

Part 1 Company's Business
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1. Policy and Business Overview

Our Vision: To be the Bank of Choice;

For our customers,

Provide and **deliver** the “**right**” products & services to “**world class**” standards

For our shareholders,

Provide sustainable and attractive “**long-term**” returns

For our employees,

Retain, attract, and engage all staff

For our community,

Adhere to **good corporate governance** standards & actively engage in “**community-oriented**” developments

Our Mission:

To be recognized as

THE ‘BEST’ UNIVERSAL BANK IN THAILAND

Background and Important Developments

Siam Commercial Bank was originally established as Thailand's first indigenous bank on August 4, 1904 as "The Book Club." On January 30, 1906, King Chulalongkorn (Rama V) granted a royal charter to establish "Siam Commercial Bank Company Capital Limited." The Bank changed its name to "Siam Commercial Bank" in English, or *Thanakarn Thai Panich* in Thai, on January 27, 1939. On February 19, 1993 the Bank was registered as a public company, and has thereafter been known as "Siam Commercial Bank Public Company Limited" (SCB). From the time of the Bank's founding until today, the major shareholder has been the Crown Property Bureau.

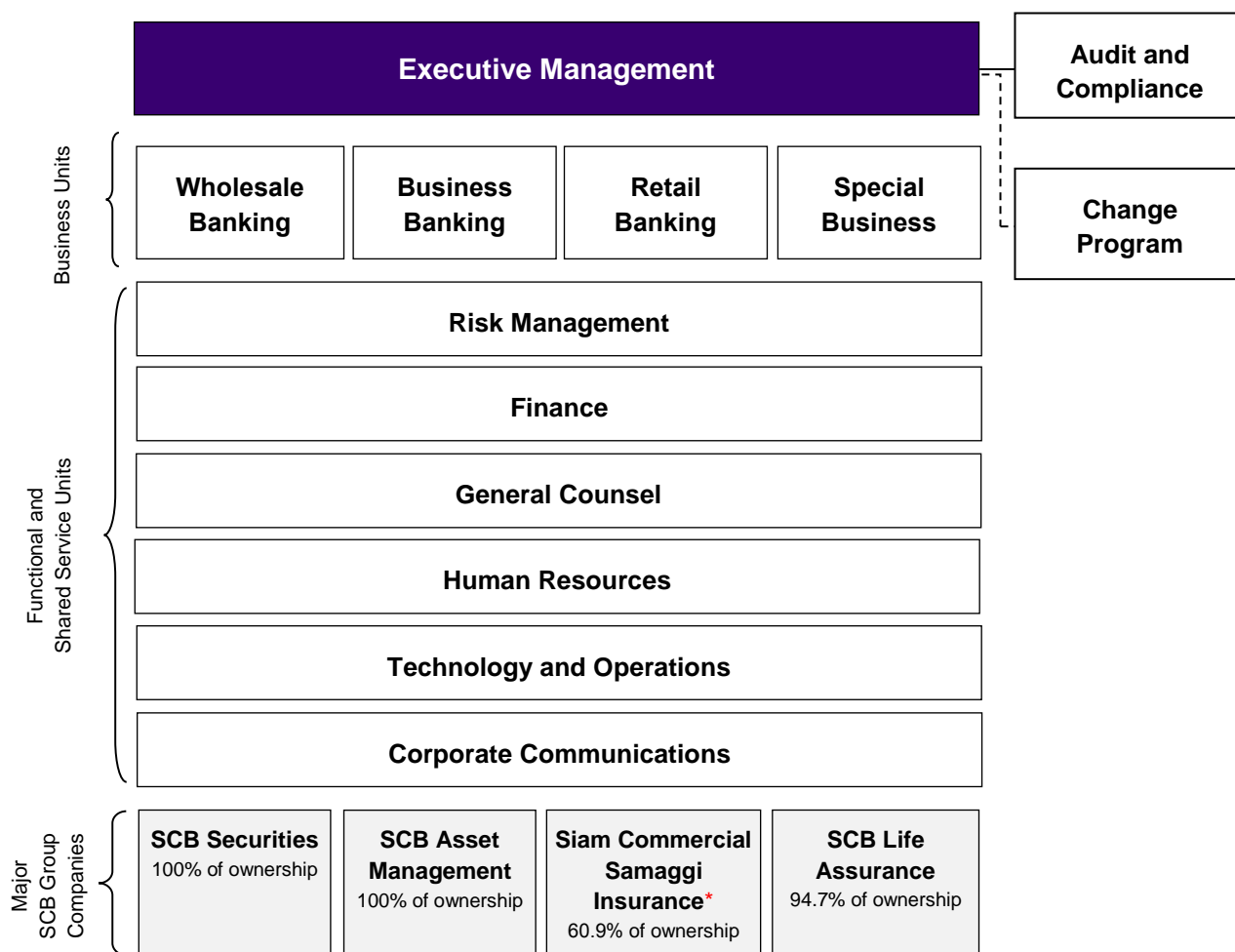
As a consequence of the Asian financial crisis in 1997, SCB undertook a major recapitalization in 1999 by joining the Ministry of Finance's Tier 1 Capital Support Scheme (the August 14, 1998 Measure), resulting in the Ministry of Finance becoming, along with the Crown Property Group, one of the two largest shareholders in May 1999. Later on in 2003, the Ministry of Finance established the Vayupak Fund 1 and transferred a substantial part of its stake to the Fund on December 1, 2003. As of March 14, 2014, the Crown Property Bureau held 23.69% of SCB shares, while Vayupak Fund 1 held 23.12% and the Ministry of Finance held 0.09%.

Acquisition of Siam Commercial New York Life PLC

On March 17, 2011, the Bank acquired the additional 47.33% stake in Siam Commercial New York Life Plc (SCNYL) from New York Life International, LLC. (NYL) and its Thai affiliate company at the total agreed purchase price of Baht 8.4 billion or Baht 266.89 per share. After the acquisition, the Bank doubled its shareholding in SCNYL from 47.33% to 94.66% of the issued and paid up capital. As a result of the acquisition, the Bank now includes SCNYL in the consolidated financial statements rather than recording it as an investment in an associated company on an equity accounting basis.

Management Structure

As of January 1, 2014



* The Bank has signed conditional agreement to sell all shares in Siam Commercial Samaggi Insurance to ACE INA International Holdings, Limited (ACE) and its affiliates which is expected to be completed in the second quarter of 2014.

2. Nature of Business Performance

2.1 Products and Services Features

Business Overview

Today, SCB is a leading universal banking group in Thailand, providing a wide array of financial products and services to meet the needs of a broad range of customers. Befitting its status as a universal bank, SCB has a large footprint across the financial services landscape in Thailand covering all customer and product segments.

In addition to core services such as deposit and credit services, the Bank also provides services tailored to meet specific customer needs. Retail services include home loans, personal credit, car hire purchase, credit cards, ATM cards, debit cards, currency exchange facilities, and overseas remittances as well as investment and bancassurance products. For corporate and business customers the Bank offers cash management-related services, international trade financing, treasury products, debt and capital market products, corporate advisory, investment banking and other related financial services. The services available from the Bank's subsidiaries and associates for both corporate and retail clients include securities trading, asset management and life and general insurance.

SCB has four business groups: the Wholesale Banking Group; the Business Banking Group (serving SME clients); the Retail Banking Group (serving individuals and small businesses); and the Special Business Group (handling mainly NPL work-out). In addition, the Bank has four major subsidiaries: SCB Securities Co., Ltd.; SCB Asset Management Co., Ltd.; SCB Life Assurance PCL and Siam Commercial Samaggi Insurance PCL. Each of these companies provides a range of financial services to meet the specific needs of its customers.

Units within the Bank responsible for supporting and managing the Bank's operations comprise seven function-oriented groups. These are the Risk Management Group, Finance Group, Human Resources Group, Technology & Operations Group, Group General Counsel, Corporate Communications Division, and the Audit & Compliance Group. In addition, the Bank has established a Change Program Management Office whose role is to drive and monitor the implementation of critical initiatives, many of which are transformational in nature.

Percent of revenue for each business unit

(Consolidated, %)	2013	2012	2011
Wholesale Banking Group*	22	21	25
Business Banking Group (SME) *	16	15	11
Retail Banking Group*	55	56	55
Others**	7	8	9

* Results of key subsidiaries have been allocated to the Wholesale Banking Group, Business Banking Group and Retail Banking Group.

** Including subsidiaries and affiliates, but excluding one-time investment revaluation gain from the acquisition of SCB Life in 2011.

2013 Performance

2013 was the fourth successive year during which the Bank reported a record-high net profit. SCB performed well above its targets announced at the start of the year, despite global economic uncertainties that slowed growth in Thailand's cross-border trade transactions, especially growth in exports. SCB's strong results reflected, in part, the resilience of its operating platform and business model as well as the soundness of its business strategies.

In 2013, the Bank registered a return-on-equity (ROE) of 21.8%, with a record-high net profit of Baht 50.2 billion, a 28.0% yoy increase of Baht 11.0 billion from the net profit of Baht 39.2 billion recorded in 2012. This growth in profit reflects the effectiveness of the Bank's strategy and its execution capability.

Total income, at Baht 123.5 billion, increased 20.0% from 2012 due to both robust loan growth and solid non-interest income growth. In particular, the non-interest income growth was boosted by higher net fee and insurance premium income, higher dividend income, higher net trading and foreign exchange income as well as higher gains on investment.

To maintain profitability, the Bank maintained a strong focus on expense control and productivity improvements, resulting in a lower cost-to-income ratio of 38.3%, falling from 41.2% in 2012.

The Bank reported total assets of Baht 2.53 trillion, an increase of Baht 264 billion (or 11.6%) from the end of 2012.

Total loans grew by 12.1%, with stable underlying asset quality. The ratio of NPLs to total loans was relatively flat at 2.14%, as a result of effective work-out strategies such as repayments, auctions and foreclosures, NPL sales and debt restructuring, as well as ongoing prevention of new NPL formation. At the same time, the provisions for loan losses increased from Baht 9.4 billion in 2012 to Baht 13.6 billion during the year – thereby raising the NPL coverage ratio from 144.8% to 150.8%.

The Bank maintained its leadership in a range of retail products and services, as well as its leading position in the number of branches and ATMs throughout the country, in part as a result of continued

expansion. At the end of 2013, the Bank had 1,173 branches, 9,142 ATMs, and 108 foreign exchange kiosks – the largest financial services footprint in Thailand.

As a business in the services industry, the Bank believes in the critical importance of sustaining a high level of employee engagement, together with a high level of customer engagement. This robust engagement model, which has helped to generate industry-high levels of customer and employee engagement, provides the Bank a unique competitive edge today and the best assurance of sustainable profitability in the years ahead.

2013 Highlights

SCB retains a strong market position among the big Thai banks:

- High net profits at Baht 50.2 billion, a new record level for SCB and the Thai financial services sector.
- High ROE at 21.8% and ROA at 2.1%, levels that rank the highest of Thai banks.
- The highest market capitalization among financial institutions in Thailand (at Baht 488 billion on December 27, 2013).
- The largest branch and ATM footprint, with 1,173 branches and 9,142 ATM units.

Plans for 2014

- Reduce cost of deposits relative to market competitors.
- Accelerate drive to build recurring fee-based income and non-NII growth, particularly from the SME and wholesale segments.
- Decelerate growth rate of operating expenses through more stringent oversight of discretionary expenses.
- Upgrade the skills of the relationship managers across all business units to forge deeper customer relationships and, for retail and SME banking, establish the core of a wealth management franchise.

Anchored on the above elements, the business plan will ensure that the Bank achieves above-average profitability, return on equity (ROE), and return on assets (ROA), while maintaining strong growth momentum along with Thailand's continued economic growth.

The Bank will continue to place strong emphasis on sustaining a high level of employee engagement and maintaining SCB as a great place to work. It will also continue to maintain world-class levels of customer engagement to ensure that shareholder value is further optimized and a distinct competitive edge maintained.

SCB will continue to adhere to best practices under corporate governance principles, and also encourage employees to participate in the Bank's CSR activities, especially projects related to the sustainable development of youth and communities.

Key Performance Targets Announced for 2014

Despite a likely broad slowdown in economic growth, the Bank expects to deliver competitive results, reflecting the sustainability of its performance and resilience of its strategies.

Business Operation of Four Business Units**Wholesale Banking Group**

In 2013, amid a challenging economic landscape, the Wholesale Banking Group (WBG) achieved solid financial performance with record-high total income and net profit. This sustained strong financial growth, outperforming in a very competitive market, demonstrated the Group's ability to compete across all of its customer segments and products.

In particular, the WBG successfully attained clear market leadership in financial and capital market activities during the year. Additionally, the WBG achieved significant growth in cross-border trade volume and corporate deposit volume, outperforming a market that slowed amid the sluggish economic environment. Finally, the WBG continued to improve balance-sheet efficiency through disciplined loan portfolio management, raising quality and return on assets.

Moving into 2014, the WBG plans to transition to a more "client-centric" organization, aiming to build a sustainable growth engine to capture a broader client base and deepen existing relationships. Also, it will continue to build the capabilities of its people and effectiveness of its processes in order to become a knowledge-based organization and a sustained winner in an increasingly dynamic and challenging market environment.

