

<p><b>Part 1</b> <b>Company's Business</b></p>
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**1. Policy and Business Overview**

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***Our Vision:***

**“TO BE THE BANK OF CHOICE FOR OUR CUSTOMERS, SHAREHOLDERS, EMPLOYEES AND COMMUNITY”**

***Our Mission:***

**To be recognized as**

**THE ‘BEST’ UNIVERSAL BANK IN THAILAND**

**Background and Important Developments**

Siam Commercial Bank was established by Royal Charter as Thailand's first indigenous bank on January 30, 1906. On February 19, 1993 the Bank was registered as a public company, and thereafter has been known as "Siam Commercial Bank Public Company Limited" (SCB). Since its founding through today, the Bank's major shareholder has been the Crown Property Bureau.

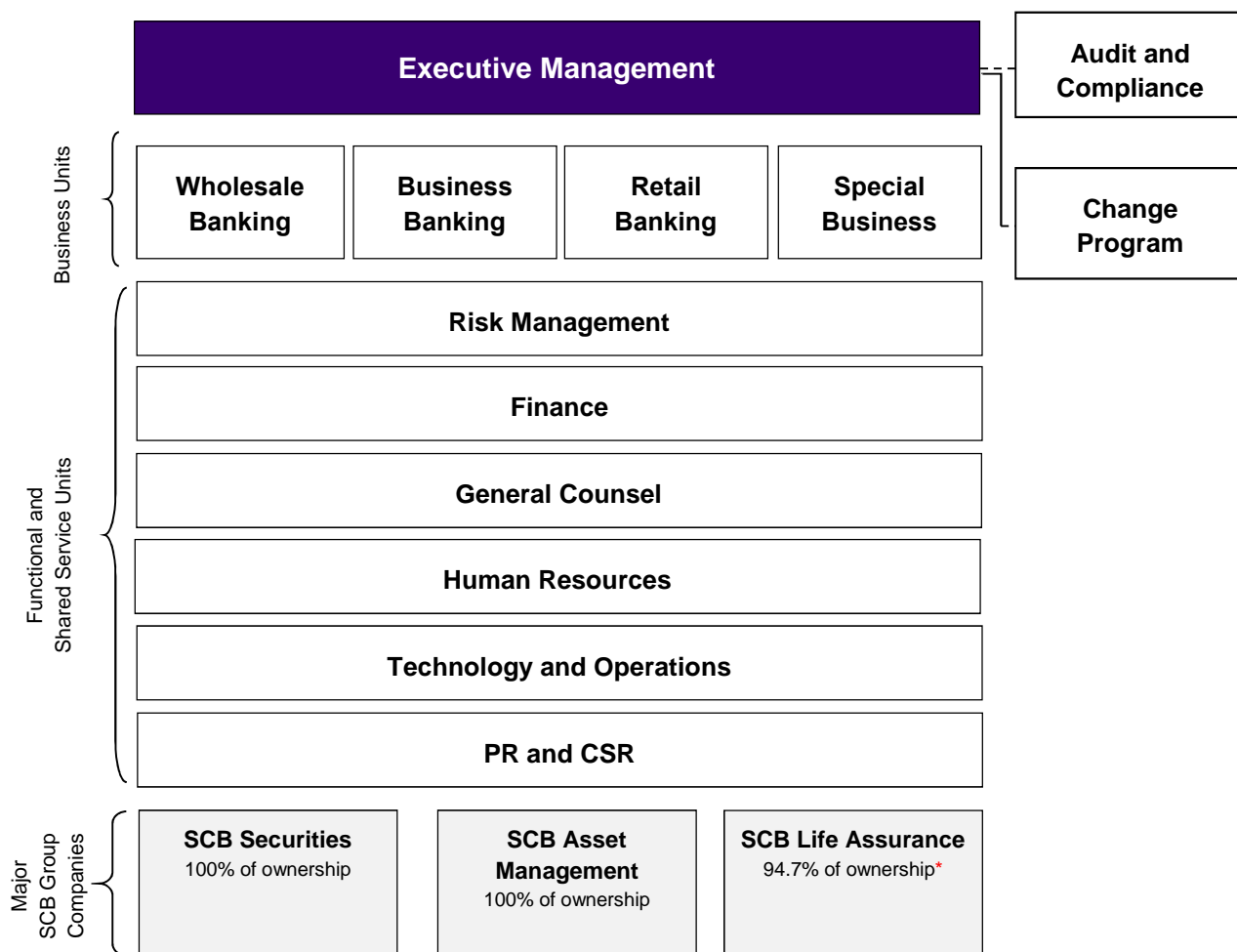
As a consequence of the Asian financial crisis in 1997, SCB undertook a major recapitalization in 1999 by joining the Ministry of Finance's Tier 1 Capital Support Scheme (the August 14, 1998 Measure), which resulted in the Ministry of Finance becoming, along with the Crown Property Group, one of the two largest shareholders of the Bank in May 1999. 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 December 30, 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%.

**Sold all of its shares in the Siam Commercial Samaggi Insurance PCL**

On April 28, 2014, the Siam Commercial Bank PCL. sold all of its shareholding of 135,660,824 shares in the Siam Commercial Samaggi Insurance PCL. "SCSMG", representing 60.86% of the total number of SCSMG's issued shares, at Baht 27.60 per share, with a total value of Baht 3,744 million in accordance with the resolution of the Annual General Meeting of Shareholders No. 191 dated April 3, 2014. As a result, the financial results of SCSMG are no longer consolidated with effect from 2Q14.

**Management Structure**

As of January 1, 2015



\* On February 18, 2015, the Bank held 99.03% shares in SCB Life Assurance after making a voluntary tender offer to minority shareholders.

## 2. Nature of Business Performance

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### 2.1 Products and Services Features

#### Business Overview

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. SCB's vision is to be 'the Bank of Choice for its Customers, Shareholders, Employees and Community.' Its mission is to be the best universal bank in Thailand. 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 its core deposit- and credit-related transactional services, the Bank provides a comprehensive range of products and 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, lending products, international trade financing, treasury products, debt and capital market products, corporate advisory, investment banking and other related financial services. The services provided by the Bank's major subsidiaries and associates cover both corporate and retail clients and include securities trading, asset management and life 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 three major subsidiaries: SCB Securities Co., Ltd.; SCB Asset Management Co., Ltd and SCB Life Assurance 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 the Bank's operations and/or controlling its performance comprise seven function-oriented groups. These are the Risk Management Group, Finance Group, Human Resources Group, Technology & Operations Group, Group General Counsel, PR and CSR Division, and the Audit & Compliance Group. In addition, the Bank has 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, %)	2014	2013	2012
Wholesale Banking Group*	21	22	21
Business Banking Group (SME) *	15	16	15
Retail Banking Group*	57	55	56
Others**	7	7	8

\* Results of major subsidiaries (including a non-life insurance company divested in 2014) have been allocated to the Wholesale Banking Group, Business Banking Group and Retail Banking Group, as appropriate.

\*\* Including Group Treasury, Equity Investments and subsidiaries and affiliates whose revenue is not included in the business units.

**2014 Performance**

2014 marks the fifth consecutive year of record-high net profit for the Bank. SCB continues to perform well above its peer group, despite the sharp economic slowdown and the prolonged political impasse in the first half of the year in Thailand. SCB's strong results reflect the resilience of its operating platform and business model, the soundness of its business strategies and the effectiveness of its execution.

In 2014, the Bank registered a return-on-equity (ROE) of 20.1%, with a record-high net profit of Baht 53.3 billion, a 6.2% yoy increase of Baht 3.1 billion from the net profit of Baht 50.2 billion recorded in 2013. This growth in profit reflects the effectiveness of the Bank's strategy and its execution capability.

Total income, at Baht 128.1 billion, increased 3.7% from 2013. This rate of growth was somewhat lower than expected, which was the result of the subdued state of the economy throughout the year, particularly in terms of lackluster demand for new loans from qualified borrowers. Net interest income increased by 11.1% from the prior year primarily due to the significant reduction in the cost of deposits in line with the Bank's strategy. However, non-interest income declined mainly due to lower dividend income (two large one-time dividends were recorded in 2013) and lower net trading and foreign exchange income. Net fee income, on the other hand, registered moderate growth.

To maintain profitability despite the sluggish economy, the Bank adopted a strong focus on expense control and productivity improvements, resulting in a lower cost-to-income ratio of 37.5%, falling from 38.3% in 2013.

The Bank reported total assets of Baht 2.70 trillion, an increase of Baht 165 billion (or 6.5%) from the end of 2013.

Total loans grew by 2.4%, with stable underlying asset quality. The ratio of NPLs to total loans decreased to 2.11%, as a result of effective work-out strategies such as repayments, auctions and foreclosures, NPL sales and debt restructuring, as well as ongoing prevention efforts to stall new NPL formation. The provisions for loan losses decreased slightly from Baht 13.6 billion in 2013 to Baht 13.2 billion during the year – reducing the NPL coverage ratio from 150.8% to 138.1%.

