
Equities & minority interest	(40)	(1)	(13)	61	(25)
Core pre-provision profit	7,126	8,946	6,942	7,811	7,350
Provision	3,081	5,908	3,148	6,822	4,084
<b>Core net profit</b>	<b>4,045</b>	<b>3,039</b>	<b>3,794</b>	<b>989</b>	<b>3,266</b>
Extra item	0	0	0	0	0
<b>Net profit</b>	<b>4,045</b>	<b>3,039</b>	<b>3,794</b>	<b>989</b>	<b>3,266</b>
<b>EPS (Bt)</b>	<b>0.67</b>	<b>0.50</b>	<b>0.62</b>	<b>0.16</b>	<b>0.54</b>

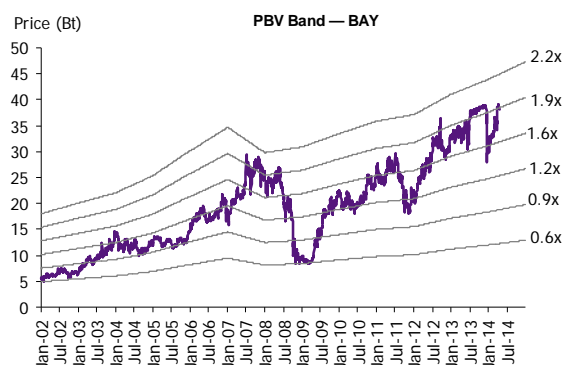
## Balance Sheet (Btmn)

FY December 31	1Q13	2Q13	3Q13	4Q13	1Q14
Cash	24,137	24,486	23,818	28,216	26,793
Interbank assets	99,337	109,446	88,003	87,027	91,246
Investments	82,393	78,604	84,486	74,333	77,368
<b>Gross loans</b>	<b>837,237</b>	<b>864,341</b>	<b>889,207</b>	<b>943,502</b>	<b>939,843</b>
Accrued interest receivable	2,341	2,359	2,465	2,648	2,552
Loan loss reserve	32,247	34,505	35,654	38,986	40,157
<b>Net loans</b>	<b>807,331</b>	<b>832,195</b>	<b>856,018</b>	<b>907,164</b>	<b>902,239</b>
<b>Total assets</b>	<b>1,102,777</b>	<b>1,130,156</b>	<b>1,145,167</b>	<b>1,179,582</b>	<b>1,185,669</b>
Deposits	702,449	731,731	736,439	764,050	780,597
Interbank liabilities	62,193	53,002	63,501	55,497	63,943
Borrowings	143,668	159,558	151,862	174,605	146,309
<b>Total liabilities</b>	<b>985,083</b>	<b>1,010,533</b>	<b>1,024,582</b>	<b>1,057,934</b>	<b>1,060,242</b>
Minority interest	190	228	260	279	315
Paid-up capital	60,741	60,741	60,741	60,741	60,741
<b>Total Equities</b>	<b>117,504</b>	<b>119,394</b>	<b>120,325</b>	<b>121,369</b>	<b>125,112</b>
<b>BVPS (Bt)</b>	<b>19.35</b>	<b>19.66</b>	<b>19.81</b>	<b>19.98</b>	<b>20.60</b>