2013 Performance

- Recorded net profit growth of 5% yoy, with substantial total income growth at 20% yoy.
- Achieved solid fee-income growth of 44% yoy, with recurring fee income growth of 13% yoy.
- Raised non-NII contribution to 46% of total income, resulting from higher than 91% yoy growth of investment banking and capital markets income.
- Expanded loan portfolio by Baht 27 billion, an increase of 5% yoy, while growing corporate deposits by 26% yoy.
- Continued to improve balance sheet efficiency with better asset quality, maintaining NPLs at a lower level than the prior year despite the negative outlook on credit quality.
- Improved expense control management with lower cost-to-income compared to 2012.

2013 Highlights

- Delivered better than anticipated financial results across client segments and products in both profitability and revenue.
- Achieved clear market leadership in financial and capital market activities by winning key landmark deals (e.g., CP ALL's acquisition of Siam Makro, Thai Airways' synthetic

eurobond), as well as sustaining #1 rank in property funds for public offering (PFPO), bond offerings and syndicated loans underwriting.

- Received market recognition in key wholesale products and services:
 - “Best Investment Bank in Thailand” award from *Global Finance* magazine.
 - “Best Bond House” award from *Alpha Southeast Asia* magazine.
 - “Best Foreign Exchange Bank in Thailand” award from *FinanceAsia* magazine.
 - “Best Local Cash Management Bank” and “Best Overall Domestic Provider of FX Services in Thailand” awards from *Asiamoney* magazine.
- Outperformed the market in import-export trade volume growth and deposit volume growth, despite the market slowdown in 2013.
- Enhanced balance-sheet efficiency through more proactive credit portfolio management.

Plans for 2014

- Migrate from a “size-based” to a “client need-based” organization structure to enhance the level of customer centricity
- Sharpen and broaden product capabilities in investment banking and capital markets to sustain current market leadership.
- Leverage transaction banking flows through value-chain-based solutions to capture a larger client base for sourcing recurring income and low cost funding.
- Strengthen credit practices and enhance balance-sheet efficiency with upgraded risk management processes.
- Build the business capabilities and strengthen foundation in key regional markets to deliver future growth from international business.
- Continue to strengthen people and process capabilities to ensure long-term sustainability of revenue and profitability.

Business Banking Group (BBG)

In recent years, the Business Banking Group has successfully expanded its SME franchise and market share through the introduction of innovative, customer-centric financial solutions and services to SMEs and, concurrently, through establishing more Business Relationship Centers throughout the country.

In 2013, the continued focus on customer centricity has resulted in enhanced SME customer satisfaction, stronger SME brand awareness and, as a result, another successful year in terms of financial performance. SCB received the Best SME Bank award from *Alpha Southeast Asia* magazine in both 2012 and 2013. *Asian Banking & Finance* magazine likewise named SCB as the SME Bank of the Year for two consecutive years. These achievements reflect the BBG's progress toward its ultimate goal of making SCB the ‘bank of choice’ for SMEs in Thailand.

2013 Performance

- **Delivered robust credit growth:** The SME lending portfolio expanded by Baht 57 billion, or 19%, to Baht 356 billion, through 18% growth in the medium-size business segment and a 25% increase in the small business segment. Also, the SME market share ranking improved to #3.
- **Delivered solid financial results:** Strong growth in both the small and medium-size business segments bolstered BBG full-year total income by 31% in part from a 17% expansion in fee-based income through growth in bancassurance, trade finance and business cash management services and, in part, through margin-based income growth.
- **Maintained stable asset quality:** Overall asset quality improved following a significant reduction in NPLs from 4.0% in 2012 to 3.6% in 2013 due to effective preventive measures and better NPL management.

2013 Highlights

- **Strengthened the market position within the SME segment:** With robust credit growth of 19% in 2013, the overall market share ranking improved to No. 3 from No. 4. In addition, total income increased by 31%, with healthy growth in both net interest income and non-interest income and a lower NPL ratio.
- **Strengthened SCB's SME brand:** By launching new solutions, marketing campaigns and marketing events that are customer-centric and innovative, BBG was able to maintain a strong brand awareness – confirmed by a customer survey conducted by a leading market research agency.
- **Continuous support to SME development in Thailand:** Seminars, networking events and an educational website catered to the different needs and diverse interests of this segment. The signature programs include SCB-YEP, a program for young entrepreneurs; SCB SME-IEP, an executive program to help develop professional business management skills; and 'Moment with Idols,' a program providing consultation with recognized business experts.

Plans for 2014

- Strengthen customer understanding and insights to better serve SMEs with integrated financial solutions and exceptional service level for both business and personal needs.
- Aspire to be the main operating bank for SME customers through innovative solutions and process efficiency.
- Redesign the end-to-end credit approval process to offer competitive turnaround time to meet customer expectations and enhance internal operational efficiency.
- Uplift people capabilities through accelerated skill-building programs that foster a customer-centric mindset.
- Strengthen risk management to support SME lending more effectively while maintaining the overall asset quality at an acceptable level.

Retail Banking Group (RBG)

The Retail Banking Group (RBG), by far the biggest in terms of revenue and profitability within the Bank, continued to deliver strong financial performance and maintain high market positions in key retail banking products such as mortgages, hire purchase, credit cards, and bancassurance. Moreover, the RBG recorded exceptional growth in retail deposits and mutual funds across all customer segments during the year.

SCB already had the largest banking network in Thailand and further expanded it during the year to accelerate growth. In 2013, the Bank opened more than 30 branches and added more than 400 ATMs, mainly in provincial areas, as a result providing even more convenience to customers. Through new, innovative and tailored products, and continued improvements in on-line services and mobile banking, the Bank has remained at the forefront of responding to emerging needs of existing and new customers.

2013 Performance

- **Strengthened leadership in retail credit lending:** RBG total gross loans expanded 16% yoy, underpinned by a 19% increase in mortgages, as well as a 15% increase in credit card receivables. Hire purchase grew by 10% and Speedy Cash lending by 7%. Collectively, this growth reinforced an already solid retail-lending base.
- **Achieved significant growth in assets under management (AUM):** The combined AUM of deposits and mutual funds grew by Baht 283 billion to Baht 2,116 billion, with 16% growth during the year. Retail deposits rose by 10%, while mutual fund AUM increased by 25% to Baht 836 billion, with top ranking in the market for property funds.
- **Delivered healthy operating results:** Overall retail revenue increased by 18%. NII improved as a result of better loan yield and product mix as well as growth in fee-based income.

2013 Highlights

- **Maintained clear leadership in retail lending:** Despite increased competition, the RBG successfully maintained its top position in terms of retail lending encompassing mortgages, hire purchase, credit cards and personal loans. In terms of asset quality, the Bank was able to maintain retail NPLs at approximately 2.3%, which is lower than the market norm due to effective preventive measures and better NPL management. The retail-lending portfolio is diversified across a wide range of products and customer segments, which serves to mitigate the overall risk.
- **Significantly improved our deposit gathering and asset management capabilities:** The RBG expanded the retail funding programs by rolling out several new products, selectively targeting customers by age group, which served to further diversify funding sources. In addition, mutual-fund assets under management increased by 25% to Baht 836 billion. This level is ranked #2 in the market, with a market share of 19.6%.

- **Reinforced national leadership of SCB's distribution network and channel management:** Today the Bank has 1,173 branches, 9,142 ATMs and 108 foreign-exchange kiosks nationwide, by far the largest footprint in the banking industry. Too, the RBG has taken a proactive approach in developing solutions that meet the changing needs of today's customers, aiming for a better lifestyle experience. Digital innovation, mobile technology and customer demand are driving a complete transformation in available banking channels. This year the Bank launched UP2ME, an offering focused on the individuality and particular needs of young, internet-savvy customers. The UP2ME package includes an UP2ME Easy Pay mobile application that allows customers to pay or receive money from their mobile phone contact list or a self-generated QR code; and an UP2ME 3-in-1 card, (a credit card, ATM card, and Speedy Cash), offering maximum financial convenience. Another unique feature of UP2ME is that it allows customers to set savings goals, and provides trackers and deadlines to give customers greater control of their personal finances.
- **Revitalized service excellence and raised employee capabilities at branches:** SCB has deployed a new system for customer service quality evaluation, or 'TRIM,' which measures customer satisfaction, benchmarking against world-class standards. In 2013 the Bank achieved a TRIM index score of 90, approaching the 90th percentile level of 97. The RBG has embarked on a multi-year, multi-pronged effort to substantially uplift the capabilities of customer relationship staff with an aim to better understand and respond to customer needs and make improved use of the 'smart sale system' and related tools. This will provide a step-change improvement in customer satisfaction and sales revenue.
- **Strengthened wealth proposition:** SCB intends to raise wealth management in Thailand up to the next level. The focus is on improving the quality of the front-line staff, products, and platforms as well as the privileges to be offered over the next five years. In particular, this year RBG introduced several new programs to improve services and grow the affluent and high-net-worth customer segments with signature programs: SCB First Card and SCB Private Banking Card. These products are offered on an invitation-only basis to those who have reached a predetermined wealth threshold with the Bank. In addition, the RBG continued to improve operational efficiency as well as its internal processes to support ambitious growth targets for selected segments.

Plans for 2014

- Cautiously strengthen leadership in consumer lending while improving returns through disciplined portfolio planning.
- Target growth in the deposit portfolio selectively to ensure competitive funding costs.
- Continue to strengthen distribution network through improvements in service quality, new advisory skills and segmented solution packages as well as an upgraded service-fulfillment backbone.
- Drive customer adoption of existing non-branch channels and non-cash payment by enhancing digital and payments offerings.

- Build a new wealth management platform and offerings by improving people, products, and platforms and providing privileges for selected segments.
- Strengthen systematic cross-referral and cross-distribution programs.
- Use business intelligence tools to develop holistic customer insight to drive best-in-class customer experience.
- Focus on people – retention, recruitment, affiliation and development.
- Deploy dynamic risk management platform and early warning systems.

Special Business Group (SBG)

The Special Business Group (SBG) is responsible for managing the Bank's portfolio of non-performing loans (NPLs) and non-performing assets (NPAs). Toward the end of 2008, the Special Business Group extended its responsibility to encompass proactive, preventative approaches to handling potential non-performing loans. These approaches include identifying probable delinquent loans using internal or external factors, and providing these customers with debt restructuring solutions to prevent default and, at the same time, assisting the customers to recover.

2013 Performance

- **NPL reduction:** The Special Business Group has played a key role in reducing the Bank's consolidated gross NPL ratio from 3.25% at the end of 2010 to 2.14% at the end of 2013. Various resolution methods were employed to reduce NPLs including debt restructuring, transfers of assets and equity securities, modification of repayment terms & conditions, and combinations thereof.
- **NPA sales:** During the year, the Group successfully disposed of assets of approximately Baht 3 billion.
- **Prevention:** The Group started to implement "Early Warning Signs" in 2008 to detect loans-at-risk that might turn non-performing and to help these customers to handle financial difficulties. In 2012 the preventive method was upgraded to "Special Attention," which highlighted loans-at-risk and identified the pre-emptive measures that could be of use to these customers.

In 2013 the Group developed new measures specifically for industries that were facing the brunt of a slowing economy and identified the actions the customers should take to minimize a hard landing.

- **Process & system improvement:** The Group has implemented a new debt-collection management system to better manage NPLs and deploy preventative measures as well as to improve collection practices.

2013 Highlights

- NPLs stood at 2.14%, despite the sharp slowdown of the economy in 2H13.
- Sales of NPAs totaled Baht 3 billion.

Plans for 2014

- **NPL prevention:** The Group will implement a “Preventive Workout” approach that further extends the scope and depth of services to handle loans-at-risk at an earlier stage, so as to prevent delinquency, in collaboration with the business units that originated the loans.
- **Expedite NPL reduction:** The Group will modify its organization to handle NPL customers by segment and execute resolution strategies developed to best fit each segment. Also, the Group will continue to canvass investors interested in purchasing NPL portfolios to expedite NPL reduction and strive to keep the relapse of NPLs to a minimum.
- **NPA sales:** The Group plans to shorten NPA acquisition and divestment processes, and continue to accelerate the disposal of NPAs via the Bank’s extensive branch network, brokers, NPA marketing events, and its website (BuyatSiam.com) to reach a broader range of prospective buyers.
- **Process & system improvement:** By extending the scope of the recently implemented system, the Group will further enhance its capabilities in NPL reduction through streamlining operation workflow and enable real-time productivity monitoring.

Business Operation of Key Subsidiaries**SCB Securities Co., Ltd. (SCBS)**

Established in 1995, SCB Securities Co., Ltd. (SCBS) is strategically positioned as the brokerage and equity capital market arm of SCB. The company operates a securities business and offers financial products and services to institutional and retail investors. It is a 100%-owned subsidiary of SCB.

With eight branches (SCB Park Plaza Head Office, Sindhorn, Chalermnakorn, Ratchayothin, Chidlom, Chiang Mai, Tha Phae, and Had Yai) and an online channel (www.scbsonline.com), SCBS has won the trust of investors to emerge as one of Thailand's leading securities companies.

2013 Performance

- 2013 was a very successful year for the securities business as the market’s daily trading value increased from Baht 28 billion to Baht 44 billion (56% growth), which boosted brokerage income for most brokers. With an effective strategy and good execution, SCBS outperformed the market, gaining market share of 3.51%, an increase by 0.73% from 2.78% in 2012. The company’s broker ranking also moved up to #13 from #17 in the previous year.
- Total income in 2013 stood at Baht 1.7 billion, a growth of 110% from Baht 826 million last year. In terms of profitability, SCBS has tripled its bottom line. The 2013 net profit reflected an impressive growth of 235% compared to last year, and ROE increased from 10% to 28%. Apart from the success in increasing market share in a growing market, the other performance highlight this year was the revenue diversification strategy to expand non-

brokerage businesses – so as to compensate for the margin compression in the brokerage business and enhance overall profitability.