The Bank maintained its leadership in a range of retail products and services, as well as its leading position in terms of the number of branches and ATMs throughout the country, in part as a result of continued expansion. At the end of 2014, the Bank had 1,197 branches, 9,537 ATMs, and 109 foreign exchange kiosks.

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. Both these engagement levels are measured by third-party experts using proven methodologies. 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.

## **2014 Highlights**

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

- High net profits at Baht 53.3 billion, a new record level for SCB and Thailand's financial services sector.
- High ROE at 20.1% and ROA at 2.0%, levels that rank the highest among all Thai banks.
- The highest market capitalization among financial institutions in Thailand (at Baht 619 billion on December 30, 2014).

## **Plans for 2015**

The four strategies of the Bank can be summarized as follows:

- Transform the SME franchise by broadening its reach through leverage from the value chain of major corporate customers, deepening relationships with existing customers and focusing on the smaller end of the SME segment.
- Increase customer acquisition rate (including referrals from existing customers) within selected industries and segments.
- Accelerate the shift of the operating platform toward new and emerging digital platforms to enhance customer experience and attract new customers.
- Enhance people capabilities and acquire additional talent to support the above strategic direction.

Anchored on these 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 and sustainable growth momentum.

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

Finally, SCB adheres to best practices for corporate governance, and also encourage employees to participate in the Bank's CSR activities, especially projects related to the development of youth and communities.

### **Key Performance Targets Announced for 2015**

Despite a recovery in economic growth that is likely to be only modest, the Bank expects to deliver competitive results, reflecting the sustainability of its performance and resilience of its strategies.

- Return-on-equity (ROE) of 17-20% (compared to 20.1% in 2014).
- Return-on-assets (ROA) at 1.8-2.0% (compared to 2.0% in 2014).
- Loan growth between 5-7% (compared to 2.4% in 2014).
- Cost-to-income ratio of 38-40% (compared to 37.5% in 2014).
- NPL ratio at 2.1-2.3% (compared to 2.11% in 2014).

### **Business Operation of Four Business Units**

#### **Wholesale Banking Group**

Despite challenging economic circumstances, lackluster loan growth and dramatic political changes, the Wholesale Banking Group (WBG) continued to deliver solid financial performance in 2014, registering a record-high net profit. Sustaining its strong track record for yet another year testifies to the success of WBG in forging its business strategy, backed by effective execution.

WBG continued to strengthen its leadership in investment banking, capital markets and financial markets by winning several landmark deals in 2014. The Group also grew its trade finance volume in key industry segments and improved its trade finance portfolio profitability, despite a substantial downturn in the international trade market.

On the cost side, WBG succeeded in mobilizing a large volume of low-cost deposits, which contributed to the reduction in the Bank's overall cost of deposits. Effective cost management further reinforced WBG's achievements in terms of profitability.

#### **2014 Performance**

- Recorded net profit growth of 39% yoy, with modest total income growth of 2% yoy.
- Grew corporate deposits by 30% yoy, while lowering cost thereof by 18bps.
- Expanded loan portfolio by Baht 29 billion, an increase of 5% yoy, while continuing to improve balance-sheet efficiency with better asset quality, maintaining NPLs at a lower level than the prior year despite the weak economic conditions throughout the year.
- Improved expense control thus lowering cost-to-income ratio to 27.8%.

**2014 Highlights**

- Delivered record-high net profit.
- Achieved clear market leadership in capital market activities by winning several landmark deals (e.g., WHA's acquisition of Hemraj, PTTEP's synthetic USD bond), as well as sustaining the #1 rank in property funds for public offering (PFPO), infrastructure funds for public offering (IFPO) and corporate bond offerings.
- Achieved industry recognition in key wholesale products and services in 2014:
  - "Best Investment Bank" award from *Global Finance* and "Best Foreign Exchange Bank" award from *FinanceAsia*.
  - "Best Investment Bank" award from *Alpha SEA*.
  - "Syndicated Loan House of the Year" award from APLMA, Asia Pacific Loan Market Association.
  - "Top Underwriter," "Most Creative Issue" and "Deal of the Year" awards from the Thai Bond Market Association.
  - "Best Foreign Exchange Bank" and "Best Local Cash Management Bank" awards from *Asiamoney*.
  - "Best Cash Management Bank" and "Best Custodian Bank" awards from *The Asset*.
  - "Thailand Trade Finance Bank of the Year" from *Asian Banking and Finance*.
- Outperformed the market in import-export trade volume growth and deposit volume growth, despite the market slowdown in 2014.
- Enhanced balance-sheet efficiency through more proactive credit portfolio management.

**Plans for 2015**

Moving to 2015, WBG aims to increase its market leadership in financial advisory and capital markets businesses while continuing to strengthen its franchise in transaction banking. The Group plans to significantly broaden and diversify its client base by acquiring new customers in priority industries and segments.

As international barriers to trade and investment continue to recede, WBG plans to establish a stronger network of banking alliances and build a variety of regional banking capabilities to provide robust services to its customers as they increase their activities across national borders.

- Continue to deliver top-rank product capabilities and innovations in investment banking, capital markets and financial markets to enhance WBG's position as market leader in these areas.
- Strengthen transaction banking franchise through innovative, client-centric solutions, leading to larger and more diversified base in terms of recurring fee income.
- Significantly broaden and diversify client base using an effective new-client acquisition platform.
- Continue to improve credit portfolio quality and balance-sheet efficiency.
- Establish a strong alliance-banking network and build regional banking capabilities in key markets (e.g., Greater Mekong Sub-region, China, Japan).



## Business Banking Group (BBG)

BBG caters to the nation's vibrant and economically crucial small and medium-size enterprises, which account for more than 99% of all Thai companies, employing some 10.5 million people. The Group expanded its asset base aggressively over recent years through to 2013, emerging as one of the top financial service providers in the SME segment. BBG growth, through to 2013, outpaced the aggregate market growth in this important market by consistently delivering products and services that stand out as both innovative and focused on customers' evolving needs as well as through support from the largest branch network in Thailand. In recognition of its achievements, both *Alpha Southeast Asia* magazine and *Asian Banking & Finance* magazine named SCB the best SME bank in Thailand in 2012, 2013 and 2014.

In 2014, however, with the slowing economy, the growth conditions were challenged, particularly for smaller businesses, and many SMEs adopted a cautious stance in terms of further expansion. Concurrently, BBG responded by fine-tuning its portfolio, strengthening underwriting standards and taking the opportunity to develop new products and improve service efficiency. The Group continued to support customers in their day-to-day operations and went a step further by launching measures and programs designed to help customers deal with the adverse conditions, thus strengthening customer relationships. This "status-quo plus" approach enabled BBG to maintain its profitability despite the small contraction in lending volumes. At the same time, it demonstrated its continuing commitment to serve as the 'bank of choice' for Thailand's SMEs with a robust menu of enhanced product offerings particularly covering bancassurance products, trade finance and cash management services.

Having kept business steady in 2014, BBG is well positioned to build its brand and resume expanding its market position in 2015 as the economy recovers and the new products it has developed reach the market. Also it will capitalize on cross-selling opportunities, deepening business with existing customers, and the acquisition of new customers.

### 2014 Performance

- **Focused on servicing existing customers to maintain BBG's lending portfolio:** In the face of the heightened credit risk during the economic downturn over the year, the Bank decided to cautiously manage its lending portfolio by focusing on supporting existing customers rather than aggressively acquiring new customers. As a result, the SME lending portfolio remained relatively flat at Baht 335 billion in 2014.
- **Improved net interest margin and effective control over operating cost:** In order to sustain bottom-line performance, given limited growth in lending, the Bank focused on improving net interest margin. As a result, the SME portfolio's NIM improved by almost 20 bps in 2014. In addition, the BBG exerted tight control on its operating expenses, leading to a 2% decrease in its operating expenses.

## 2014 Highlights

- **Provided special support to SMEs that were under pressure as a result of the sharp economic slowdown:** Recognizing the vulnerability of certain smaller businesses as the economy shifted downwards, BBG launched special programs to support these SMEs with repayment schedule adjustments and temporary increases in working capital. These measures helped to alleviate the financial burden on creditworthy customers and increase their ability to survive the economic downturn.
- **Strengthened the capabilities of Thai SMEs ahead of regional economic integration:** BBG built on the success of its two widely recognized capacity-building programs for SMEs: the SCB Young Entrepreneur Program (SCB YEP), for the new generation of business owners, and the SCB SME Intelligent Entrepreneur Program (SCB IEP), for business owners and executives. SCB enhanced these signature programs to ensure that Thailand's small businesses are well prepared for the challenges and opportunities that will arise from the launch of the ASEAN Economic Community at the end of 2015. For example, the BBG took YEP participants on three visits to Myanmar to both network and explore new opportunities. It also hosted a special SCB YEP workshop providing insights into ASEAN-wide development. Finally, BBG sponsored a series of seminars and networking events for SMEs on these and related topics.
- **Strengthened SCB's SME brand:** By continuing to deliver superior products and services as well as assisting customers to strengthen their own capabilities, BBG earned confirmation from a leading market research agency that SCB had the second strongest brand in Thai SME banking.