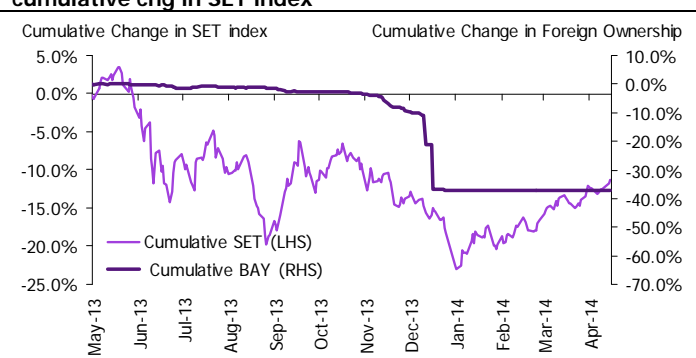
## Financial Ratios

	1Q13	2Q13	3Q13	4Q13	1Q14
YoY loan growth	12.84	14.09	13.43	13.67	12.26
YoY fee & insurance income growth	25.60	12.24	11.18	9.53	(4.41)
Yield on earn'g assets (%)	6.63	6.64	6.72	6.87	6.50
Cost on int-bear'g liab (%)	2.81	2.79	2.88	2.81	2.73
Net interest margin(%)	4.16	4.18	4.18	4.39	4.09
Cost to income ratio (%)	50.79	43.76	51.27	50.93	50.26
NPLs/Total Loans(%)	2.62	2.64	2.82	2.77	3.20
LLR/NPLs(%)	147.23	151.23	142.09	149.15	133.71
Provision expense/Total loans (%)	1.47	2.73	1.42	2.89	1.74

## PBV Band Chart



## 12 Month cumulative chg in foreign ownership versus cumulative chg in SET index



Source: SET, SCBS Investment Research

Figure 3: Valuation summary – Banking

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)		
					13A	14F	15F	13A	14F	15F	13A	14F	15F	13A	14F	15F	13A	14F	15F
BAY	Sell	37.75	28.0	(24.0)	19.3	16.3	13.5	(18.9)	18.8	20.8	1.89	1.76	1.60	10.1	11.2	12.4	2.1	1.8	2.2
BBL	Buy	190.00	228.0	23.4	10.1	10.2	9.1	8.7	(1.1)	11.7	1.23	1.12	1.04	12.6	11.5	11.8	3.5	3.4	3.8
KBANK	Buy	188.00	214.0	15.8	10.9	10.0	8.8	17.2	9.0	13.2	2.05	1.76	1.51	20.4	19.0	18.4	1.9	2.0	2.3
KKP	Sell	46.50	42.0	(4.7)	8.8	10.2	9.0	29.3	(13.9)	14.3	1.12	1.06	1.00	13.0	10.6	11.5	5.8	5.0	5.7
KTB	Buy	19.60	24.0	27.3	8.1	8.3	7.5	45.2	(3.0)	11.3	1.33	1.22	1.10	17.6	15.3	15.4	5.0	4.8	5.3
LHBANK	Sell	1.44	1.1	(21.7)	20.5	20.5	19.6	23.3	(0.1)	4.5	1.22	1.18	1.14	6.1	5.8	5.9	2.0	1.9	2.0
TCAP	Neutral	34.50	36.0	7.8	4.8	8.8	7.5	68.4	(45.8)	17.3	0.93	0.87	0.80	20.5	10.2	11.2	4.6	3.4	4.0
TISCO	Buy	42.75	47.0	14.6	8.1	7.9	6.6	4.3	1.9	20.4	1.49	1.33	1.17	20.6	17.8	18.9	4.7	4.7	5.3
TMB	Sell	2.36	2.1	(8.9)	17.9	14.0	12.1	354.3	28.5	15.2	1.67	1.53	1.40	9.6	11.4	12.0	1.7	2.1	2.5
<b>Average</b>					<b>12.0</b>	<b>11.6</b>	<b>10.3</b>	<b>21.6</b>	<b>2.8</b>	<b>12.9</b>	<b>1.52</b>	<b>1.38</b>	<b>1.25</b>	<b>15.2</b>	<b>13.3</b>	<b>13.7</b>	<b>3.4</b>	<b>3.3</b>	<b>3.7</b>

Source: SCBS Investment Research

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## CG Rating 2013 Companies with CG Rating

ADVANC, AOT, ASIMAR, BAFS, BANPU, BAY, BBL, BCP, BECL, BKL, BROOK, BTS, CIMBT, CK, CPN, CPN, CSL, DRT, DTAC, EASTW, EGCO, ERW, GRAMMY, HANA, HEMRAJ, KCC, INTUCH, IRPC, IVL, KBANK, KKP, KTB, LPN, MCOT, MINT, NIKI, NOBLE, PAP, PG, PHOL, PR, PRANDA, PS, PSL, PTT, PTTEP, PTTGC, QH, RATCH, ROBINS, RS, S&J, SAMART, SAMTEL, SAT, SC, SCB, SCC, SCMG, SE-ED, SIM, SIS, SITHAI, SNG, SPALI, SPI, SSI, SSSC, SVI, SYMC, TCAP, THAI, THCOM, THRE, TIP, TISCO, TKT, TMB, TNITY, TOP, TRC, TRUE, TTW, TVO, UV, VGI, WACOL