2013 Highlights

- Won recognition again from the Securities Analyst Association of Thailand (SAA) for outstanding research analysts in four specializations: Best Analyst – IT Sector, Retail Investors; Best Analyst – Financial Sector, Retail Investors; Best Analyst – Small to Medium Size Stocks, Retail Investors; and Best Analyst – Service Sector, Retail Investors.
- Acted as a lead IPO underwriter for Energy Absolute PCL. (EA), NOK Airlines PCL. (NOK), and CK Power PCL. (CKP).
- As part of Thailand's capital market landmark deal in 2013, SCBS acted as the sole tender offer agent for CP ALL PCL. (CPALL) in acquiring Siam Makro PCL. (MAKRO)
- Introduced derivative warrants (DW) with a unique price guideline feature.
- Successfully launched the Private Portfolio Service – a discretionary portfolio investing in small- to mid-cap stocks with high growth.
- Introduced offshore and ASEAN Linkage trading service for retail and institutional clients.
- Expanded availability of the Express Trade Account service to every SCB branch countrywide. The service allows clients to open a trading account with SCBS within 30 minutes.
- Opened a new branch in Bangkok, Chidlom, to specially serve affluent clients referred from the Bank.

Plans for 2014

- Upgrade its retail sales platform to improve service quality and thoroughly respond to clients' needs.
- Further expand the retail client base through various channels, especially referrals from SCB wealth management teams.
- Offer competitive and speedy Direct Market Access (DMA) service via a breakthrough new trading platform to attract local institutional and foreign investors.
- Continue the strategy to use non-brokerage service to increase profitability. SCBS will upgrade the performance of existing products to enhance business volume.
- Focus on IT infrastructure improvement to increase productivity and efficiency to better service clients.

SCB Asset Management Co., Ltd. (SCBAM)

SCB and other investment partners established SCB Asset Management Company Limited (SCBAM) in 1992 to provide a full range of asset management services, namely, mutual funds, provident funds and private funds. SCBAM, now wholly owned by SCB, has grown rapidly since its

formation, in part as a result of its solid investment performance and in part from its distribution capability through more than 1,100 SCB branches, together with a large customer base.

2013 Performance

- SCBAM's assets under management (including country funds and funds for resolving financial institution problems) grew by 25.4% to Baht 836 billion, comprising mutual funds, provident funds and private funds. The company now has more than 782,500 unit holders.
- SCBAM had a 21.8% share of the total market in mutual funds, growing by 20.4%, with assets under management of Baht 669 billion.
- Provident funds' assets under management were Baht 84 billion, growing by 18.0% with a market share of 11.3%, compared to Baht 72 billion and 10.3% market share the previous year.
- Private funds' assets under management were Baht 82 billion, growing by 111.1% with a market share of 19.0%, compared to Baht 39 billion and 12.0% market share the preceding year.
- SCBAM operates the largest property funds (type 1) and infrastructure funds, accounting for 27.2% of the overall industry in this category, with assets under management of Baht 98 billion.

2013 Highlights

- Awarded "Best Asset Management Company in Thailand 2013" in The Asset Triple A Investment Awards 2013, by *The Asset* magazine (HK).
- Awarded the "Trusted Brands Gold Award 2013" in the investment fund company category in Thailand, by *Reader's Digest* magazine.
- Awarded the "The Fixed Income Fund Recognition Award" in Best Bond Awards 2012, for SCB Fixed Income Plus Fund (SCBFP), by the Thai Bond Market Association.
- Awarded the "Best Money Market Treasury" for SCB Treasury Money Open End Fund (SCBTMF), by *Money & Banking* magazine.
- Awarded the "Best Equity General" for SCB SET Index Open-Ended Fund (SCBSET), by *Money & Banking* magazine.
- Awarded the "Best RMF Money Market" for SCB Short Term Fixed Income RMF (SCBRM1), by *Money & Banking* magazine.
- Fitch Ratings (Thailand) converted the National Asset Manager Rating (AMR) to "Highest Standards (tha)" in recognition of SCBAM's strong domestic market position in Thailand.

Plans for 2014

Highlights of SCBAM's plans for 2014 are to:

- Develop and distribute innovative wealth management product solutions that better respond to the specific needs of each customer segment.
- Continue to develop investment capabilities so as to maintain above-average performance.

- Extend regional reach and prepare for cross-border integration under the ASEAN Economic Community (AEC).
- Leverage SCB's "Power of One" and "Customer-Centric" mind-set through product bundling to provide fully integrated financial services.
- Strengthen staff capabilities by providing skill building programs.

SCB Life Assurance PCL (SCB Life)

SCB Life Assurance Public Company Limited (SCB Life) is a leading life insurance company listed on the Stock Exchange of Thailand. It is 94.66% owned by SCB, while the remaining 5.34% is owned by public investors.

SCB Life focuses mainly on the sale of traditional non-participating life and health insurance products through multiple distribution channels, namely, SCB branches, SCB Life agency offices, and specialized sale channels such as malls, hyper-marts, tele-sales, etc.

2013 Performance

2013 was a very challenging year for the life insurance market due to a slowing economy and intensifying competitive pressures. In this environment SCB Life recorded a successful year. Net profit after tax grew by 37%, primarily from total revenue growth of 11%. Total gross premium income grew 9% as a result of strong renewal-year premium income of 17%, but first-year (including single) premium income declined by 3% compared to the previous year. SCB Life ranked 4th out of 24 life insurance companies at the end of 2013, based on total premiums, with a 10.3% market share (2012: 4th of 24 companies, and a 10.7% market share).

2013 Financial Highlights

- Net profits rose 37% to Baht 4.7 billion.
- Total gross premiums increased 9% year-on-year to Baht 45.5 billion in 2013.
- Return on equity improved to 42% in 2013 compared to 35% in 2012.

Plans for 2014

SCB Life will work closely with the Bank, its primary distribution partner, as it strives to introduce more innovative life and health insurance products that meet clients' evolving requirements. SCB Life will also strengthen its non-bank distribution channels, namely its agency and special markets team, and improve customer service. Key focus will be on the following areas:

- **Increasing the suite of product offerings:** Growing public knowledge of the benefits of insurance and of different types of insurance products has increased demand for additional and alternative products to meet the needs of various lifestyles and life stages.
- **Improving the sales of non-bank channels:** The agency sales force is traditionally the main marketing channel for most life insurance companies, and SCB Life will focus on

improving the quality and size of its sales force, its overall profitability and the geographical footprint of its agency business. In addition, the business focus for the special markets distribution channel will be sharpened to improve its profitability.

- **Improving product persistency:** SCB Life has established programs to increase policy persistency through the use of better call center technology and other customer retention methods.
- **Upgrading core life insurance system:** The company has embarked on a substantial project to improve its core insurance system which, upon completion, will allow the company to shorten its “time-to-market” for new products, improve policy administration processes and reduce overall service time.
- **Reinforcing market leadership in bancassurance channel:** SCB Life will continue to work closely with SCB to remain a leader in the bancassurance channel by developing new and innovative products that match customers’ growing sophistication, enhancing customer service capabilities and making effective use of technology.

The Siam Commercial Samaggi Insurance PCL (SCSMG)

Established in 1947, the Siam Commercial Samaggi Insurance Public Company Limited (SCSMG) is a subsidiary of the Bank and has a proven performance record of over 66 years. Today it stands among the nation's leading bancassurance providers for all classes of non-life services, i.e., fire insurance, motor insurance, accident and health insurance, marine insurance, and miscellaneous insurance products such as industrial all-risks insurance, engineering insurance, trade credit insurance, directors-and-officers insurance, and product liability insurance. The company's products and services are offered through a broadly based nationwide network comprising brokers, agents and financial institutions, and particularly through SCB branches.

2013 Performance

- **Settled almost all flood-insurance claims.** For home policyholders settled over 17,000 claims that arose from the 2011 floods.
- **Maintained strong capital:** SCSMG has a capital adequacy ratio (as of September 2013) of 542.5%, which is considered to be at a high level compared to other insurers and significantly higher than the statutory minimum ratio of 140%.
- **Achieved strong organic growth and retained position as one of the most successful non-life bancassurance providers:** SCSMG was ranked 11th out of 64 domestic non-life insurers for written premiums (according to the Office of Insurance Commission’s statistical report as of December 2013) with gross premium income of Baht 5,003 million. SCSMG has continued to expand its retail customer base through distribution of products via the Bank in order to maintain a top-five market share in the personal accident insurance segment and to grow in other personal product lines, particularly in the motor insurance business.

- **Achieved significantly higher profitability:** SCSMG recorded a 140% rise in underwriting profit to Baht 628 million. With income on investment of Baht 200 million, the Company reported a net profit of Baht 668 million, or a year-on-year increase of 125%.
- **Strengthened its solid foundation:** SCSMG continued to serve the needs of its customers and enhanced its underwriting and actuarial skills and expertise, which has contributed toward building a profitable portfolio.
- **Strengthened enterprise risk management:** SCSMG successfully implemented an enterprise risk management framework in line with SCB's consolidated supervision policies, which covers risk management policy guides for credit risk, liquidity risk, operational risk and reputational risk.

2013 Highlights

- Substantial premium and profit growth.
- Attained strong capital position.
- Strengthened foundation of core capabilities, particularly in underwriting and actuarial analysis.

Plans for 2014

- **Collaborate with the Bank to create value-added benefits** through development of customer-oriented products, while also broadening the client base in non-Bank markets.
- **Promote service excellence** especially for personal-line customers.
- **Continue to keep a growth-focused approach to bolstering the organization by further improving underwriting processes**, enhancing business intelligence capability in preparation for market liberalization, reinforcing staff skills, and implementing a sound and effective risk management system.
- **Maintain capital strength** for operational needs and implement risk-based capital allocation to efficiently monitor performance of each product line.

Note: On January 10th, 2014, the Bank entered into a conditional agreement to sell all of its 135,660,824 shares in the Siam Commercial Samaggi Insurance Public Company Limited (SCSMG), representing approximately 60.86% of the total number of SCSMG's issued shares, to ACE INA International Holdings, Limited (ACE) and its affiliates. The sale of the Bank's shares in SCSMG to ACE is expected to be completed in the second quarter of 2014 subject to certain conditions specified in the Agreement, including obtaining regulatory approvals, ACE's completion of and satisfaction with the due diligence of SCSMG, and the approvals by the Board of Directors and shareholders of the Bank.

Change Program

In 2001, SCB adopted a bold plan for transformational change, referred to within the Bank as the Change Program. This bank-wide agenda for deep-rooted and fundamental reform sought to radically improve the competitive position and profitability of SCB's banking franchise.

Under the umbrella of the Change Program, the Bank has launched and successfully completed many important change initiatives including: new business and operating models; radical business-process redesign initiatives; and implementation of major new information systems. The timely and successful completion of these change initiatives has been critically important to the Bank's growth and profitability in the past and will continue to be so in the future.

All Change Program initiatives are managed by the Change Program Steering Committee (CPSC) on a project-by-project basis. The governance processes are facilitated by the Change Program Management Office (CPMO). It coordinates all initiatives, arranges resources, provides guidance, consolidates all status reports and generates communications about the Program throughout the SCB Group.

Oversight of the Change Program governance rests with the Board of Directors, which periodically reviews the Program's overall direction, its capacity to increase the Bank's growth and performance, and the outcomes of the various change initiatives.

2013 Performance

Multiple system implementations dominated Change Program activities in 2013, as the Bank sought to future-proof many of its core systems and its scale and capabilities in multiple business areas.

- Completed multiple new system implementation initiatives including: the core stock-trading system (front-end) for the securities business; a new scoring and loss given default (LGD) model; financial market products trading system; credit card loyalty system; upcountry image-based cheque-clearing system; front-end system to provide enhanced automation for fund managers; and a new integrated platform for the call center service fulfillment activities. All these new systems are designed to provide better products/services, and/or new or improved business processes.
- Completed significant upgrades to the Bank's ATM system and core lending system (wholesale/SME) to enhance product capabilities and improve system performance.
- Launched the UP2ME product, targeting the young, internet-savvy segment.
- Defined a new strategic road-map for the SME segment to nurture a step change in the Business Banking Group's future performance.

2013 Highlights

- 2013 marked the 12th anniversary of SCB's transformational Change Program, which is rightly lauded as one of the most effective transformations of its kind in the region.

- Enhanced capabilities as a catalyst for improving the Bank's business operations and market position in preparation for changes to the economic landscape in the months and years ahead.

Plan for 2014

As with 2013, IT and related initiatives will dominate the Change Program agenda as the Bank seeks to achieve a substantial uplift in its product, service and operations capabilities.

- Undertake multi-pronged, multi-year initiative to develop wealth management franchise for retail/SME customers.
- Complete major new system initiatives to enhance product and service capabilities, and/or scalability and performance of the underlying platform, including: centralized governance, risk and compliance repository; debt collection management; a new core insurance policy administration system; anti-money laundering filter system; an intelligent payment system; a new retail loan origination platform; and a new, top-level internet domain gateway.
- Extend the existing systems to provide securities services to retail customers, online point earning for credit cards, and an upgraded core deposit platform for the Bank.