## Plans for 2015

- Focus on expanding customer franchise via acquisition programs designed to attract small-to-medium size SMEs and redesign end-to-end credit approval processes to better cater to the needs and circumstances of small SMEs
- Increase the professionalism and expertise of SCB employees in its retail branch network to enhance service coverage for SME customers.
- Enhance the wealth management capabilities in BBG to win personal finance business from existing SME customers – a high growth segment.
- Continue developing and delivering innovative solutions and service excellence so that SME customers are encouraged to choose SCB as their primary bank.
- Uplift capabilities of BBG personnel through cross-functional skill-building programs that foster a customer-centric mindset.
- Strengthen risk management to effectively support SME lending while maintaining overall asset quality at an acceptable level.

## Retail Banking Group (RBG)

As the Retail Banking Group (RBG) represents SCB's largest operation in terms of both revenue and profits, optimizing its performance is of key importance to the Bank's overall success. However, in view of the economic slow-down in 2014, RBG adopted a cautious stance toward expansion of consumer lending, with the aim to improve returns through disciplined portfolio growth and lowering of funding costs. Broadly, this strategy succeeded in enabling RBG to continue to both sustain its position as Thailand's consumer credit market leader and delivering, yet again, strong financial results. In addition, RBG's success in enhancing its wealth management platform and related offerings earned the Group extensive recognition from the industry, including the prestigious "Best Private Bank" award from *The Banker* magazine, for the second consecutive year.

The main constant, despite changed economic's circumstances, was RBG's strong commitment to providing the highest level of customer service. Despite having the largest banking network in Thailand at the start of the year, the Bank continued to invest in network growth to ensure the highest possible physical footprint and customer convenience. In 2014, SCB opened 24 new branches and added 395 ATMs. At the same time, the Bank actively promoted the adoption of non-branch/non-cash payment options by enhancing its digital services in response to fast-evolving customer preferences, particularly in the use of mobile devices.

### 2014 Performance

- **Adopted a prudent approach to lending but, nevertheless, held on to its leadership in retail credit lending:** Given the adverse economic conditions, RBG focused on growing segments of its lending portfolio that are more resilient in a downturn, namely mortgages. As a result, RBG's total gross loans expanded 2.8% yoy, primarily contributed by 9.3% growth in mortgage lending, the largest business in its portfolio of retail credit. Sustaining this growth momentum ensured that the Bank maintained its solid lead in retail lending.
- **Reduced funding cost:** The Group's combined deposits and AUM (placed mainly through SCB Asset Management) grew by Baht 165 billion to Baht 2,687 billion (+6.5% yoy), primarily from growth in mutual funds. The change in mix toward asset management products reflects the increasing sophistication of retail customers as well as the higher appetite for risk/return. This approach facilitated RBG to manage down its cost of deposit (& bills of exchange) by 40bps yoy, resulting in increasing the net interest income in this segment by 8% yoy in 2014.
- **Maintained stable asset quality:** Through deploying pre-emptive measures and proactive NPL management, NPL ratio was contained at 2.27% in 2014, a slight decrease from 2.28% the year before, despite the sharp economic downturn.

### 2014 Highlights

- **Sustained leadership in retail lending:** Despite increased competition, RBG successfully maintained its #1 position in retail credit. Its mortgage business continued to grow in line with the industry, commanding a share of about 31% of the total mortgage market among

commercial banks. In terms of auto hire-purchase loans, credit cards and personal loan products, the focus during the year was on maintaining asset quality, given the adverse economic conditions. Despite an increase in new NPLs in certain segments, the aggregate gross NPL levels were slightly lower at 2.27% in part, as a result of the risk-averse stance adopted by RBG since late 2013.

- **Earned marketplace recognition and industry honors for its wealth management proposition and asset management capabilities:** The Private Banking service for high-net-worth customers and SCB FIRST Privilege Banking for affluent customers continued to grow during the year. Both are exclusive services available only to customers meeting specific monetary thresholds, and have achieved a strong presence in the market. Both are supported by professional wealth management advisory products and services, winning recognition and awards from globally recognized media, including:

- "Best Private Bank" in Thailand (third consecutive year) in the *Euromoney* Private Banking and Wealth Management Survey.

- The "Best Private Bank" in Thailand award (second consecutive year) from *The Banker* magazine.

- "The Best Affluent Program" Award 2014 from MasterCard.

In addition, SCB Asset Management, a wholly owned subsidiary of SCB, won the "Best Asset Management Company" award from the Stock Exchange of Thailand in 2014.

- **Further expanded distribution network:** As part of its continual efforts to improve customer convenience and service quality, the Bank enlarged its distribution network to a total of 1,197 branches, 9,537 ATMs and 109 foreign-exchange kiosks nationwide in 2014. The Bank expanded this market-leading footprint especially in locations with high transaction volumes, such as community malls and large shopping centers. In terms of service quality, SCB has continued to maintain its high level of customer satisfaction, as measured by the 'TRIM' index score of 89. This performance stands within the 90<sup>th</sup> percentile level.
- **Moved ahead in digital banking:** In response to the changing needs of today's retail customers, RBG has taken a proactive approach toward digital adoption by enhancing its recently introduced digital offerings, such as UP2ME (an app for payments via mobile device) and *Tid-Tid*, a mobile app that ensures fast-track service when visiting a branch, saving time for both customers and employees. Reflecting its efforts and the changes in the market, the number of customers actively using mobile applications grew by almost 43.5%. In recognition of SCB's leadership in digital innovation, *Retail Banker International* awarded the Bank with its "Excellence in Inventive P2P" award (for UP2ME) and "Highly Recommended in Mobile Banking" award, at the magazine's Asia Trailblazers Summit event.

## Plans for 2015

In 2015 RBG plans for continuing improvements in funding costs, introduction of digital technologies and effective risk management. In addition, RBG plans major advances in terms of distribution and

customer service, broadening and strengthening its offerings to meet additional needs in every retail segment.

- Leverage from a customer-centric approach to achieve a step-change enhancement in customer experience, with stronger capabilities and motivation to serve the total financial needs of each customer.
- Continue the drive to reduce funding cost.
- Enhance the distribution network to better cater to specific customer segments (i.e., "Wealth," "SME" and "Retail").
- Develop a new value proposition targeting the large and relatively untapped "Mass Affluent" segment.
- Continue to leverage digital technology to provide better products and services to customers and manage down long-term operational costs.
- Deploy dynamic risk management platforms and better early warning systems that highlight customers who may have difficulties in meeting repayment obligations.

### 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 the introduction and management of proactive, preventative approaches for handling potential non-performing loans. These approaches include identifying probable delinquent loans by using internal or external indicators and providing these customers with debt restructuring solutions to prevent default while at the same time assisting the customers to recover.

SBG's key achievement in 2014 was its success in continuing to aggressively work-out the NPL portfolio, which declined to 2.11% at year-end, despite weak economic conditions throughout the year. This performance reflects the success of SBG's efforts to strengthen its debt resolution methods. In particular, the Group made progress by centralizing and automating more processes, which further improved the results from debt collection activities compared to previous years.

### 2014 Performance

- **NPL reduction:** The Special Business Group has had a pivotal role in reducing the Bank's consolidated gross NPL ratio from 3.25% at the end of 2010 to 2.11% at the end of 2014. 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 2.8 billion.
- **Prevention:** The Group commenced implementation of an "Early Warning Signs" system in 2008 to detect loans-at-risk that might turn non-performing and to pro-actively assist these

customers in managing the financial difficulties that may arise. In 2012, the preventive method was upgraded to “Special Attention,” which emphasized loans-at-risk and identified the pre-emptive measures that could be of use for these customers.

In 2014 SBG developed new measures specifically for industries that were facing the brunt of the slowing economy and identified actions the customers should take to minimize potential financial difficulties.

- **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.

## 2014 Highlights

- NPLs declined to 2.11%, despite the sharp slowdown of the economy in 2014.
- Sales of NPAs of Baht 2.8 billion were achieved during the year.

## Plans for 2015

For 2015, given the uncertain economic outlook with a number of downside risks, SBG intends to maintain a proactive stance, focusing special attention on NPL prevention practices. Also, it will emphasize strengthening its communications with all business units that originate loans so as to further improve performance by reducing NPLs.

- **NPL prevention:** SBG will implement a “Preventive Workout” approach that further extends the scope and depth of SBG services to handle loans-at-risk at an earlier stage, so as to prevent delinquency, in collaboration with the business units that originated these loans.
- **Expedite NPL reduction:** SBG will modify its organization to handle NPL customers by segment and execute resolution strategies developed to best fit each segment. Also, the Group will canvass investors interested in purchasing NPL portfolios to expedite NPL reduction and strive to keep the relapse of NPLs to a minimum.
- **NPA sales:** SBG 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, SBG will further enhance its capabilities in NPL reduction through streamlining operation workflow and enabling 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](http://www.scbsonline.com)), SCBS has won the trust of investors to emerge as one of Thailand's leading securities companies.