2S, ACAP, AF, AHC, AIT, AKP, AMANAH, AMARIN, AMATA, AP, APCO, APCS, ASIA, ASK, ASP, AYUD, BEC, BFT, BH, BIGC, BJC, BLA, BMCL, BWG, CCET, CENTEL, CFRESH, CGS, CHOW, CM, CNT, CPALL, CSC, DCC, DELTA, DTC, ECL, EE, EIC, ESSO, FE, FORTH, GBX, GC, GPPT, GL, GLOW, GOLD, GSTEL, GUNKUL, HMPRO, HTG, IFC, INET, ITD, JAS, JUBILE, KBS, KCE, KGI, KKC, KSL, KWC, L&E, LANNA, LH, LHBANK, LHK, LIVE, LOXLEY, LRH, LST, MACO, MAJOR, MAKRO, MBK, MBKET, MFC, MFE, MODERN, MTL, NBC, NCH, NINE, NMG, NSI, NVVR, OCC, OFM, OGC, OISHI, PB, PDI, PE, PF, PJW, PM, PPM, PPP, PREB, PRG, PT, PLOD, QTC, RASA, SABINA, SANCO, SCC, SCG, SEAFEC, SFP, SIAM, SINGER, SIRI, SKR, SMT, SNP, SPCG, SPPT, SSF, STANLY, STEC, SUG, SUSCO, SYNTec, TASCO, TCF, TF, TFD, TFI, THANA, THANI, THIP, TKON, TPCO, TK, TLUXE, TMILL, TMT, TNL, TOG, TPC, TPCORP, TPIPL, TRT, TRU, TSC, TSTC, TSTH, TTA, TTCL, TUF, TWFP, TYM, UAC, UMI, UMS, UP, UPOIC, UT, VIBHA, VIH, VNG, VNT, YUASA, ZMCO

A, AAV, AEC, AEONTS, AFC, AGE, AH, AJ, AKR, ALUCON, ANAN, ARIP, AS, BAT-3K, BCH, BEAUTY, BGT, BLAND, BOL, BROCK, BSBM, CHARAN, CHUO, CI, CIG, CQY, CMR, CNS, CPL, CRANE, CSP, CSR, CTW, DEMCO, DNA, DRACO, EA, EARTH, EASON, EMC, EPCO, F&D, FNS, FOCUS, FPI, FSS, GENCO, GFM, GJS, GLOBAL, HFT, HTECH, HYDRO, IFS, IHL, ILINK, INOX, IRC, IRCP, IT, JMART, JMT, JTS, JUTHA, KASET, KC, KCAR, KDH, KTC, KWH, LALIN, LEE, MATCH, MATI, MBAX, MDX, PRINC, MJD, MK, MOONG, MPIC, MSC, NC, NIPPON, NNCL, NTV, OSK, PAE, PATO, PICO, PL, POST, PRECHA, PRIN, Q-CON, QLT, RCI, RCL, ROJINA, RPC, SCBLIF, SCP, SENA, SF, SGP, SIMAT, SLG, SMT, SMK, SOLAR, SPG, SPC, SRICHA, SSC, STA, SUPER, SVOA, SWC, SYNEC, TBSP, TCC, TEAM, TGI, TIC, TIES, TIV, TKS, TMC, TMD, TMI, TNDT, TNPC, TOPP, TPA, TPP, TR, TTI, TVD, TVI, TVZ, UBIS, UEC, UOBKH, UPF, UWC, VARO, VTE, WAVE, WGI, WIN, WORK

## Corporate Governance Report disclaimer

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