2.2 Marketing and Competition

Industry and Competition Review

Despite a slowing economy and the political conflict toward the end of the year, 2013 was an excellent year in terms of financial performance for Thailand's banking industry. The industry recorded robust growth in terms of assets, loans, deposits, operating profits and net profits. By year-end, the number of Thai banks stood at 16, comprised of 14 commercial banks, one retail bank and one foreign subsidiary. In 2013, one foreign bank, namely the Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU), bought GE Capital's stake in Bank of Ayudhya (BAY) and later completed a tender offer that gave it a total holding in BAY of 72%.

Comparison of SCB's Performance with Thai Commercial Banking Sector*
as at December 31, 2013

Unit: Baht billion

(Consolidated)	Thai Commercial Banking Sector*		Change % yoy	SCB 2013	SCB market share %
	2013	2012**			
Assets	13,972	12,690	10.1	2,534	18.1
Gross loans	9,628	8,689	10.8	1,735	18.0
Deposits	9,853	8,976	9.8	1,823	18.5
Shareholders' equity	1,295	1,154	12.2	246	19.0
Net interest income	385	341	12.9	73	19.0
Non-interest income	241	191	26.0	51	21.0
Non-interest expenses	269	248	8.4	47	17.6
Operating profits	357	284	25.6	76	21.4
Loan loss provision	92	68	34.3	14	14.8
Corporate income tax	52	49	4.9	12	22.9
Net profit (attributable to shareholders of the Bank)	201	160	25.7	50	24.9

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

** Restated following the adoption of deferred tax accounting in 2013.

In 2013, the Thai commercial banking sector's aggregate net profit increased significantly by 25.7% to Baht 201.4 billion, from Baht 160.2 billion in 2012. All Thai banks, except one medium-size bank, reported higher net profits due to the combined effects of robust growth in net interest income (12.9% yoy), and significant growth in non-interest income (26.0% yoy). In 2013, many banks set aside additional provisions as a counter-cyclical buffer.

Net interest income (NII) remained the main source of the sector's income, but the proportion of NII to total income decreased to 61% in 2013, from 64% in 2012. In absolute terms, NII increased by 12.9% to Baht 384.5 billion in 2013, from Baht 340.6 billion in 2012, driven mainly by loan growth (10.8% yoy). In 2013, the sector's net interest margins (NIM) declined slightly, by 2bps, to 3.03% in 2013, as a result of lower yield from interbank and investment following the policy rate cuts in May and November 2013.

Non-interest income increased significantly by 26.0% to Baht 241.0 billion in 2013, from Baht 191.3 billion in 2012, mainly due to: (1) robust growth in net fee income; and (2) higher gain on investments, partly due to the gain on the redemption of the Vayupak Fund. Non-interest income contribution increased to 39% in 2013, from 36% of total income in 2012.

Non-interest expenses increased by 8.4% to Baht 268.7 billion in 2013, from Baht 247.8 billion in 2012, mainly due to higher personnel related expenses. The relatively moderate growth in OPEX was due to the reversal of TAMC provisions by a few banks (booked under other expenses). As a result, the cost-to-income ratio improved to 43.0% in 2013, from 46.6% in 2012.

As at December 31, 2013, the aggregate assets of the Thai commercial banking sector stood at Baht 13,972 billion, the equivalent of 117.4% of Thailand's 2013 GDP. Total assets, a key growth index for banking institutions, grew by Baht 1,282 billion, a 10.1% year-on-year increase, in line with loan growth of 10.8%.

Gross loans rose by 10.8% to Baht 9,628 billion. The growth in loans classified by business type for commercial banks registered in Thailand, including foreign bank branches, was as follows: Personal/consumer loans (26.3% of total loans), grew by 11.5% yoy, mainly from home loans (+12.6% yoy) on the back of continuing demand in the residential homes market and hire-purchase loans (+8.4% yoy) from the government's tax incentive scheme for first-time car buyers. (Although the scheme ended at the end of 2012, deliveries of cars sold under the scheme were not fully completed until the end of June 2013.) On the commercial side, manufacturing/production loans, which accounted for 17.6% of total loans, increased by 8.4%, while loans for wholesale and retail businesses increased by 17.4%. In 2013, the central bank cut its policy rate by 50 bps to 2.25%, from 2.75% at the end of 2012. The sector's minimum lending rates (MLRs) dropped to 6.75%-8.72% at the end of 2013, from 7.00%-8.72% the year before.

Deposits in the Thai commercial banking sector rose by 9.8% to Baht 9,853 billion. In 2013, competition for deposits was relatively strong in the first half and then moderated in the second half, as economic growth moderated. Three-month fixed deposit rates fell from 1.60%-3.15% at the beginning of 2013 to 1.50%-3.00% at year-end. The gross loan-to-deposit ratio of the Thai commercial banking sector increased to 97.7% at the end of 2013, from 96.8% at end of 2012, as loans grew at a higher pace than deposits. Also, the combined loan-to-deposit and B/E ratio of the Thai commercial banking sector increased to 96.5% at the end of 2013, from 94.6% at the end of 2012.

As at December 31, 2013, the Thai commercial banking sector's gross NPLs on a consolidated basis stood at Baht 277.0 billion, up from Baht 262.9 billion in 2012. In percentage terms, the NPL ratio decreased to 2.6%, from 2.7% in 2012. The increase in absolute NPLs was partly from consumer loans, especially in the auto loans segment. However, the NPL coverage ratio of the banking sector improved to 137% in 2013, from 127% in 2012, mainly due to higher provisioning.

All Thai banks adopted Basel III from January 1, 2013. As at December 31, 2013, the Thai commercial banking sector's total capital adequacy and Tier 1 ratios on a bank-only basis stood at 15.3% and 10.9%, respectively, higher than the current minimum regulatory capital requirement under Basel III of not less than 8.5% for total capital ratio.

Overall, the strong improvements in the Thai banking sector in 2013 were driven by (1) strong income growth in both NII and non-NII; (2) strong capital positions; and (3) stable asset quality with an improvement in the coverage ratio.

Thai banks are likely to continue to strengthen their capital adequacy in order to meet future regulatory changes, which will arise from implementation of international accounting standards (IFRS and IAS) and additional components of the Basel III framework, and to prepare for the launch of the ASEAN Economic Community (AEC) at the end of 2015.

In 2014 and beyond, Thai banks will strengthen their income-generating capabilities but with increasing emphasis on cost-control measures. Banks will be affected by the slowing economy as well as the domestic political uncertainty. Standing at the forefront of the Thai banking sector, SCB is well prepared to face the economic challenges that lie ahead and is also well positioned for opportunities that may arise as and when the economy recovers.

2.3 Product and Service Offering

Sources and Uses of Funds

As at December 31, 2013, deposits accounted for 71.9% of SCB's funding base. Including bills of exchange (or B/E) which are akin to uninsured deposits, deposits and B/Es accounted for 72.1% of the funding base. Other major sources of funds were: 9.7% from shareholders' equity; 5.1% from liabilities under insurance contracts recorded by the Bank's insurance subsidiaries (SCB Life Assurance PCL and Siam Commercial Samaggi Insurance PCL); 4.7% from interbank borrowings; and 3.7% from the issuance of debt instruments (excluding B/E). The funds were applied as follows on December 31, 2013: 68.5% was used for loans; 19.9% was applied to net investments in securities; 6.8% was lent in the interbank and money markets; and 1.4% was held in cash.

Debt issued and borrowings

As at 31 December 2013 and 2012, debt issued and borrowings were as follows:

(in million Baht)								
(Consolidated)	Interest rate (%)	Year of maturity	2013			2012		
			Domestic	Foreign	Total	Domestic	Foreign	Total
Bonds								
- US Dollar	3.38-3.90	2016-2017	-	49,513	49,513	-	46,289	46,289
Subordinated bonds								
- Baht	4.50-6.25	2018-2024	40,000	-	40,000	60,000	-	60,000
Structured notes								
- Baht	Variable *	2013-2014	46	-	46	239	-	239
Bill of Exchanges								
- Baht	3.00 -4.83	2013-2014	5,222	-	5,222	25,765	-	25,765
Others			231	-	231	284	-	284
Total			45,499	49,513	95,012	86,288	46,289	132,577

* Variable rates linked to reference interest rate and average price of marketable equity securities

Funding Policy

The Bank has a policy of maintaining balanced growth between the sources and uses of funds by taking into account costs, income, and maturity of both the sources and uses of funds. The aim is to be in line with market circumstances without relying solely on any one specific source of funds. Deposits are the Bank's main funding source and the Bank has adopted a policy to maintain a solid deposit base under all market situations.

Liquidity and Liquidity Management Policy

To manage liquidity risk, SCB maintains adequate liquidity at all times, to ensure that the Bank is in a position to meet all its obligations, to repay depositors and to fulfill commitments to lend without having to liquidate assets or raise funds at unfavorable terms. Moreover, the Bank also monitors and performs in-depth liquidity gap analysis for both normal and stress scenarios to ensure that the assets and liabilities structure is positioned well within the acceptable risk tolerance level.

The Bank has a policy to maintain its daily liquidity ratio at 20% or higher, measured as total liquid assets to total deposits and bills of exchange. At the end of December 2013, the Bank had liquid assets at 24.19% of total deposits and bills of exchange, thus assuring the Bank of ample liquidity under both normal situations and crisis scenarios.

Lending Activities

SCB has clearly defined credit policies, strategies, and lending targets, with emphasis on both credit quality and market opportunities. This credit planning approach is a result of coordinated efforts between the Head Office, business relationship centers, and branches, with regular reviews of plans and targets. The Bank's lending policy takes into account the regulatory requirements of the supervisory authority, overall economic growth, and trends within specific business segments.

The SCB lending policy is directed under a Credit Policy Guide (CPG), which sets the overall lending policy framework. A set of underwriting standards guides the Bank's business strategies for existing and new clients, by clearly identifying target groups, strategies for each target group, business goals, minimum standards for credit underwriting, and other related services. In addition, the SCB Credit Manual comprises guidelines and detailed credit procedures in line with the Credit Policy Guide.

For credit underwriting, the Bank emphasizes checks and balances in the structure of its lending organizations. Business origination units and credit approval units are clearly separated.

The business origination units are responsible for fostering sound relationships with clients for business expansion and seeking new clients and markets. Organization of the business origination units is based on the nature of different business types so as to respond to different client needs. The Wholesale Banking Group is responsible for corporate and commercial lending, whereas the Business Banking Group caters specifically to small and medium-size enterprise (SME) lending.

For retail lending, the Retail Banking Group is responsible for personal lending and small SME lending in accordance with a product program established by the Retail Credit Risk Management Unit.

Credit approval units under the Credit Risk Management Division are responsible for providing independent comments and recommendations in line with the Credit Policy Guide to support authorized approvers' considerations in credit approval.

In addition, credit approval authority is assigned to reflect different risk profiles, and a three-signature rule is adopted for credit approval.

Lending Policy

The Bank diversifies its lending to cover different business segments, including individuals, SMEs and large corporations. In extending loans, the Bank focuses on potential and high-growth business segments, among both existing and new clients, and strongly emphasizes the importance of clients' cash flow and repayment ability. The Bank further emphasizes analysis of quality of collateral, in terms of both valuation and liquidity.

Credit Process and Approval

The Bank considers its credit process to have appropriate risk diversification, which yields reasonable returns. Regardless of credit approval authority, staff members involved in the credit process are expected to avoid any conflict of interest and to comply with the Bank's credit-related regulations.

As for loan approval, SCB has designated credit approval authority to individual employees and committees. Individual employees with credit approval authority are the (1) chairman of the Executive Committee, (2) president, (3) chief risk officer, (4) head of credit risk management, (5) senior credit officers, and (6) credit officers. The credit approval authority under (5) and (6) is specifically designated to a particular person. A staff member may or may not be granted credit approval authority, and different staff members in the same position may have different limits of credit approval authority. Each delegation depends on the individual's experience and expertise, which is subject to the president's consideration 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 a credit line according to the regulations on credit approval authority. Any credit line for SCB-related parties, SCB major shareholders or their related parties is subject to approval of the Board of Directors.
2. The Executive Committee has authority to consider, review, and approve a credit line according to the regulations on credit approval authority, and to propose comments on credit applications for further consideration by the Board of Directors, when a case requires the Board's approval.
3. The Credit Committee, Retail Credit Committee, and Special Assets Committee have authority to consider, review and approve a credit line according to the regulations on credit approval authority, and to propose comments on credit applications that are beyond its approval authority for further consideration by the Executive Committee. The Credit Committee also considers underwriting risk for firm underwrite transactions.

Credit Quality Control and Review

After a credit line has been approved for a client, the Bank regularly monitors account movements and undertakes a periodic client review to analyze, review and monitor risk exposure, and define appropriate business strategy and action plans. The Bank conducts client reviews at least annually for corporate clients with credit lines of Baht 20 million and above, and semi-annually for clients with

credit lines of Baht 1 billion and above and borrower risk rating (BRR) of C10/M11 or lower. In addition, an extra client review is required when there is any event materially affecting the client's financial position.

Regarding business banking clients, a periodic client review is required for each client with a credit line of Baht 50 million or above. In addition, a portfolio review (PD Pool) is required for clients having credit lines between Baht 5 and 50 million to develop better credit underwriting practices.

For retail banking clients, a periodic client review is required at least four times using analysis of historical payment behavior in order to evaluate the ability to pay and refine appropriate strategic actions on each client segment.

As for initial collection efforts, Business Relationship Management Units are responsible for business banking accounts. In case of a non-performing loan (NPL), the collection will typically be transferred to the Special Assets Group within one month for further action by work-out specialists.