### 2014 Performance

- Even though consumer confidence and market turnover rose during the second half of 2014 after the prolonged political turmoil ended and the global economy rebounded, the market's average daily trading value for the year declined to Baht 42 billion, a 6% fall from the exceptional Baht 44 billion average achieved in 2013. Beyond the decrease in trading volume, brokerage fee levels were dragged down by intense competition after four new brokers entered the market, which reduced earnings across the entire industry.
- Despite the negative factors, SCBS gained higher market share, at 3.71%, up by 0.20% from 3.51% in 2013. The company's rank among brokers also rose to #11, up from #13 in the previous year. As per the company's business plan, non-brokerage businesses launched last year, namely private portfolio, derivative warrants (DW) and trading business, contributed to the stability of revenue and enhanced profits. Total income stood at Baht 1.5 billion in 2014, decreasing by 8% from the previous year, while net profit was Baht 595 million, down 15%. Nevertheless, SCBS continued to outperform the market with its 23% ROE and 56% cost-to-income ratio, which were much better results compared to the average for the industry.

### 2014 Highlights

- Reaffirmed its National Long-Term Rating at "AA- (tha)" from Fitch Ratings.
- Recognized as the "Best Broker in Thailand" award in the 25th Anniversary Poll of the Polls by *Asiamoney* magazine.
- Awarded the "Best Securities Company - Retail Investors", a SET 2014 Award from The Stock Exchange of Thailand and *Money and Banking Magazine*.
- Achieved recognition again from the Investment Analysts Association of Thailand (IAA) for outstanding research analysts in three specializations: Best Analyst – Service Sector, Institutional Investors; Best Analyst – Industrial Sector, Retail Investors; and Best Analyst – Technology Sector, Retail Investors.

- Acted as the lead IPO underwriter for PCS Group Holding (PCSGH), Thai Solar Energy (TSE) and Eastern Polymer Group (EPG).
- Offered institutional investors a competitive and speedy Direct Market Access (DMA) service via a breakthrough new trading platform.
- Achieved over Baht 1 billion of private portfolio AUM just one year after the service was launched.
- Recognized as Thailand's first brokerage house to launch a stock analysis application for smart phone, called "SCBS Stock Advisor," featuring comprehensive functions that help investors conduct their own study and analysis of data for investment decisions anytime, anywhere.

### **Plans for 2015**

- Continue to expand the retail client base through various channels, especially referrals from SCB, with a focus on the high net worth customer segment.
- Strengthen retail sales platform by upgrading the Express Trade Account service and online trading platform, increasing the number of marketing officers and branches, and improving service quality.
- Expand non-brokerage services by upgrading the existing products' performance and introducing new products and services to better meet client needs and increase profitability.
- Further improve research quality and coverage to better serve both retail and institutional clients.
- Focus on IT infrastructure improvement that will increase both productivity and efficiency to better service clients.
- Position to serve customers as their comprehensive wealth management service provider, in collaboration with the Bank.

### **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 1,190 SCB branches, together with a large customer base.

SCBAM had its most successful year so far in 2014, marked by high growth and increased industry recognition. Total assets under management surpassed Baht 1 trillion for the first time, growing by 20.8% from the year before, and sustained the Company's # 2 rank in the market. In private funds, SCBAM rose to the # 1 position in terms of AUM. The Company maintained its # 1 rank in property funds (type 1) and infrastructure funds, with a 30.1% share in the market. These and other good results helped the Company win nine industry awards, the most of any year in its history, including honors both at home and abroad.



The year ahead promises both increasing opportunities and higher competition. The need for high-performing asset management services is growing in line with the rapid aging of society in Thailand, in common with other countries around the world. At the same time, the launch of the ASEAN Economic Community will bring new competitors into the local marketplace. In 2015 and beyond, SCBAM will capitalize on its strong track record, capabilities and relationships to sustain both its high performance and growth, building greater awareness of its brand and enhance its competitive edge.

## 2014 Performance

- SCBAM's assets under management (including the resolving financial institution problem funds and country funds) grew by 20.8% to Baht 1 trillion, comprising mutual funds, provident funds and private funds. The company now has more than 771,600 unit holders.
- SCBAM had a 20.8% share of the total market in mutual funds, with assets under management of Baht 792 billion and #2 in terms of market share in Thailand.
- Provident funds' assets under management were at Baht 110 billion, growing by 30.6% with a market share of 13.2%, compared to Baht 84 billion and 11.3% market share the previous year.
- Private funds' assets under management reached the industry's #1 position, in terms of market share, at Baht 107 billion, growing by 30.9% with a market share of 22.3%, compared to Baht 82 billion and 19.0% market share the preceding year.
- SCBAM operates the largest portfolio of property funds (type 1) and infrastructure funds, accounting for 30.1% of the overall industry in this category, with assets under management of Baht 128 billion.

## 2014 Highlights

- Awarded "Asset Management Company of the Year in Thailand (Highly Recommended)" in The Asset Triple A Investor and Fund Management Awards 2014 by *The Asset* magazine (HK).
- Awarded "Asia Asset Management, Best of the Best Awards (Thailand): Most Innovative Product" by *Asia Asset Management* magazine (HK).
- Awarded "Asia Asset Management, Best of the Best Awards (Thailand): CEO of the Year" to Mrs. Jotika Savanananda (the outgoing CEO) by *Asia Asset Management* magazine (HK).
- Awarded "Asia Asset Management, Best of the Best Awards (Thailand): CIO of the Year" for Mr. Sornchai Suneta by *Asia Asset Management* magazine (HK).
- Awarded "SET Awards 2014: Best Asset Management Company Awards" by the Stock Exchange of Thailand (SET) and *Money & Banking* magazine.
- Awarded "Best Asset Management Company for Fixed Income Funds" by the Thai Bond Market Association.
- Awarded "Best Money Market Treasury" for SCB Treasury Money Plus Open End Fund Class I (SCBTMFPLUS-I) by *Money & Banking* magazine.

- Awarded “Best RMF Money Market” for SCB Short Term Fixed Income RMF (SCBRM1) by *Money & Banking* magazine.
- Awarded “SET Excellence Awards 2014: Best Property Fund & REITs House” by the Stock Exchange of Thailand (SET) and Morningstar Research (Thailand) Ltd.
- Fitch Ratings (Thailand) affirmed the National Asset Manager Rating (AMR) at "Highest Standards (tha)" for the 2<sup>nd</sup> consecutive year in recognition of SCBAM's strong domestic market position in Thailand.

### **Plans for 2015**

Highlights of SCBAM's plans for 2015 are to:

- Sharpen fund management practices in order to better sustain its above-average performance.
- Establish reciprocity with global partners to diversify asset allocation and investment products available to the market.
- Explore new investment opportunities under the ASEAN Economic Community (AEC) to serve both domestic and foreign investors.
- Maintain #1 position in the asset management industry in Thailand for property funds (type 1) & infrastructure funds and the private fund business.
- Enhance its brand reputation in market as a trusted asset manager with strong investment capabilities, high performing products and excellent service.
- Upgrade the internal systems to improve work efficiency and internal control.

### **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 99.03% owned by SCB, and the remaining 0.97% is owned by public investors. During 2014, the Bank made a voluntary tender offer to acquire the minority shareholding as part of a delisting initiative that was a response to the non-compliance with the minimum float requirement of the Stock Exchange of Thailand. The process of delisting was ongoing at the reporting date.

SCB Life focuses mainly on the sale of traditional life insurance products that are popular in Thailand through multiple distribution channels, namely, SCB branches, SCB Life agency offices, and specialized sales channels such as malls, hyper-marts, tele-sales.

### **2014 Performance**

2014 was another successful year for SCB Life despite keen competition amid the sharp economic slowdown. Net profit after tax grew 23%, largely from total revenue growth of 7%. Gross premium income grew 7% as a result of strong first-year premium growth of 72% and renewal premium income growth of 11%, but single premium income (primarily credit-related insurance) declined by 52% compared to the previous year as a result of the slow-down of credit lending activities. SCB Life

ranked 6<sup>th</sup> out of 24 life insurance companies at the end of 2014, based on total premiums, with a 9.6% market share, down from 4<sup>th</sup> of 24 companies, and a 10.3% market share the year before. However, SCB Life ranked 4<sup>th</sup> out of 24 life insurance companies based on new business premium income (where new business premiums = 100% individual life plus 10% of single premiums) in 2014, with a 12.1% market share, up from 5<sup>th</sup> of 24 companies and a 9.1% market share in the previous year.

### 2014 Highlights

- Net profits rose 23% to Baht 5.8 billion.
- Total gross premiums increased 7% year-on-year to Baht 48.6 billion.
- Return on equity remained at a high level of 41%, compared to 42% in 2013.