In case of retail banking accounts, SCB Plus undertakes debt collection in the initial state for all products. Unsecured products are handled by SCB Plus throughout the process, but auto loans that cannot be collected within 60 days are transferred to Siam Commercial Leasing PCL. for collection. Non-performing loans involving secured products are handled by the Special Business Group.

Maintenance of Capital Fund

Following the global financial crisis of 2008, the Basel Committee on Banking Supervision announced a new set of regulatory guidelines for strengthening the resilience of the banking sector, better known as Basel III, in December 2010. The new guidelines aimed to strengthen the capital position as well as to set a new standard of liquidity risk management framework for banks worldwide. The Bank of Thailand has indicated its willingness to adopt this framework with minor local adjustments in order to ensure that Thai commercial banks meet the stringent international standards.

In line with the Basel III timeline, all Thai commercial banks, since 1 January 2013, are required to maintain a total capital adequacy ratio of not less than 8.5%; of which no less than 4.5% must be in common equity Tier 1 (CET 1) capital and no less than 6% in total Tier 1 capital. In addition, the BOT plans to adopt a new capital conservation buffer of up to 2.5% of CET 1, which will be phased in at 0.625% p.a. starting from 1 January 2016 to 1 January 2019. Banks that cannot meet this minimum requirement may be subject to earnings-distribution restrictions, i.e., on dividend payouts, discretionary bonus payments, share buybacks, etc.

From 1 January 2013, SCB adopted the Basel III guidelines for the bank-only basis and early adopted Basel III guidelines for the consolidated basis earlier one year. The Bank continues to apply the standardized approach as a guideline for maintaining regulatory capital adequacy for credit risk, market risk in the trading book, and operational risk. The Bank also continues to manage, monitor and report its capital adequacy position through the internal capital adequacy assessment process (ICAAP), which also includes conducting capital forecasts and stress testing. The Bank defines its proposed 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 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 exposures and risk assessment and management or 'Pillar III disclosure' in the Bank's website on a semi-annual basis.

At 31 December, 2013, under the Basel III framework, the Bank has total capital of Baht 262 billion, of which Baht 203 billion is classified as CET1/Tier 1 capital (11.8% of risk-weighted assets) and Baht 59 billion (3.4% of risk-weighted assets) is classified as Tier 2 capital. For SCB Financial Group, the total capital stood at Baht 268 billion, of which Baht 209 billion is classified as CET1/ Tier 1 capital (12.0% of risk-weighted assets) and Baht 59 billion (3.4% of risk-weighted assets) is classified as Tier 2 capital.

Furthermore, if the Bank's 2H13 net profit are incorporated in determining capital adequacy, CET1/ Tier 1 capital would stand at 13.1% on a Bank-only basis and 13.3% on a consolidated basis.

Hence, the Bank is confident its current level of capital is more than adequate to support its planned business growth and new regulatory buffers and to respond to potential impact from economic uncertainties.

Legal Capital Funds (Consolidated Supervision)

	(in million Baht)	
Basel III Consolidated Supervision	2013	2012
Tier 1 capital	208,719	180,142
Tier 2 capital	59,135	69,568
Total capital funds	267,854	249,710
Total Tier 1 capital / Total risk weighted assets (minimum 6.00%)	12.00%	11.70%
Total Tier 2 capital / Total risk weighted assets	3.40%	4.50%
Total capital / Total risk weighted assets (minimum 8.50%)	15.40%	16.20%
Total risk weighted assets	1,738,165	1,545,588

3. Risk Factors

Risk Management and Risk Factors

Risk Management

Prudence and circumspection are cornerstones of SCB's mandate to sustain and build further upon its many recent years of increasing success. As the Bank's presence grows in terms of assets, customers and staff, its performance will continue to improve as long as it takes into account the

greater complexity and size of its operations as well as rising expectations on the part of all stakeholders. Vigilant risk management is, therefore, among SCB's foremost responsibilities and top priorities.

The Bank's risk management framework is robust, supervised by a governance structure that is both transparent and sturdy. By continually strengthening the format and performance of its risk management systems, SCB will stay in control of current and emerging conditions, whether favorable or otherwise.

Risk Management System

SCB's risk management system has four major parts:

1. Risk identification

The risk management system identifies seven types of risk in the Bank's overall operations including transactions and activities with customers and counterparties. These types are strategic risk, credit risk, market risk, liquidity risk, operational risk, interest rate risk in the banking book, and reputation risk. These seven risk factors are discussed in detail below under the heading titled "Key Risk Factors for Banking Operations."

2. Risk measurement

To measure each risk, the Bank applies a variety of quantitative and qualitative methods based on internal ratings-based approaches and/or other appropriate internal models:

- **For credit risk**, the measures include risk rating to gauge the probability of default, credit scoring such as application scores, and behavioral scores to assess the risk profiles of retail clients. For derivative products, the Bank relies upon potential future exposure (PFE) methodology to measure credit risk exposure.
- **For market risk**, the 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 measures the risk of interest rate fluctuations by measuring the impact to net interest income and economic value of equity (EVE) under assumptions of interest rate fluctuation in normal and stress situations.
- **For liquidity risk**, the measures vary from balance sheet structure, cashflow of its assets and liabilities and also off balance sheet items. The liquidity risk measurement framework includes liquidity ratio, maximum cumulative outflow (MCO) and also the recently introduced liquidity coverage ratio (LCR).
- **For operational risk** measurement, the Bank uses risk and control self-assessments as well as loss incident data to determine risk and the effectiveness of the control environment underlying its operations, within each business unit. Moreover, as part of its risk mitigation

process, the Bank has established a business continuity plan (BCP) to ensure continuity of key activities during a crisis event. The Bank's operational risk management approach calls for reviewing the risk profiles of all new products and material changes to existing products. It also mandates oversight of insurance management to reduce the impact of potential operational risk events.

- **For strategic risk and reputational risk**, the Bank forms assessments relying primarily upon qualitatively set risk factors and indicators.

To obtain risk management that is more forward-looking, the Bank utilizes an increasing number of stress-testing approaches, in particular for market risk, credit risk and liquidity risk.

3. Risk monitoring and control

The Bank 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 a variety of internal control mechanisms in place to manage, contain or eliminate risks in accordance with the Bank's policies and procedures.

4. Risk reporting

Risks are reported to relevant business units and executive management so that they can be managed appropriately and promptly. The Bank has developed risk reporting to cover risk at different levels: product, business-unit and bank-wide.

Governance Structure

The risk management system is complemented by a risk management governance structure with 10 parts:

1. Policies

The Board of Directors has the responsibility to develop and authorize the Bank's major risk management policies. The nine key policies are the Credit Policy Guide; Market Risk Policy; Trading Book Policy; Interest Rate Risk in Banking Book Policy; Operational Risk Policy; Business Continuity Management Policy; Strategic Risk Management Guideline; Reputation Risk Management Policy and Approval Process Guideline; and Liquidity Risk Policy.

Beyond these, the Board of Directors authorizes two other key related policies: the Risk Management Policy for the SCB Financial Group; and the Intra-Group Transaction Policy of SCB Financial Group.

2. Authority

The Board of Directors has the authority and responsibility for approving the delegation of 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). Under the

approval authority framework, SCB has designated credit approval authority to individual employees based upon their specific knowledge and experience, which is subject to the president's consideration.

3. Committees with significant roles in risk management

3.1 The Board of Directors has assigned three committees to deal with risk management matters as follows:

3.1.1 **The Executive Committee** is responsible for, among other matters, reviewing risk management policies and recommending them to the Board of Directors. In addition, the Executive Committee is authorized to approve loans and investments, and to administer related functions as determined by the Board of Directors.

3.1.2 **The Audit Committee** is comprised of independent members of the Board who are responsible for reviewing the adequacy of the Bank's risk management processes and policies and the effectiveness of implementation of the Bank's and SCB Financial Group's risk management systems.

3.1.3 **The Risk Management Committee** is responsible for reviewing risk management policies and recommending them to the Executive Committee and the Board of Directors; determining risk management strategies consistent with guidance by the Board of Directors; and managing overall risks of the Bank.

3.2 The Bank has several other committees to manage specific areas of risk:

3.2.1 **The Assets and Liabilities Management Committee** is responsible for managing market price risk, interest rate risk and liquidity risk.

3.2.2 **The Equity Investment Management Committee** is responsible for managing risk arising from the Bank's equity investment portfolio.

3.2.3 **The Credit Committee, Retail Credit Committee, and Special Assets Committee** are authorized to approve lending according to the level of approval authority that is specified for each committee. The Executive Committee has authority to approve loan amounts that are higher than amounts within the approval authority of these three committees. However, if a loan is granted to a Bank-related business, a major shareholder, or a party related to a member of the Board of Directors, the credit approval authority rests with the Board of Directors.

3.2.4 **The Underwriting Risk Committee** is responsible for considering, reviewing and approving the limit for security underwriting from a market risk perspective, while also making recommendations for consideration by the Executive Committee or the Board of Directors in cases where an underwriting risk limit is beyond its approval authority or for any high-risk transaction.

4. Credit risk governance

The Bank has long emphasized the establishment of a sound system of checks and balances in its credit organization. The credit origination functions and the credit approval functions are clearly segregated. The 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 the approval of retail credit lending facilities, the Bank manages and controls the assessment of retail credit lending under the governance of underwriting criteria, which are approved by the Executive Committee or Retail Credit Committee. Additionally, the Bank assesses and measures retail credit portfolio risks through portfolio segmentation analysis in both product and customer segments.

5. Market risk governance

The Bank has determined market risk tolerance limits for its trading portfolios. Limits for each book are approved by the Executive Committee and the Board of Directors. The main market risks taken by the Bank are interest rate risk and foreign exchange risk. The Committee uses a number of risk monitoring and assessment tools to set limits on the trading risk exposures, including statistical measures, 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 trigger (MAT).

6. Interest rate risk in banking book (IRRBB) governance

The Bank sets risk thresholds for IRRBB by measuring impact to net interest income and economic value of equity (EVE) from the interest rate fluctuations under normal and stress situations. To monitor the IRRBB, the Bank produces a repricing gap report to analyze and estimate the risk. The analysis, risk estimates and risk management strategies are then reported to the Assets and Liabilities Management Committee (ALCO).

7. Liquidity risk governance

The Bank maintains adequate sources of liquidity in order to have sufficient cash flow to cover its activities under both normal and stressed conditions by using cashflow forecasts and liquidity gap projections. These cashflow and liquidity gap forecasts are then used to monitor and control the Bank's overall liquidity risks. The Bank's policy is to maintain a high liquidity ratio (liquid assets, as a percentage of total deposits including B/Es), and to monitor its monthly net cash outflow each month in order to ensure that it will be able to meet its liquidity needs on a timely basis.

8. Operational risk governance

The Bank has adopted three lines of defense as the first principle of the risk management framework in managing uncertainty and preventing risks. The first line of defense is the business frontline, which is responsible for ensuring that the risk control environment is properly established as part of day-to-day operations. The second line of defense is the oversight functions (e.g., operational risk management and compliance), which ensure oversight on business process and risk. The Bank's third line of defense is independent assurance providers (e.g., internal audit and other independent assurance providers) who provide independent review and objective assurance on the effectiveness of control.

Additionally, the operational risk management function delivers an operational risk agenda at business-level committees and submits risk management information systems dashboards and key risk indicators to management across key functions on a regular basis.

9. Risk management for 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 that is compatible with the Bank and consistent with the consolidated supervision policy of the Bank of Thailand. The Board of Directors has approved an overall Risk Management Policy for the SCB Financial Group mandating that, where appropriate, each of the Bank's subsidiaries shall: formulate a risk management policy; implement an appropriate organizational structure; set risk tolerance limits; establish risk management methods; and prepare risk reports according to the risk management guidelines of the Bank. Each subsidiary is required to implement this policy framework, the level and complexity of which depends on the nature of its business.

Furthermore, the Bank requires prompt reporting and prior agreement for transactions involving a Solo Consolidation Group-related party (major shareholders and others with a beneficial interest), including loans, investments, and contingent liabilities made available to customers under a single lending limit. For related party transactions within the SCB Financial Group, the Bank applies good governance principles. These transactions shall not have special conditions different from those of ordinary business transactions. Any company that is wholly owned by the Bank may operate in the same way as the Bank's business units, and it can use the Bank's shared services/resources or provide services to the Bank at commercially reasonable terms and conditions that are acceptable to both sides.

10. Risk Management Group

The Risk Management Group reports to the president and is responsible for determining the framework for risk management and recommending risk management policies, as well as monitoring and reporting on major types of risk. The Risk Management Group has the responsibility to upgrade the risk management policies and practices within the Bank to be at par with international standards, and to ensure that the Bank and its subsidiaries have a comprehensive and cohesive risk management framework.

Key Risk Factors for Banking Operations

1. Risks pertaining to economic uncertainties

The Thai economy recorded significantly lower growth in 2013. Domestic demand was lackluster due to weak household consumption, sapped by the end of the first-car tax rebate scheme, and delays in government spending on flood prevention projects and transport infrastructure. The sluggish pickup in global demand stalled Thai exports to the first contraction in four years, notwithstanding exchange rate volatility brought about by disruptive capital flows.

The Bank forecasts that the Thai economy will expand by 2.4% in 2014 on the back of improving exports and household consumption. Shipments are set to accelerate as the world economy is on course to recovery, while consumer spending will regain its momentum in the latter half of the year as the first-car scheme's demand-shifting effect subsides and households are left with more disposable income due to a reduction in personal income taxes.

A factor that contributes uncertainty to the domestic economic outlook is the unresolved status of disbursements of public budget and proposed extra-budgetary projects. Household debt, which has risen above 80% of Thailand's output, poses a long-term risk to consumption. External risk chiefly involves the prospect that the U.S. Federal Reserve will slow its asset purchases, which has prompted volatile capital movements and rising U.S. government bond yields that will continue to drive fluctuation in the Thai currency's exchange rate and higher borrowing costs in Thailand's bond market.

To manage the risk arising from economic fluctuation, the Bank regularly reviews its credit quality to ensure sufficient loan loss provisions, and regularly monitors its portfolio for potential credit concentration that can jeopardize the Bank's solvency in the event of severe economic deterioration. Following regulatory guidelines, the Bank has also established an internal capital adequacy assessment process or ICAAP to help the Bank ensure capital adequacy by assessing the types and levels of risks facing the Bank. Stress testing is one of the key capital assessment techniques that the Bank employs under ICAAP to ensure that the Bank can cope with economic downturns and will have adequate capital to absorb unexpected losses.

2. Concentration risk

Concentration risk relates to any single exposure or group of exposures in an entity or sector having potential to produce large losses for the Bank in the event of problems in that entity or sector.

The Bank manages credit concentration risk by determining proper ratios for potential losses in each customer group for control and monitoring as follows:

- Lending, investment, contingent liabilities or lending-like transactions to any major borrower or project must not exceed 25% of capital of full Consolidation companies.
- Lending, investment, contingent liabilities or lending-like transactions to all major borrowers with total debts exceeding 10% of the Bank's total capital must not exceed three times the Bank's total capital.

Additionally, lending must not be concentrated in a particular industry, which is determined from industry trends, the 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.

3. Counterparty credit risk

Counterparty credit risk is the risk associated with default by counterparties related primarily to derivatives contracts. The Bank's domestic counterparties are customers that need to square their

positions and minimize their risk exposure, and that have entered into derivative contracts with the Bank, such as interest-rate swaps, currency swaps, equity instruments and forward rate agreements. To maintain the Bank's market risk exposure within the designated limits, the Bank may hedge its risk exposure in part or whole (back-to-back) by entering into off-setting agreements with foreign banks active in the OTC derivatives markets. This creates counterparty credit risk exposure to these banks.

The Bank specifies a policy line credit limit for each counterparty, which is submitted for approval in the same manner as those of credit customers. In order to set the maximum acceptable policy limit for each counterparty, the Bank takes into consideration counterparty credit ratings and Tier 1 capital, while also establishing sovereign risk limits for each country. In monitoring the risk, the Bank closely monitors the credit status of counterparties in terms of aggregate exposure, credit default swap (CDS) spread, change of credit rating, and the changes in market capitalization of its counterparties. This information is reported to senior management on a daily basis for use in making decisions or for making any adjustments, in order to maintain the Bank's risk within acceptable levels, both in normal situations and during times of elevated risk.

To mitigate the credit exposure to its main foreign bank counterparties, the Bank has entered into ISDA credit support annexes (CSA) with a majority of these counterparties. These require placement of collateral in the form of cash or highly liquid securities in the event that the fair market value of any contract deviates beyond an agreed threshold.

4. Country risk

The Bank monitors its exposure to both direct and indirect country risks arising from its business operations in order to identify in a timely fashion any potential large losses that may arise due to adverse conditions occurring in other jurisdictions or hostile actions by sovereign entities. The Bank manages country risk by determining a limit policy and country limit for each country, based on a sovereign scorecard and external credit ratings.

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

NPLs arise when a debtor fails to repay debts according to an agreed schedule. The Bank stands to lose not only interest income, but sometimes also the principal balance, whether wholly or in part, and as a result this risk could affect the Bank's profitability and capital adequacy.

At the end of 2013, Bank-only NPLs stood at Baht 38,233 million, up in absolute terms from Baht 33,590 million in 2012, and also up in terms of percent of total credit, to 2.1% in 2013 from 2.0% in 2012. These NPLs can be classified into four categories: restructured debts (38.2%), debts pending completion of restructuring negotiations (32.7%), debts pending the outcome of legal proceedings (14.2%), and debts pending legal execution (14.8%).

The Bank manages its NPL risk by setting aside adequate loan loss provisions for expected losses. At the end of 2013, the Bank had total loan loss provisions of Baht 58,978 million, covering 154.3% of NPLs.

6. Off-balance-sheet risk

In adherence to generally accepted accounting standards, some of the Bank's obligations with customers and counterparties are classified as off-balance-sheet items together with the underlying credit risk and market price risk that would arise in the event of contractual failures caused by customers, counterparties or the Bank.

At the end of 2013, the Bank's obligations arising from aval and guarantees, liability under unmatured import bills, and letters of credit amounted to Baht 38,844 million (a 34.0% increase from the year before).

In managing off-balance sheet exposure, the Bank treats such obligations as a form of credit risk, and business units are required to follow the normal credit approval process in addition to assessing the cumulative exposure against the risk tolerance limit set for each customer, counterparty and country. Furthermore, the Bank assesses the fair value of derivatives by using the mark-to-market method.

Also, the Bank hedges its derivatives risk exposure to market price volatility by setting limits using a variety of risk indicators such as VaR, risk sensitivities including option greeks, loss action triggers, and stress testing.

7. Risk from impairment in value of real property collateral

As most collateral placed with the Bank is in the form of real estate, the Bank's collateral would be negatively affected by a sluggish property market in which property prices fall. As a result, the Bank could suffer higher losses from its NPLs. The Bank has therefore developed a 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 value, especially for loan loss provision, capital calculation and debt restructuring.

The Bank has managed impairment risk by establishing this Collateral and Non-Performing Assets Appraisal Policy. Collateral is reassessed every five years for credit lines higher than Baht 20 million. For non-performing loans (NPLs), the collateral value is reassessed every three years; however, if collateral value affects the decision-making process such as restructuring a loan, the collateral price must reflect fair market value and be reassessed within one year. For non-performing assets, collateral is re-appraised every year. Regarding choice of appraiser, the Bank is allowed by the BOT to use its internal appraiser for loans of any size.

8. Foreign exchange risk

Fluctuation in exchange rates affects the value of the Bank's foreign currency denominated assets and liabilities. The Bank's transactions exposed to foreign exchange risk include proprietary trading transactions and customer transactions for money transfers as well as payments related to international trade and foreign investment. These transactions may result in a change of the Bank's foreign currency position to a net creditor or a net debtor at any point in time. If the Thai baht

appreciates against other currencies at a time when the Bank is a net creditor, the Bank would suffer a foreign exchange loss, whereas depreciation of the Thai baht would enable the Bank to reap the benefit of foreign exchange gains. On the other hand, if the Bank is in a net-debtor position, the appreciation of the Thai baht means a foreign exchange gain for the Bank; and conversely, the depreciation of Thai baht means foreign exchange losses.

It is the Bank's practice to hedge against foreign exchange risk by setting risk limits on foreign exchange risk exposure. These limits are determined by the use of statistical methods such as VaR, as well as monetary limits, such as net open position, open position by currency, management action triggers, etc.

As of December 31, 2013, the Bank's foreign currency position was as a net debtor of USD 261 million (USD equivalent), and VaR was Baht 34 million.

9. Interest rate risk

The fluctuation of interest rates affects the Bank's interest income and expenses. Interest rate risks can be classified into four categories:

- **Repricing risk** is the risk that arises from timing differences or mismatches in maturity, and interest rate changes relating to the Bank's assets and liabilities, caused primarily by shifts in major interest rates. For example, if the Bank's assets can be repriced faster than liabilities (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 (negative gap), then interest margins narrow when interest rates rise.
- **Yield curve risk** is the risk that changes in market interest rates may have different effects on yields or prices on similar instruments with different maturities.
- **Basis risk** occurs when the Bank's assets and liabilities are based on different benchmark interest rates, e.g., fixed-deposit rates, interbank lending rates, THBFIX interest rates, etc. Therefore, any change in benchmark interest 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. The exercise of options might affect the Bank's revenues and costs. For example, the option on three-month or six-month deposits that allows a depositor to withdraw funds before the due date will, if exercised early, cause the Bank to bear sooner-than-expected costs.

In managing 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 31, 2013, VaR of interest rate risk exposure in the trading book was Baht 56 million. For the banking book, a 1% increase of interest rates for a period of one year would increase net interest income by Baht 439 million, and will decrease economic value by Baht 3,263 million.

10. Liquidity risk

Liquidity risk is a critical risk area, which arises from a mismatch of maturity of the Bank's assets and liabilities. A commercial bank typically raises a substantial portion of its funds from short-term instruments, e.g., short-term fixed deposits and demand deposits such as savings accounts and current accounts. Yet a bank uses funding from these sources to extend loans that generally have longer tenure than the deposits.

To manage liquidity risk, SCB maintains adequate liquidity at all times, to ensure that the Bank is in a position to meet all its obligations, to repay depositors and to fulfill commitments to lend without having to liquidate assets or raise funds at unfavorable terms. Moreover, the Bank also monitors and performs in-depth liquidity gap analysis for both normal and stress scenarios to ensure that the assets and liabilities structure is positioned well within the acceptable risk tolerance level.

The Bank has a policy to maintain its daily liquidity ratio at 20% or higher, measured as total liquid assets to total deposits and bills of exchange. At the end of December 2013, the Bank had liquid assets at 24.19% of total deposits and bills of exchange, thus assuring the Bank of ample liquidity under both normal situations and crisis scenarios.

11. Strategic risk

Strategic risk refers to the risk of a current and/or prospective impact on the Bank's earnings, capital, and survival arising from such factors as changes in the environment the Bank operates in, adverse strategic decisions, improper implementation, or lack of responsiveness to industry, economic and technological changes.

The Board of Directors has adopted strategic risk management guidelines as a framework to provide a formalized and structured approach in managing strategic risk. Strategic risk is managed throughout the strategy 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 shaped so as to ensure the sufficiency of information taken into consideration in properly 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 occurring from both external and internal factors.

The Finance Group is currently the strategy process owner responsible for supporting the Board and senior management to formulate and review strategy as well as decide on a prompt action (if required). Moreover, the Finance Group is responsible for strategic risk assessment on a regular basis.

12. Operational risk

According to the Basel Committee of the Bank of International Settlements (Basel II), operational risk refers to "the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events," including legal risk, and reputation impact arising from operational risk, but

not including strategic risk. Risk factors can arise from both internal and external environments, such as changes to key personnel, organizational structure, processes, systems or products; force majeure; riot; etc.

The Bank realizes that operational risk is a key risk arising from its business operations and therefore emphasizes effective operational risk management, while aiming to continually improve this crucial process over time.

Business and support units within the Bank are responsible for managing their operational risk by applying the methodologies and approaches that the Bank is continually developing. The respective units perform risk and control self-assessments; identify key risks; evaluate the effectiveness of controls; and establish action plans in order to reduce or prevent these risks and ensure that their operational risks are at an acceptable level and also appropriate for their business profiles.

In 2013, the risk and control assessments (RCSA) were continued from the prior year in order to identify any new emerging risks or degradation of control performance. In addition, key operational risks were aggregated from Divisional to a Bank-wide level, benchmarked with key external risks (such as cyber-crime), and presented to senior management for agreement and setting of action plans.

To ensure that critical businesses and service to customers are not materially disrupted during a crisis or unexpected circumstance, the Bank continued to improve crisis communications and business continuity capabilities throughout 2013. The Bank has implemented the latest technologies and improved its Crisis Committee and business continuity procedures (such as business impact analysis) so as to deliver a robust and highly effective approach to crisis management.

Lastly, the Bank is actively working to improve effectiveness and efficiency of governance and risk information. In this regard, the Bank has selected BWISE, a company that is part of the NASDAQ OMX Group, which is a global leader in software for governance, risk management and compliance (GRC), to deliver an e-GRC platform to support SCB with the automation and integration of the Bank's internal audit, risk management and compliance framework. In 2014, the e-GRC software will improve the manner in which the Bank manages risk, adopts appropriate governance and meets regulatory compliance. Importantly, it will help the Bank to improve operational decision-making and strategic planning in response to timely and accurate single-source risk and control data.

13. Risk pertaining to changes in statutory policies, laws, rules and regulations

It is the Bank's responsibility to comply with statutory rules and regulations issued by various authorities, e.g., the Bank of Thailand, the Securities and Exchange Commission, the Stock Exchange of Thailand, Anti-Money Laundering Office and other relevant authorities.

The Bank has established a Compliance and Operational Control ("Compliance Unit") under the Audit and Compliance Group, which directly reports to the Audit Committee. This Compliance Unit is responsible for providing advice, recommendations and opinions on various issues in order to comply with laws and regulations to ensure that the Bank and its subsidiaries in the SCB Financial

Group are in compliance with statutory laws, rules and regulations as well as internal policies and procedures.

14. Reputation risk

Reputation risk can arise from adverse public perception of the Bank. Given its nature, it is difficult to identify or assess this type of risk because it is influenced by changing political, economic and social conditions, including specific public expectations of the Bank.

To manage reputation risk, the Bank relies upon the participation of the Board of Directors and senior management in order to obtain different opinions for assessing reputation risk and establishing safeguards.