### Plans for 2015

SCB Life plans to continue to work closely with the Bank, its primary distribution partner, as it prepares to introduce a more comprehensive suite of innovative life insurance products that meet customers' evolving requirements. As SCB Life streamlined its non-bank distribution channels in late 2014, namely its agency and special markets team, it will seek to solidify the impact of these changes in 2015 and expects improved persistency and higher activity ratios from these channels. In addition, the major initiative to replace its core information systems should also be completed in 2015, and will lead to higher efficiency and improved customer service in the long term.

The Company's focus in 2015 will be to:

- **Improve the suite of products:** Rising public knowledge of the benefits of insurance and of different types of insurance products has increased demand for additional and alternative offerings to meet the multiple lifestyle and life stage needs of customers.
- **Improve the sales from non-bancassurance channels:** The agency sales force is traditionally the main marketing channel for many life insurance companies, and SCB Life will continue to focus on improving the quality and size of this sales force. In late 2014, SCB Life fine-tuned its agency compensation scheme to sharpen the Company's as well as the agents' focus on key metrics such as persistency and quality of sales. In the long term, this should lift overall profitability of the agency business.
- **Improve product persistency:** SCB Life has established programs to increase policy persistency through a series of customer retention methods including better use of more advanced customer analytics.
- **Upgrade the core life insurance system:** The Company's project to improve its core insurance system is well underway and the first stage is expected to be completed in 2015. Upon completion, this system will allow the Company to shorten its "time-to-market" for new products, improve policy administration processes and reduce overall service cycle time.
- **Reinforce 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.

## **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). The CPMO 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 from the major change initiatives.

## **2014 Performance**

Change Program activities in 2014 were dominated by multiple system implementations as the Bank worked to future-proof many of its core systems and its scale and capabilities in multiple business areas.

- Completed multiple new system implementation initiatives including: debt collection management system for secured products (except auto loans); litigation document management system; credit card loyalty system; compliance system for the new U.S. tax regulations (FATCA); anti-money laundering filtering system; and loan origination system for mortgages.
- Completed significant upgrades to the Bank's systems including: a major upgrade to core banking system capabilities including performance enhancements; and UP2ME mobile application enrichment with robust new functions such as bill payment, mobile top-up, interbank transfer, e-Coupon and e-Wallet.
- Completed the preparatory phase for the internet top-level domain (TLD), a significant early move by the Bank to secure a unique internet address and corresponding brand identity. The Bank is not only the first but also the only organization in Thailand with its own TLD - '.scb'. This will allow the Bank to substantially enhance customer experience in the future as well as improve data security.

**2014 Highlights**

- 2014 marked the completion of the 13<sup>th</sup> year of SCB's transformational Change Program, which is now cited 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 that lie ahead.

**Plans for 2015**

As during 2014, IT and related initiatives will dominate the Change Program agenda, as the Bank seeks to achieve a substantial upgrade to its products, services and operations capabilities.

- Complete the major initiatives to enhance products and services capabilities, scalability and performance of the underlying platforms including: centralized governance, risk and compliance repository; new litigation workflow management system; new core insurance policy administration system; comprehensive new intelligent payments system; new risk analytics and reporting systems; new foreign exchange management system; new securities trading platform, and an intelligent interactive voice response system (IVR).
- Extend the existing systems capabilities including: an enhancement to ATM software and hardware to comply with the new EMV standard of MasterCard and Visa in order to improve security and reduce losses arising from fraud; addition of auto and unsecured products to the new loan origination platform to further leverage from this leading edge system; and add auto products to the new debt collection platform to improve efficiency.
- Complete a multi-pronged, multi-year initiative for a new wealth management operating model with enhanced capabilities to serve high-net-worth retail and SME customers.
- Extend existing SCB platforms to support the new business initiatives of the Cambodian Commercial Bank, a wholly owned subsidiary of the Bank.

**2.2 Marketing and Competition****Industry and Competition Review**

Despite a sharp economic slowdown in 2014 and the political turmoil in the first half of the year, Thailand's commercial banks achieved moderate growth in terms of assets, loans, deposits and net profits in 2014. By year-end, the number of Thai banks stood at 17, comprised of 14 commercial banks, 1 retail bank and 2 foreign bank subsidiaries. The number of foreign subsidiaries increased by one after the Bank of China changed its status from a foreign bank branch to a foreign subsidiary. In early 2014, one foreign bank branch, namely the Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU), began the process to integrate into the Bank of Ayudhya, its Thai subsidiary, although the process was not completed until January 2015.

**Comparison of SCB's Performance with Thai Commercial Banking Sector\***  
**as at December 31, 2014**

Unit: Baht billion

(Consolidated)	Thai Commercial Banking Sector*		Change % yoy	SCB 2014	SCB market share %
	2014	2013			
Assets	14,635	13,955	4.9	2,700	18.4
Gross loans	10,036	9,624	4.3	1,777	17.7
Deposits	10,486	9,853	6.4	1,895	18.1
Shareholders' equity	1,451	1,293	12.2	285	19.7
Net interest income	419	385	8.9	81	19.3
Non-interest income	226	239	-5.3	47	20.8
Non-interest expenses	289	267	8.3	48	16.7
Operating profits	357	357	-0.1	80	22.4
Loan loss provision	89	94	-5.4	13	14.9
Corporate income tax	51	52	-1.6	13	25.9
Net profit (attributable to shareholders of the Bank)	207	200	3.5	53	25.8

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

In 2014, the Thai commercial banking sector's aggregate net profit increased by 3.5% to Baht 206.9 billion, from Baht 199.9 billion in the prior year. Most Thai banks reported higher net profits due to an increase in net interest income (8.9% yoy) and lower provisions (-5.4% yoy), while non-interest income declined by 5.3% yoy.

Net interest income (NII) remained the main source of the sector's income, and the proportion of NII to total income increased to 65% in 2014, from 62% the year previous. In absolute terms, NII increased by 8.9% to Baht 419.3 billion in 2014, from Baht 384.9 billion the year preceding, mainly as a result of the decline in interest expenses as well as modest loan growth of 4.3% yoy. In 2014, the sector's net interest margins (NIM) rose significantly by 19 bps to 3.22%, due to reduction in the cost of deposits, as most banks rebalanced their deposits structure amid the sluggish demand for loans.

Non-interest income dropped by 5.3% to Baht 226.4 billion in 2014, from Baht 239.0 billion the year before, mainly due to: (1) a plunge in gain on investments, mostly because of the drop-off effect as one medium-size bank booked a large gain from the sale of its life insurance subsidiary in 2013 together with the gain on the redemption of the Ministry of Finance's Vayupak Fund of 5 commercial banks also in 2013; and (2) lower dividend income due to the absence of dividend income from the Vayupak Fund to 5 commercial banks (which was redeemed in November 2013). The lower non-interest income was partly offset by higher net fee and service income. Non-interest income contribution decreased to 35% in 2014, from 38% of total income in the prior year.

Non-interest expenses increased by 8.3% to Baht 288.8 billion in 2014, from Baht 266.5 billion in the previous year, mainly due to higher personnel-related expenses and 'other expenses' from the one-time reversal of the Thai Asset Management Corporation (TAMC) related provisions by a few banks

(booked under 'other expenses') in 2013. As the growth of operating expenses was higher than revenue growth, the sector's cost-to-income ratio rose to 44.7% in 2014, from 42.7% in the prior year.

As at December 31, 2014, the aggregate assets of the Thai commercial banking sector stood at Baht 14,635 billion, the equivalent of 120.5% of Thailand's 2014 GDP. Total assets, a key growth index for banking institutions, grew by Baht 680 billion, a 4.9% year-on-year increase, in line with loan growth of 4.3% yoy.

Gross loans rose by 4.3% yoy to Baht 10,036 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 (27.1% of total loans) grew by 7.4% yoy, mainly from home loans (+12.3% yoy) from the continued demand in the residential property market, while hire-purchase loans dropped by 3.4% yoy following a contraction in demand for new automobiles after purchases had surged under the government's tax incentive scheme for first-time car buyers, which effectively ended in mid-2013. On the commercial side, manufacturing/production loans, which accounted for 17.5% of total loans, increased by 4.0% yoy, while loans for wholesale and retail businesses increased by 5.1% yoy. The central bank cut its policy rate by 25 bps to 2.00% during 2014, from 2.25% at the end of the prior year. The sector's minimum lending rates (MLRs) were maintained at 6.75%-8.72% at the end of 2014, the same as in the previous year.

Deposits in the Thai commercial banking sector rose by 6.4% yoy to Baht 10,486 billion. In 2014, competition for deposits was relatively moderate, as a result of the weak demand for loans following the disappointing economic growth. Three-month fixed deposit rates fell to 1.00%-2.50% at year-end, from 1.50%-3.00% at the end of 2013. The gross loan-to-deposit ratio of the Thai commercial banking sector dropped to 95.7% at the end of 2014, from 97.7% at the end of the preceding year, as loans grew at a pace slower than for deposits. Also, the combined loan-to-deposit and B/E ratio of the Thai commercial banking sector decreased to 95.1% at the end of 2014, from 96.5% at the end of the preceding year.