The Board of Directors has established procedures for the Bank in dealing with businesses or issues that might have any significant potential to become subject to public criticism whereby, in the first instance, if the Bank and its subsidiaries engage in any such business or issues, the management concerned must seek approval from the chairman of the Executive Committee or the president before initiating or participating in any such transaction, in order to determine the appropriateness of the Bank's involvement. The matter is then reported to the chairman of the Board, the chairman of the Audit Committee, and the chairman of the Nomination, Compensation and Corporate Governance Committee. In the second stage, the Executive Committee has the authority to approve the transaction with the consent of the chairman of the Board, the chairman of the Audit Committee, and the chairman of the Nomination, Compensation and Corporate Governance Committee.

The Corporate Communications Division (CCD) is responsible for coordinating with business and non-business units within the Bank to identify and monitor reputation risk factors including:

1. Transactions that might affect the Bank's reputation.
2. Incidents of regulatory non-compliance.
3. Customer complaints.
4. Adverse impact from employee-related issues.
5. Negative media coverage.
6. Financial standing and integrity of the Bank.

The CCD also conducts an assessment of overall reputation risk and reports the findings to the Bank's Risk Management Committee and Executive Committee.

15. Capital adequacy risk

Following the global financial crisis of 2008, the Basel Committee on Banking Supervision announced a new set of regulatory guidelines for strengthening the resilience of the banking sector, better known as Basel III, in December 2010. The new guidelines aimed to strengthen the capital position as well as to set a new standard of liquidity risk management framework for banks worldwide. The Bank of Thailand has indicated its willingness to adopt this framework with minor

local adjustments in order to ensure that Thai commercial banks meet the stringent international standards.

In line with the Basel III timeline, all Thai commercial banks, since 1 January 2013, are required to maintain a total capital adequacy ratio of not less than 8.5%; of which no less than 4.5% must be in common equity Tier 1 (CET 1) capital and no less than 6% in total Tier 1 capital. In addition, the BOT plans to adopt a new capital conservation buffer of up to 2.5% of CET 1, which will be phased in at 0.625% p.a. starting from 1 January 2016 to 1 January 2019. Banks that cannot meet this minimum requirement may be subject to earnings-distribution restrictions, i.e., on dividend payouts, discretionary bonus payments, share buybacks, etc.

From 1 January 2013, SCB adopted the Basel III guidelines for the bank-only basis and early adopted Basel III guidelines for the consolidated basis one year earlier. The Bank continues to apply the standardized approach as a guideline for maintaining regulatory capital adequacy for credit risk, market risk in the trading book, and operational risk. The Bank also continues to manage, monitor and report its capital adequacy position through the internal capital adequacy assessment process (ICAAP), which also includes conducting capital forecasts and stress testing. The Bank defines its proposed 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 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 exposures and risk assessment and management or 'Pillar III disclosure' in the Bank's website on a semi-annual basis.

At 31 December, 2013, under the Basel III framework, the Bank has total capital of Baht 262 billion, of which Baht 203 billion is classified as CET1/Tier 1 capital (11.8% of risk-weighted assets) and Baht 59 billion (3.4% of risk-weighted assets) is classified as Tier 2 capital. For SCB Financial Group, the total capital stood at Baht 268 billion, of which Baht 209 billion is classified as CET1/ Tier 1 capital (12.0% of risk-weighted assets) and Baht 59 billion (3.4% of risk-weighted assets) is classified as Tier 2 capital.

Furthermore, if the Bank's 2H13 net profit are incorporated in determining capital adequacy, CET1/ Tier 1 capital would stand at 13.1% on a Bank-only basis and 13.3% on a consolidated basis.

Hence, the Bank is confident its current level of capital is more than adequate to support its planned business growth and new regulatory buffers and to respond to potential impact from economic uncertainties.

Risks to Shareholders

Risks to shareholders might arise in the event the shareholders do not receive the expected return from their investments. Returns to shareholders can be in the form of both dividend income and capital gains. Dividend income is the direct result of the Bank's operating performance. When the Bank reports healthy net profit in a financial year, shareholders should expect to receive dividend income as stated in the Bank's policy on dividends in the range of 30-50% of the Bank's consolidated net profit. In terms of capital gains, the sole underlying factor is the price performance of SCB shares, which in turn reflects multiple variables such as the Bank's performance and outlook,

domestic and global economic conditions and outlook, domestic political stability, foreign funds inflows and outflows - most of which are beyond the Bank's control.

The Bank's performance is the only variable within the Bank's control, and in recent years this has been in line with or well above market expectation. At the start of each year, the Bank provides broad guidance on its financial targets. Thus, the risk to shareholders is that the Bank may not be able to meet the said financial targets in a particular year, which might affect both the dividend and the share price. However, this risk is mitigated by the fact that SCB has a clear business strategy with appropriate short- to medium-term strategic thrusts, along with clear annual financial targets. In addition, over the past four years the Bank has delivered the highest net profit among the Thai financial institutions, in a very competitive environment. While past performance does not guarantee future results, it does demonstrate the competitive positioning of the Bank, the effectiveness with which it formulates and executes strategies and the quality of its management team. As a result, the Bank expects to be better shielded from the adverse impact, if any, from external factors, as compared to many other banks in the industry.

The Bank's two major shareholders account for a sizable proportion of total shares outstanding and this poses a potential risk should these major shareholders unwind large positions onto the stock market. This might adversely impact the Bank's share price. Nevertheless, the Bank expects the impact from this potential risk factor to be relatively short, given that the Bank's shares make up one of the highest market capitalizations on the stock exchange, which in turn makes it one of the most liquid stocks, with some of the highest trading volumes on the exchange. Also, the said two major shareholders have held these shares for a long time and have never expressed or indicated any interest whatsoever in diluting or divesting their holdings.

4. Business Assets

1. Main Fixed Assets for Business Operations

Premises and equipment, net

As at 31 December 2013 and 2012, the value of premises and equipment, net were as follows:

(in million Baht)		
(Consolidated)	2013	2012
Land	14,352	14,095
Premises	23,726	23,646
Equipment	21,573	20,506
Others	378	334
Total	60,029	58,581
<u>Less</u> Accumulated depreciation	(24,147)	(22,682)
Allowance for Impairment	(507)	(506)
Premises and equipment, net	35,375	35,393

Long-term leases and service agreements

As at 31 December 2013 and 2012, the remaining rental and service expenses to be paid for long-term leases and service agreements were as follows:

(in million Baht)			
(Consolidated)	Period	2013	2012
Land and/or premises	Within 1 year	1,685	1,505
	1 - 5 years	1,379	1,077
	Over 5 years	209	73
Equipment	Within 1 year	16	2
	1 - 5 years	8	2
Vehicles	Within 1 year	282	234
	1 - 5 years	469	541
Total		4,048	3,434

2. Loans to customers

As of December 31, 2013, loans (excluding accrued interest receivable) were Baht 1,735,281 million, up Baht 187,795 million (12.1%) from the end of 2012.

Asset Classification

The Bank's asset classification is in accordance with the Bank of Thailand's Announcement re: Loan Classification and Provisioning Criteria of Financial Institutions, dated August 3, 2008, which requires each bank to formulate loan classification, provisioning and write-off policies in writing to enhance ability to maintain sufficient reserves to support losses arising from any future asset write-downs.

Classified Assets

- Gross non-performing loans The Bank adopts the Bank of Thailand's announcement dated August 3, 2008 as the criteria for consideration of 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 31 December 2013, non-performing loans in the consolidated financial statement were Baht 39,992 million, representing 2.1% of total loans, up Baht 4,119 million from Baht 35,873 million (2.1%) in 2012.
- 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)	2013	2012
Normal	1,665,762	1,489,739
Special Mention	33,588	25,278
Sub-Standard	12,035	9,878
Doubtful	7,204	4,463
Doubtful Loss	20,824	21,591
Total	1,739,413	1,550,949

* 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, lending to financial institutions and accrued interest receivables, investment in securities, foreclosed properties, and other assets as follows:

Classified assets

(in million Baht)

(Consolidated)	2013	2012
Normal	1,799,720	1,626,057
Special Mention	33,589	25,280
Sub-Standard	12,036	9,879
Doubtful	7,206	4,464
Doubtful Loss	25,901	24,638
Total	1,878,452	1,690,318

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 and also require that additional provisions for loans classified as doubtful loss be made in cases where the Bank had not undertaken debt restructuring or filed lawsuits against the debtors.

In addition, the BoT requires banks and finance companies 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 case basis based on recent payment history and the estimated collateral value, 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 under the doubtful category. 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.

Loans which have been restructured will be reclassified. Restructured loans which were previously classified as doubtful and doubtful loss are upgraded to substandard. Restructured loans which were previously classified as substandard or special mention loans will be classified at the same class for 3 consecutive months or the next 3 installment payments, whichever is the longer, at which time the loans will be reclassified as normal if the terms of the restructuring are complied with.

Allowances for doubtful accounts established during the period 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 pursues the collection but has no prospect of further receipts. These procedures comply with BoT's notification and guidelines.

Allowance for doubtful accounts

(in million Baht)

(Consolidated)	2013	2012
As at 1 January	51,510	45,405
Bad debt and doubtful accounts	15,595	10,063
Bad debts written off	(7,123)	(4,145)
Others	(40)	187
As at 31 December	59,942	51,510

Revaluation allowance for debt restructuring

(in million Baht)

(Consolidated)	2013	2012
As at 1 January	446	590
Transfer from business combination	-	-
Decrease during the year	(72)	(144)
As at 31 December	374	446

Loan classification and allowance as at 31 December 2013

(in million Baht)

(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***	Net amount used to set the allowance for doubtful accounts	Allowance for doubtful accounts***	
Minimum allowance of BoT regulations							
Normal	1,665,762	1,449,830 *	1	14,460	176,155	1,851	16,311
Special Mention	33,588	24,179 *	2	484	9,045	1,349	1,833
Sub - Standard	12,035	5,394 **	100	5,394	1,397	478	5,872
Doubtful	7,204	1,906 **	100	1,906	948	326	2,232
Doubtful Loss	20,824	11,876 **	100	11,876	2,060	810	12,686
Total	1,739,413	1,493,185		34,120	189,605	4,814	38,934
Allowance established in excess of BoT regulations							21,008
Total							59,942

* Net of cash and near cash collateral

** Net of PV cashflow from loan receivables or selling collateral

*** Excluding revaluation allowance for troubled debt restructuring

Loan Loss Provision

The Bank's provisioning guidance for 2013 was to set aside loan loss provisions of approximately 60-65bps of total loans outstanding on a bank-only basis. These credit costs incorporate a reasonable quantum of prudential provisions for future uncertainties. In 2013, the Bank has set aside substantial additional loan impairment provisions (on a **consolidated** basis) of Baht 13,641 million or credit cost of about 83bps in 2013 (including additional prudential provision as a counter-cyclical buffer), compared to Baht 9,396 million in 2012; an increase of Baht 4,245 million (45.2% yoy). On a bank basis, total impairment loss provisions was Baht 13,748 million or credit costs of about 84bps.

The Bank's total allowance for doubtful accounts at the end of December 2013 stood at Baht 60,317 million, an increase of 16.1% yoy from Baht 51,956 million at the end of December 2012, while total NPLs increased by Baht 4,119 million from end-2012 to Baht 39,992 million at end-2013. The ratio of NPL-to-loans was relatively flat at 2.14% at end-2013, while the coverage level for NPLs has increased from 144.8% at the end of 2012 to 150.8% at the end of 2013.

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 expense is 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

As at 31 December 2013, the changes to the properties for sale, net were as follows:

(in million Baht)				
(Consolidated)	Balance at 1-Jan-13	Additions	Disposals	Balance at 31-Dec-13
Foreclosed assets				
Immovable assets	9,997	2,360	(2,796)	9,561
Movable assets	355	5,959	(5,195)	1,119
Total	10,352	8,319	(7,991)	10,680
Others	132	895	(729)	298
Total properties for sale	10,484	9,214	(8,720)	10,978
<u>Less</u> allowance for impairment	(1,028)	(568)	268	(1,328)
Total properties for sale, net	9,456	8,646	(8,452)	9,650

4. Investments

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

Trading securities are those investments 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. Trading securities are stated at fair value. Changes in fair value are recognised in profit or loss as net trading income. Interest income on trading securities is recognised using the accrual basis of accounting.

Debt securities and marketable equity securities that are not classified as trading securities, held-to-maturity securities, and investment in subsidiaries and associate are classified as available-for-sale securities and 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 securities. 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 the historical cost, less impairment losses, if any.

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.

Investments in subsidiaries and associate acquired from troubled debt restructuring for which the Bank has received permission from the Bank of Thailand to hold the shares, and which are included in general investments and available-for-sale securities, are not required to be either accounted for by the equity method or to be consolidated.

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 securities. 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 the historical 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 31 December 2013, the Bank set aside investment in debt and equity securities in a total amount of Baht 1,215 million (consolidated statement). The Bank believes that such provisioning is sufficient.

Investment Policy

The Bank's investment in its subsidiaries, associated companies, and relevant companies as of December 31, 2013 can be divided into two groups as follows:

Investment in the SCB Finance Group

The Bank has established a Financial Group which is focused on the provision of financial services together with companies that support the provision of such services. The Bank encourages companies under its umbrella to collaborate for the maximum benefit of the Group.

Investment in Other Businesses

The Bank's objective is to obtain satisfactory returns from investment in the terms of dividend and capital gain and/or strengthen the long-term relationship with alliance partners to sustain the Bank's overall growth.

Investment Supervision and Risk Management

The Bank's investment supervision covers oversight of policy formulation, business operations, and risk management for investments within its Financial Group. For other businesses the Bank monitors performance to optimize returns.

Also, the Bank nominates its executives to serve as directors in companies in which it has made significant investments to ensure that their business operations will move in line with its overall expectations.

5. Legal Dispute

Opposing Party: Thai Melon Polyester PCL

SCB has an unsettled legal dispute which has the potential to negatively impact its assets, as the claimed amount is worth over 5% of net equity according to financial statements for the accounting year ending on 31 December 2012.

On 21 March 2007, Thai Melon Polyester PCL (TMP), the plaintiff, filed a civil lawsuit against the Thai Asset Management Corporation (TAMC) (the first defendant), Mr. Somjet Moosirilert (the second defendant), BankThai PCL (the third defendant), Bangkok Bank PCL (the fourth defendant), and Siam Commercial Bank PCL (the fifth defendant) on the ground of tort, with a claimed amount of Baht 24.5 billion.

According to the plaint, TMP claimed that SCB wrongfully transferred non-performing assets of TMP to TAMC, which wrongfully received the title deed to the non-performing assets. TMP claimed that it suffered from the tort and loss of trade reputation and earnings.

On 1 June 2007, SCB filed a response that the prescription period had expired, and that the transfer of non-performing assets to the first defendant was lawful and that SCB did not commit any tort against the plaintiff. Moreover, no damage was incurred by the plaintiff as claimed.

On 30 May 2008, the Civil Court dismissed the charge and the plaintiff filed an appeal. On 25 July 2012, the Appeals Court upheld the judgment of the Civil Court dismissing the claim.

On 7 November 2012, the plaintiff filed an appeal against the judgment of the Appeals Court with the Supreme Court. SCB filed an answer to the appeal on 25 December 2012. The case is currently in the Supreme Court's consideration.

The Bank believes that it has not committed any tort as claimed, because its transfer of non-performing assets to TAMC was lawful under the provision of the Emergency Decree of the Thai Asset Management Corporation, B.E. 2544 (2001). Since the lower courts have dismissed the charge, the Bank believes that the Supreme Court will uphold the judgment of the lower courts and that this legal dispute should not have any negative impact on SCB.

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 2 544-1000

Fax: 66 2 544-2658

SCB Call Center: 66 2 777-7777

SCB Business Call Center 66 2 722-2222

Securities

Registered capital, as at December 31, 2013, worth Baht 70,000 million, divided into:

3,415,491,642 common shares par value 10 Baht

3,584,508,358 preferred shares	par value	10	Baht
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Paid-in capital, as at December 31, 2013, worth Baht 33,992 million, divided into:

3,394,010,513 common shares par value 10 Baht

5,181,685 preferred shares	par value	10	Baht
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Reference information

Registrar

Ordinary and Preferred Shares	Thailand Securities Depository Company Limited 62 The Stock Exchange of Thailand Rutchadapisek Road, Klongtoey, Bangkok 10110 Tel: 0-2229-2800 and 0-2654-5599 Fax: 0-2359-1259
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Siam Commercial Bank Subordinated Debentures No. 1/2012, due in 2022 which the issuer has the right to early redemption	Siam Commercial Bank Public Company Limited 9 Ratchadapisek Road, Jatujak, Bangkok 10900, Thailand Tel: 66 2544-1111 Fax: 66 2544-2658
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Siam Commercial Bank	Siam Commercial Bank Public Company Limited
Subordinated Debentures No. 2/2012, due in 2024 which the issuer has the right to early redemption	9 Ratchadapisek Road, Jatujak, Bangkok 10900, Thailand Tel: 66 2544-1111 Fax: 66 2544-2658
Senior Unsecured Notes USD 400 million 3.9% due November 2016	Deutsche Bank Luxembourg SA 2 Boulewarde Konrad Adenaver L-1115 Luxembourg Luxembourg
Senior Unsecured Notes USD 1,100 million 3.375% due September 2017	Deutsche Bank Luxembourg SA 2 Boulewarde Konrad Adenaver L-1115 Luxembourg Luxembourg Deutsche Bank Trust Company Americas 60 Wall Street, 27 th Floor New York, New York 10005 United States

Fiscal Agent

Senior Unsecured Notes USD 400 million 3.9% due November 2016	Deutsche Bank AG, Hong Kong Branch Level 52, International Commerce Centre 1 Austin Road West, Kowloon Hong Kong
Senior Unsecured Notes USD 1,100 million 3.375% due September 2017	Deutsche Bank AG, Hong Kong Branch Level 52, International Commerce Centre 1 Austin Road West, Kowloon Hong Kong

Auditor

Mr. Supot Singhasaneh	Certified Public Accountant (Thailand) Registration No. 2826
or Mr. Charoen Phosamritlert	Certified Public Accountant (Thailand) Registration No. 4068
or Ms. Pantip Gulsantithamrong	Certified Public Accountant (Thailand) Registration No. 4208

KPMG Phoomchai Audit Ltd.

Empire Tower, 50th-51st Floor,
195 South Sathorn Road, Yannawa, Sathorn, Bangkok 10120, Thailand
Tel: 0-2677-2000
Fax: 0-2677-2222

Investments of Siam Commercial Bank PCL in other companies

As of December 31, 2013 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 held	% of ownership*
1	THE 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	250,000	250,000	100.000%
2	SCB PLUS CO. LTD. 1060 Tower 3, 9 th -10 th Floor, Siam Commercial Bank PCL, New Phetchaburi Rd., Makkasan, Ratchathewi, Bangkok 10400 Tel. 0-2792-3800 Fax 0-2255-1565	Collection company	Ordinary	100,000	100,000	100.000%
3	SCB TRAINING CENTER CO. LTD. SCB Head Office Bldg., 9 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel. 0-2544-1702, 1704, 1707 Fax 0-2544-1701	Training Center	Ordinary	5,490,000	5,490,000	100.000%
4	RATCHAYOTHIN ASSET MANAGEMENT CO. LTD. SCB Park Plaza Bldg., Tower West A, 12 nd Floor, 18 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel. 0-2544-2477 Fax 0-2544-2165	Asset Management	Ordinary	2,500,000	2,500,000	100.000%
5	MAHISORN CO., LTD. ⁽³⁾ 2 FL. SCB Park Plaza Bldg., Tower East, 18 th -19 th Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2937-5400 Fax: 0-2937-5438	Property (Building) management	Ordinary	669,490	669,490	100.000%
6	SIAM PHITIWAT CO. LTD. 569 Ramkamhaeng Soi 39, Ramkamheang Road, Wangthonglang, Bangkok 10310 Tel: 0-2530-7500 Fax: 0-2530-7515-6	Appraisal service	Ordinary	1,000,000	1,000,000	100.000%
7	SCB ASSET MANAGEMENT CO. LTD. SCB Park Plaza Bldg., Tower 3 East, 21 st -22 nd Floor, 19 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel. 0-2949-1500 Fax 0-2949-1501	Asset Management	Ordinary	20,000,000	20,000,000	100.000%
8	SCB SECURITIES CO. LTD. SCB Park Plaza Bldg., Tower 3 East, 20 th -21 st Floor, 101 RCP Tower G Floor, 19 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel. 0-2949-1000 Fax 0-2949-1001	Securitates	Ordinary	200,000,000	200,000,000	100.000%

No.	Company name and Address	Type of business	Type of shares	Paid-up shares	Number of shares held	% of ownership*
9	SIAM PANICH SPV 1 CO., LTD. ^{(1) (4)} SCB Park Plaza Bldg., Tower 2 West, 22 nd Floor 18 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2544-2592 Fax: 0-2937-7721	SPV set up under Securitization Act.	Ordinary and Preferred	400	400	100.000%
10	SOR.OR.KOR. PCL ⁽¹⁾ (The Siam Industrial Credit PCL) Sindhorn Bldg., Tower 2, 4 th Floor, 130-132 Wireless Rd., Lumpini, Pathumwan, Bangkok 10330 Tel. 0-2544-2301-4 Fax 0-2544-3317	Commercial	Ordinary	597,423,062	595,883,972	99.742%
11	SIAM COMMERCIAL LEASING PCL SCB Park Plaza Bldg., Tower 2 West, 22 nd Floor, 18 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2949-1800 Fax: 0-2949-1900	Collection Company	Ordinary	567,797,502	564,316,277	99.387%
12	SCB LIFE ASSURANCE PCL Siam Commercial Bank PCL (Chidlom), Bldg. 1, 4 th -10 th Floor, 1060 New Petchaburi Rd., Makkasan, Ratchathewi, Bangkok 10400 Tel: 0-2655-4000 Fax: 0-2256-1666	Life insurance	Ordinary	66,500,000	62,950,033	94.662%
13	SIAM SAT NETWORK CO.,LTD. ^{(1) (4)} SCB Park Plaza Bldg., Tower 2 West, 21 st Floor 18 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900	Settlelite service	Ordinary	11,250,000	9,182,012	81.618%
14	SIAM TECHNOLOGY SERVICE CO. LTD. ^{(1) (3)} SCB Park Plaza Bldg., Tower 1 West, 18 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900	Consultant	Ordinary	3,000,000	2,249,993	75.000%
15	THE SIAM COMMERCIAL SAMAGGI INSURANCE PCL Siam Commercial Insurance Bldg., 12 th Floor, North Park, 2/4 Vibhavadi Rangsit Rd., Thung Song Hong, Lak Si, Bangkok 10210 Tel: 0-2555-9094 Fax: 0-2955-0155	Non-life insurance	Ordinary	222,890,431	135,660,824	60.864%
16	SIAM MEDIA AND COMMUNICATION CO., LTD. ⁽¹⁾ SCB Park Plaza Bldg., Tower 2 West, 17 th -22 nd Floor, 18 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900	Holding company	Ordinary	7,000,000	2,333,800	33.340%
17	VINA SIAM BANK 2 Pho Duc Chinh Street, District 1, Ho Chi Minh City, Vietnam Tel: 001-84 (83) 821-0557, 821-0360, 821-5353, 821-5353-5 Fax: 001-84 (83) 821-0585	Banking	Ordinary	610,000	201,300	33.000%

No.	Company name and Address	Type of business	Type of shares	Paid-up shares	Number of shares held	% of ownership*
18	WTA (THAILAND) CO., LTD. ⁽¹⁾ 313 C.P. Tower, Silom Rd., Silom, Bangrak, Bangkok 10500 Tel : 0-2699-1609 Fax: 0-2643-1881	Holding company	Ordinary	1,000	250	25.000%
19	SG STAR PROPERTIES LIMITED ^{(1) (2)} 408/70, Phaholyothin Place Bldg., 16 th Floor, Phaholyothin Rd., Samsennai, Phayathai, Bangkok 10400	Real estate	Ordinary	61,164,118	12,384,277	20.248%
20	NIPPONKOA INSURANCE BROKER (THAILAND) CO., LTD. ⁽⁴⁾ 90/53 Sathorn Thani 1 Bldg., 18 th Floor North Sathorn Rd. Silom, Bang Rak, Bangkok 10500 Tel: 0-2636-7288 Fax: 0-2636-8277	Insurance broker	Ordinary	60,000	11,999	19.998%
21	NATIONAL ITMX CO., LTD. 93/1 GPF Withayu Tower A, 17 th Floor, Wireless Rd., Lumpini, Pathumwan, Bangkok 10330 Tel: 0-2650-6800 Fax: 0-2650-6808	Payment system service provider	Ordinary	500,000	98,600	19.720%
22	SIAM CEMENT MYANMAR TRADING LTD. No.5 Kabar Aye Pagoda Road, Yankin Township, Yangon, Myanmar Tel. (95-9) 862-3069, (95-1) 548-058 Fax (95-1) 548-058	Commercial	Ordinary	220	22	10.000%
23	THAI U.S. LEATHER CO., LTD. ⁽¹⁾ 39/98 Rama II Road, Banghrachao, Muang, Samutsakhon 74000 Tel: (034) 490-082-7	Industry	Ordinary	25,000,000	2,500,000	10.000%
24	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	10.000%
25	THAI OBAYASHI CORP., LTD. 161 Nantawan Bldg., 11 st Floor, Soi Mahadlek Luang 3 Ratchadamri Rd. Lumpini, Pathum Wan, Bangkok 10330 Tel. 0-2252-5200 Fax 0-2252-5200	Construction	Ordinary	20,000	2,000	10.000%
26	NANACHART TRADERS CONSOLIDATION LIMITED ⁽⁴⁾ 34/3, Ruam Thanu Thai Lang Suan., Soi Lang Suan, Phloenchit Rd., Lumpini, Pathumwan, Bangkok 10330 Tel: 0-2652-2020-4 Fax: 0-2255-9947	Agribusiness	Ordinary	20,000	2,000	10.000%
27	PREMAS (THAILAND) CO., LTD. 90 CyberWorld Tower 27 th Floor Tower A, Ratchadaphisek Rd., Huay Kwang, Huay Kwang, Bangkok 10320 Tel: 0-2168-3101 Fax: 0-2168-3106	Property (Building) management	Ordinary	250,000	25,000	10.000%

Remarks

* In case of indirect investment by bank's 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.)

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

(2) Invested from debt restructuring.

(3) Company in which Bank affiliates, in which the Bank holds more than 30% of shares, invests with direct investment from the Bank.

(4) Company in which Bank affiliates, in which the Bank holds more than 30% of shares, invests without any direct investment from the Bank.