As at December 31, 2014, the Thai commercial banking sector's gross NPLs on a consolidated basis stood at Baht 287.9 billion, up from Baht 279.3 billion in 2013. In percentage terms, the NPL ratio decreased to 2.5%, from 2.6% the year before. The increase in absolute NPLs was from consumer loans (mainly housing and auto loans), as well as from loans to wholesale and retail trade. Furthermore, the NPL coverage ratio of the banking sector in 2014 remained at the same level as the prior year at 137%.

All Thai banks adopted Basel III from January 1, 2013. As at December 31, 2014, the Thai commercial banking sector's total capital adequacy on a bank-only basis stood at 16.3%, higher than the current minimum regulatory capital requirement under Basel III of a total capital ratio of not less than 8.5%.

Overall, the improvements in the Thai banking sector in 2014 were driven by (1) strong income growth driven by NII; (2) strong capital positions; and (3) relatively stable asset quality and coverage ratios.

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 competition on the launch of the ASEAN Economic Community (AEC) at the end of 2015.

In 2015 and beyond, Thai banks are likely to strengthen their income-generating capabilities but with an increasing emphasis on cost-control measures. Banks will face a relatively bleak outlook given the still tentative economic recoveries in both the domestic and global market. 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, 2014, deposits accounted for 70.2% of SCB's funding base. Other major sources of funds were: 10.6% from shareholders' equity; 5.6% from liabilities under insurance contracts recorded by the Bank's insurance subsidiaries (SCB Life Assurance PCL); 5.2% from interbank borrowings; and 4.2% from the issuance of debt instruments (excluding B/E). The funds were applied as follows on December 31, 2014: 65.8% was used for loans; 18.6% was applied to net investments in securities; 10.8% was lent in the interbank and money markets; and 1.6% was held in cash.

### Debt issued and borrowings

As at 31 December 2014 and 2013, debt issued and borrowings were as follows:

(in million Baht)								
(Consolidated)	Interest rate (%)	Year of maturity	2014			2013		
			Domestic	Foreign	Total	Domestic	Foreign	Total
Bonds								
- US Dollar	3.38-3.90	2016-2019	-	73,625	73,625	-	49,513	49,513
Subordinated bonds								
- Baht	4.50-6.25	2022-2024	40,000	-	40,000	40,000	-	40,000
Structured notes								
- Baht	0.65-0.77	2014-2015	104	-	104	46	-	46
Bill of Exchanges								
- Baht	3.00-4.83	2014	-	-	-	5,222	-	5,222
Others			188	-	188	231	-	231
<b>Total</b>			<b>40,292</b>	<b>73,625</b>	<b>113,917</b>	<b>45,499</b>	<b>49,513</b>	<b>95,012</b>

### Funding Policy

The Bank has a policy of maintaining balanced growth between the sources and uses of funds by taking into account cost, income, and maturity of both the source and use 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 the underlying liquidity risk, SCB maintains adequate liquidity at all times, by ensuring 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. Further, 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 – well in excess of the regulatory minimum of 6%. At the end of December 2014, the Bank had liquid assets at 28.55% 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 criteria. 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 existing clients in order to expand business and for seeking new clients and markets. Organization of the business origination units is based on the nature of various 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, which is approved by the Executive Committee or Retail Credit Committee. 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 governs 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 a client's 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 their approval authority for further consideration by the Executive Committee. The Credit Committee also considers underwriting risk for firm underwrite transactions. Firm underwriting is the process in which the Bank takes the responsibility (and risk) of selling the specific allotments of securities

(both equity and debt) to the public at the price specified. Hence, the Bank is responsible for any unsold securities.

### **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 million and Baht 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 the 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 adopted 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 January 1, 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 the highest quality of capital for loss absorption, e.g., common equity Tier 1 (CET1) 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 CET1, which will be phased in at 0.625% p.a. starting from January 1, 2016 to

January 1, 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 January 1, 2013, SCB adopted the Basel III guidelines on a bank-only basis, as well as the early adoption of the Basel III guidelines on a consolidated basis from the same date. 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 continues to manage, monitor and report its capital adequacy position through the internal capital adequacy assessment process (ICAAP), which includes developing estimates of capital requirements 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 December 31, 2014, under the Basel III framework, the Bank had total capital of Baht 294 billion, of which Baht 237 billion is classified as CET1/Tier 1 capital (13.6% of risk-weighted assets) and Baht 58 billion (3.3% of risk-weighted assets) is classified as Tier 2 capital. For SCB Financial Group, the total capital stood at Baht 302 billion, of which Baht 244 billion is classified as CET1/ Tier 1 capital (13.7% of risk-weighted assets) and Baht 58 billion (3.3% of risk-weighted assets) is classified as Tier 2 capital.

Furthermore, if the Bank's 2H14 net profit were to be incorporated in determining capital adequacy, CET1/ Tier 1 capital would stand at 14.8% on a Bank-only basis and 14.9% on a consolidated basis.

Hence, the Bank is confident that its current high level of capital is more than adequate to support its planned business growth and meet any new regulatory requirement as well as providing a cushion against the impact from adverse economic conditions in the future.

**Legal Capital Funds (Consolidated Supervision)**

	(in million Baht)	
<b>Base I Consolidated Supervision</b>	<b>2014</b>	<b>2013</b>
Tier 1 capital	243,919	208,719
Tier 2 capital	57,835	59,135
<b>Total capital funds</b>	<b>301,754</b>	<b>267,854</b>
Total Tier 1 capital / Total risk weighted assets (minimum 6.00%)	13.7%	12.0%
Total Tier 2 capital / Total risk weighted assets	3.3%	3.4%
Total capital / Total risk weighted assets (minimum 8.50%)	17.0%	15.4%
Total risk weighted assets	1,776,687	1,738,165

**3. Risk Factors****Risk Management and Risk Factors****Risk Management**

Implicit after SCB's many consecutive years of increasing success is the mandate to sustain and build further upon this performance. This in turn requires a stance of ongoing prudence and circumspection, especially because the Bank's presence continues to grow in terms of assets, customers and staff. As its operations increase in complexity and size, and stakeholders raise their expectations, the Bank must take all these into account. SCB thus emphasizes vigilance in risk management as a key responsibility and top priority.

As a result, the Bank maintains a robust risk management framework, which centers on four major parts described below. This framework is supervised by a transparent and sturdy governance structure that has ten distinct components, also detailed below. For the purpose of effectiveness in risk management, the Bank has classified its key risks into 16 categories, each of which has corresponding risk management procedures, as discussed at the end of this section.

By continually strengthening the format and performance of the Bank's risk management framework and governance, SCB will stay cognizant of current and emerging economic conditions, whether favorable or otherwise.

An overview of the Bank's risk management system, risk management governance structure and key risk factors follows.

**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 types 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 the 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 assets and liabilities and also from 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 requires a review of the risk profiles of all new products and material changes to existing products. It also mandates oversight of the Bank's insurance management framework 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 implement 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 review and approve the Bank's major risk management policies, e.g., Credit Policy Guide; Internal Capital Adequacy Assessment Process Policy (ICAAP Policy); Stress Testing Policy; Market Risk Policy; Trading Book Policy; Interest Rate Risk in Banking Book Policy; Operational Risk Policy; Business Continuity Management Policy; Strategic Risk Management Guidelines; Reputation Risk Management Guideline; and Liquidity Risk Policy.

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

### **2. Authority**

The Board of Directors has the authority and responsibility for approving the delegation of its 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 and approval.

### **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 for approval. In

addition, the Executive Committee is authorized to approve loans and investments, and to administer related functions as pre-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, internal control, 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 for approval; 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 to enhance internal control. 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 using 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 by 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 interest rate fluctuations under normal and stress situations. To monitor IRRBB, the Bank produces a repricing gap report to analyze and estimate the risk. This 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 future cashflow to cover its activities under both normal and stress 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 risk. 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 front-line business unit, 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 oversees business process and related risk. The Bank's third line of defense are the independent assurance providers (e.g., internal audit and other independent assurance providers), who provide independent review and objective assurance on the effectiveness of the internal control system.

Additionally, the operational risk management function presents 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 in accordance with 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 or substantially 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 another year of weak growth in 2014. Domestic demand was stagnant through the first half of the year, when political unrest hindered the functioning of government and eroded public sentiment. Exports deteriorated for the second year in a row amid lackluster global demand and a drop in commodity prices.

SCB forecasts that Thailand's GDP will expand by 3.0-3.5% in 2015. Domestic spending is on course to recover as the government expedites budget disbursements and invests in long-delayed infrastructure projects. The resulting boost in business sentiment will stimulate private investment. Cheaper energy due to global oversupply of oil will lower businesses' operating costs and give households more purchasing power. Yet exports will expand only marginally as a result of the fragility in world demand and structural changes in some key markets, such as for autos and electrical appliances that will reduce demand for Thai-made products.

One uncertainty in the domestic economic outlook is how fast the government can finalize and disburse the infrastructure related investments, which are crucial to boosting economic activity in the

short- and medium-term, and to enhancing the nation's competitiveness in the long-term. Household debt, which stands at over 80% of GDP and is concentrated among low-income households, poses a challenge to a recovery in consumption. Farm incomes, already eroded by the drop-off in commodity prices, may be further depressed in the event of drought and water shortages, which could reduce the off-season rice crop by as much as one-third. External risk lies in the divergence in monetary policies among the world's major economies, which may prompt a new round of volatility in capital flows. Central bank bond-buying programs in Japan and the euro zone will strengthen the baht against the yen and euro, weighing on Thai exports to these economies. The U.S. federal funds rate is expected to rise by the end of year, which should push up global borrowing costs. Thailand's policy interest rate, however, is expected to remain accommodative throughout the year.

To manage the risk arising from economic fluctuations, the Bank regularly reviews its credit quality to ensure the adequacy of the loan loss provisions, and regularly monitors its portfolio for potential credit concentration that can jeopardize the Bank's solvency in the event of a severe economic contraction. In accordance with regulatory guidelines, the Bank has also established an internal capital adequacy assessment process, or ICAAP, to help ensure capital adequacy by assessing the types and levels of risks facing the Bank. Stress testing is a key capital assessment techniques that the Bank employs under ICAAP to ensure that it 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, the Bank requires that lending is not concentrated in a particular industry. This 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 of 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 2014, Bank-only NPLs stood at Baht 41,626 million, up in absolute terms from Baht 38,233 million in 2013, and were flat in terms of percent of total credit, to 2.1% in 2014. These NPLs can be classified into four categories: restructured debts 56.1%, debts pending completion of restructuring negotiations 21.3%, debts pending the outcome of legal proceedings 11.7%, and debts pending legal execution 10.9%.

The Bank manages its NPL risk by setting aside adequate loan loss provisions for expected losses. At the end of 2014, the Bank had total loan loss provisions of Baht 58,252 million, covering 139.9% 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 2014, the Bank's obligations arising from aval and guarantees, liability under unmatured import bills, and letters of credit amounted to Baht 45,793 million (a 17.9% 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**

Because 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 establishing 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 the 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 the 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, 2014, the Bank's foreign currency position was as a net debtor of USD 325 million (USD equivalent), and VaR was Baht 25.54 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, assuming all other factors are constant, 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, 2014, VaR of interest rate risk exposure in the trading book was Baht 93.77 million. For the banking book, a 1% increase of interest rates for a period of one year would increase net interest income by Baht 1,765 million, and will decrease economic value by Baht 2,331 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. At the same time, a bank uses funding from these sources to extend loans that generally have longer tenure than the deposits.

To manage the underlying 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. Further, 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 – well in excess of the regulatory minimum of 6%. At the end of December 2014, the Bank had liquid assets at 28.55% 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, or survival arising from factors such as changes in the environment the Bank operates in, adverse strategic decisions, improper implementation of decisions, 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 setting process itself and through the assessment of strategic risk. The strategy process – including strategic planning, alignment and change management, implementation and monitoring and performance evaluation and feedback – is designed so as to ensure the sufficiency of information taken into consideration in formulating and implementing strategy. The risk assessment, which is a part of the Bank's risk materiality assessment framework, is performed to monitor potential strategic risk 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 to recommend prompt action (if required). Also, 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 has implemented. The respective units perform risk and control self-assessments (RCSA); 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. The RCSAs are revisited on a regular basis in order to identify new emerging risks or any deterioration in control conditions. The results are presented to business units committees and relevant senior committees for agreement and setting of action plans to mitigate or eliminate the risk where the exposure is deemed unacceptable.

To ensure that critical businesses and service to customers are not materially disrupted during a crisis or unexpected circumstances, the Bank continued to improve its crisis management and business continuity capabilities throughout 2014.

### **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 division ("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 ensure that the Bank and its subsidiaries in the SCB Financial Group are in compliance with applicable statutory laws, rules and regulations as well as the Bank's 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 regarding the Bank.

To manage this reputation risk, the Bank relies upon the participation of the Board of Directors and senior management in order to obtain different opinions for assessing the risk to its reputation 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 requiring, in the first instance, that 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. This referral is 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.

PR and CSR Division 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 Strategic Marketing Management and Communication 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 adopted 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 January 1, 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 the highest quality of capital for loss absorption, e.g., common equity Tier 1 (CET1) 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 CET1, which will be phased in at 0.625% p.a. starting from January 1, 2016 to January 1, 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 January 1, 2013, SCB adopted the Basel III guidelines on a bank-only basis, as well as the early adoption of the Basel III guidelines on a consolidated basis from the same date. 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 continues to manage, monitor and report its capital adequacy position through the internal capital adequacy assessment process (ICAAP), which includes developing estimates of capital requirements 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 December 31, 2014, under the Basel III framework, the Bank had total capital of Baht 294 billion, of which Baht 237 billion is classified as CET1/Tier 1 capital (13.6% of risk-weighted assets) and Baht 58 billion (3.3% of risk-weighted assets) is classified as Tier 2 capital. For SCB Financial Group, the total capital stood at Baht 302 billion, of which Baht 244 billion is classified as CET1/ Tier 1 capital (13.7% of risk-weighted assets) and Baht 58 billion (3.3% of risk-weighted assets) is classified as Tier 2 capital.

Furthermore, if the Bank's 2H14 net profit were to be incorporated in determining capital adequacy, CET1/ Tier 1 capital would stand at 14.8% on a Bank-only basis and 14.9% on a consolidated basis.

Hence, the Bank is confident that its current high level of capital is more than adequate to support its planned business growth and meet any new regulatory requirement as well as providing a cushion against the impact from adverse economic conditions in the future.

### **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 five 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 December 31, 2014 and 2013, the value of premises and equipment, net were as follows:

	(in Baht million)	
(Consolidated)	2014	2013
Land	13,905	14,352
Premises	23,400	23,726
Equipment	21,431	21,573
Others	438	378
Total	59,174	60,029
<u>Less</u> Accumulated depreciation	(24,891)	(24,147)
Allowance for Impairment	(507)	(507)
<b>Premises and equipment, net</b>	<b>33,776</b>	<b>35,375</b>

##### Long-term leases and service agreements

As at December 31, 2014 and 2013, the remaining rental and service expenses to be paid for long-term leases and service agreements were as follows:

		(in Baht million)	
(Consolidated)	Period	2014	2013
Land and/or premises	Within 1 year	1,859	1,685
	1 - 5 years	1,682	1,379
	Over 5 years	192	209
Equipment	Within 1 year	3	16
	1 - 5 years	2	8
Vehicles	Within 1 year	241	282
	1 - 5 years	305	469
<b>Total</b>		<b>4,284</b>	<b>4,048</b>

## 2. Loans to customers

As of December 31, 2014, loans (excluding accrued interest receivable) were Baht 1,777,135 million, up Baht 41,854 million (2.4%) from the end of 2013.

### 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 December 31, 2014, non-performing loans in the consolidated financial statement were Baht 42,743 million, representing 2.1% of total loans, up Baht 2,751 million from Baht 39,992 million (2.1%) in 2013.
- Classified debtors under the Bank of Thailand's criteria consist of loans and accrued interest receivables as follows:

**Loans and accrued interest receivables\***

(in Baht million)

(Consolidated)	2014	2013
Normal	1,675,361	1,665,762
Special Mention	62,790	33,588
Sub-Standard	16,709	12,035
Doubtful	8,265	7,204
Doubtful Loss	17,824	20,824
<b>Total</b>	<b>1,780,949</b>	<b>1,739,413</b>

\* Net of deferred revenue

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

**Classified assets**

(in Baht million)

(Consolidated)	2014	2013
Normal	1,927,992	1,799,720
Special Mention	62,791	33,589
Sub-Standard	16,712	12,036
Doubtful	8,269	7,206
Doubtful Loss	21,849	25,901
<b>Total</b>	<b>2,037,613</b>	<b>1,878,452</b>

**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 September 1, 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 Baht million)

(Consolidated)	2014	2013
As at January 1,	59,942	51,510
Bad debt and doubtful accounts	14,893	15,595
Bad debts written off	(15,843)	(7,123)
Others	22	(40)
<b>As at December 31,</b>	<b>59,014</b>	<b>59,942</b>

#### Revaluation allowance for debt restructuring

(in Baht million)

(Consolidated)	2014	2013
As at January 1,	374	446
Decrease during the year	(374)	(72)
<b>As at December 31,</b>	<b>-</b>	<b>374</b>

**Loan classification and allowance as at December 31, 2014**

(in Baht million)							
(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	1,675,361	1,490,991 *	1	14,862	154,538	2,240	17,102
Special Mention	62,790	52,337 *	2	1047	9,895	1,811	2,858
Sub-Standard	16,709	7,199 **	100	7,199	1,151	424	7,623
Doubtful	8,265	2,812 **	100	2,812	719	262	3,074
Doubtful Loss	17,824	9,749 **	100	9,749	1,789	683	10,432
<b>Total</b>	<b>1,780,949</b>	<b>1,563,088</b>		<b>35,669</b>	<b>168,092</b>	<b>5,420</b>	<b>41,089</b>
Allowance established in excess of BoT regulations							17,925
<b>Total</b>							<b>59,014</b>

\* 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 2014 was to set aside annualized loan loss provisions of approximately 80-85 bps of total loans outstanding on a bank-only basis. These annualized credit costs incorporate a reasonable quantum of prudential provisions given the relatively bleak economic landscape for 2014 at the start of the year. However, toward the second-half of 2014, business and consumer sentiment started to improve and this recovery tempered the anticipated provisioning level. On a **bank only** basis, the Bank has set aside Baht 13,239 million of impairment loss provision for 2014. On a **consolidated** basis, the provision was Baht 13,214 million in 2014 or 75 bps of total loans, which was lower than provisions on a bank-only basis, mainly due to a clawback of provisions at the Bank's subsidiaries.

The Bank's total allowance for doubtful accounts at the end of December 2014 stood at Baht 59,014 million, a decrease from Baht 60,317 million at the end of December 2013. Total NPLs increased 6.9% yoy to Baht 42,743 million at the end of December 2014. The ratio of NPL-to-loans stood at 2.11% at the end of December 2014, down from 2.14% at the end of December 2013, while the coverage level for NPLs excluding any collateral consideration has decreased to 138.1% at the end of December 2014, from 150.8% at the end of December 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 December 31, 2014, the changes to the properties for sale, net were as follows:

				(in Baht million)
(Consolidated)	Balance at Jan 1, 14	Additions	Disposals	Balance at Dec 31, 14
Foreclosed assets				
Immovable assets	9,561	2,474	(2,311)	9,724
Movable assets	1,119	7,131	(7,556)	694
Total	10,680	9,605	(9,867)	10,418
Others	298	611	(611)	298
Total properties for sale	10,978	10,216	(10,478)	10,716
Less allowance for impairment	(1,328)	(40)	373	(995)
<b>Total properties for sale, net</b>	<b>9,650</b>	<b>10,176</b>	<b>(10,105)</b>	<b>9,721</b>

### 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 associates. The Bank presents these investments in the statement of financial position as either investments or investments in subsidiaries and associates.

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

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

Investments in subsidiaries and associates 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 2014, the Bank set aside investment in debt and equity securities in a total amount of Baht 1,111 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, 2014 can be divided into two categories as follows:

#### **Investment in the SCB Financial Group**

The Bank has established its Financial Group with the objective of focusing on long-term investments in financial services and companies supporting its banking services. To be 'the Premier Universal Bank' in Thailand with a high yet sustainable return, the Bank encourages companies under this umbrella to collaborate for the maximum benefit of the group as a whole.

#### **Investment in Other Businesses**

The Bank's objective for investments outside the Financial Group is either to yield high returns from these investments in terms of dividends and capital gains and/or to strengthen the long-term relationship with its business partners and customers.

#### **Investment Supervision and Risk Management**

The Bank's investment supervision covers policy formulation and business operations, risk management for the overall group and specific businesses, and periodical monitoring of performance and risk.

Furthermore, the Bank has nominated some of its executives to serve as directors in some of the other Businesses in which it has invested outside its Financial Group, as described above, to ensure that their business operations are in line with the Bank's expectations. Also, its executives serve on the Board of Directors of all companies in the SCB Financial Group.

#### **Obligation associated with assets**

- Nil -

#### **Land and Building**

The company owns the following plots of land and buildings, used as its office and branches to conduct business, which are free from any mortgages or pledges as of 31 December 2014:

<b>Items</b>	<b>Ownership</b>	<b>Value (Million Baht)</b>
Land	Owned	13,905
Building	Owned	23,400

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## 5. Legal Dispute

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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 December 31, 2014.

On March 21, 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 June 1, 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 May 30, 2008, the Civil Court dismissed the charge and the plaintiff filed an appeal. On July 25, 2012, the Appeals Court upheld the judgment of the Civil Court dismissing the claim.

On November 7, 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 December 25, 2012. The case is currently in the Supreme Court's consideration.

The Bank believes that its 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:	<a href="http://www.scb.co.th">www.scb.co.th</a>
Tel:	66 2 544-1000
Fax:	66 2 937-7721
SCB Call Center:	66 2 777-7777
SCB Business Call Center	66 2 722-2222

## Securities

Registered capital, as at December 31, 2014, stood at Baht 70,000 million, comprising:

3,415,762,624 common shares	par value	10	Baht
3,584,237,376 preferred shares	par value	10	Baht

Paid-up capital, as at December 31, 2014, stood at Baht 33,992 million, comprising:

3,394,311,986 common shares	par value	10	Baht
4,880,212 preferred shares	par value	10	Baht

## Reference information

## Registrar

Ordinary and Preferred Shares	Thailand Securities Depository Company Limited The Stock Exchange of Thailand 62 Ratchadapisek Road Klongtoey, Bangkok 10110 Thailand Tel: 0-2229-2800 and 0-2654-5599 Fax: 0-2359-1259
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Siam Commercial Bank	Siam Commercial Bank Public Company Limited
Subordinated Debentures No. 1/2012,	9 Ratchadapisek Road, Jatujak,
due in 2022, where the issuer	Bangkok 10900, Thailand
has the right to redeem prior to maturity	Tel: 66 2544-1111 Fax: 66 2544-2658

Siam Commercial Bank Subordinated Debentures No. 2/2012, due in 2024, where the issuer has the right to redeem prior to maturity	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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Senior Unsecured Notes	Deutsche Bank Luxembourg SA
USD 400 million 3.9% due November 2016	2 Boulewarde Konrad Adenauer L-1115 Luxembourg Luxembourg
Senior Unsecured Notes	Deutsche Bank Luxembourg SA
USD 1,100 million 3.375% due September 2017	2 Boulewarde Konrad Adenauer L-1115 Luxembourg Luxembourg
	Deutsche Bank Trust Company Americas 60 Wall Street, 27 <sup>th</sup> Floor New York, New York 10005 United States
Senior Unsecured Notes	Deutsche Bank Trust Company Americas
USD 750 million 3.5% due April 2019	60 Wall Street, 16 <sup>th</sup> Floor New York, New York 10005 United States

**Fiscal Agent**

Senior Unsecured Notes	Deutsche Bank AG, Hong Kong Branch
USD 400 million 3.9% due November 2016	Level 52, International Commerce Centre 1 Austin Road West, Kowloon Hong Kong
Senior Unsecured Notes	Deutsche Bank AG, Hong Kong Branch
USD 1,100 million 3.375% due September 2017	Level 52, International Commerce Centre 1 Austin Road West, Kowloon Hong Kong
	Deutsche Bank Trust Company Americas 60 Wall Street, 27 <sup>th</sup> Floor New York, New York 10005 United States
Senior Unsecured Notes	Deutsche Bank AG, Hong Kong Branch
USD 750 million 3.5% due April 2019	Level 52, International Commerce Centre 1 Austin Road West, Kowloon Hong Kong

**Auditor**

Mr. Winid Silamongkol	Certified Public Accountant (Thailand) Registration No. 3378
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, 50<sup>th</sup>-51<sup>st</sup> 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, 2014 the Bank owned 10% or more of the issued shares of the following companies.

No.	Company name and Address	Type of business	Type of shares	Paid-up shares	Number of shares	% of ownership*
1	<b>THE CAMBODIAN COMMERCIAL BANK LTD.</b> 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	350,000	350,000	100.000%
2	<b>SCB PLUS CO., LTD.</b> 1060 Tower 3 <sup>rd</sup> , 9 <sup>th</sup> -10 <sup>th</sup> 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	<b>SCB TRAINING CENTER CO., LTD.</b> 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	<b>RATCHAYOTHIN ASSET MANAGEMENT CO., LTD.</b> SCB Park Plaza Bldg., Tower West A, 12 <sup>nd</sup> 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	<b>MAHISORN CO., LTD. <sup>(2)</sup></b> SCB Park Plaza, Tower East, 2 <sup>nd</sup> Floor, 18 <sup>th</sup> -19 <sup>th</sup> Ratchadapisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2937-5400 Fax: 0-2937-5438	Property (Building) management	Ordinary	669,490	669,490	100.000%
6	<b>SIAM PHITIWAT CO., LTD.</b> 569 Ramkamhaeng Soi 39, Ramkamheang Rd., Wangthonglang, Bangkok 10310 Tel: 0-2530-7500 Fax: 0-2530-7515-6	Appraisal service	Ordinary	1,000,000	1,000,000	100.000%
7	<b>SCB ASSET MANAGEMENT CO., LTD.</b> SCB Park Plaza Bldg., Tower 3 East, 21 <sup>st</sup> -22 <sup>nd</sup> 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	<b>SCB SECURITIES CO., LTD.</b> SCB Park Plaza Bldg., Tower 3 East, 20 <sup>th</sup> -21 <sup>st</sup> Floor, RCP Tower G Floor, 19 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2949-1000 Fax: 0-2949-1001	Securites	Ordinary	200,000,000	200,000,000	100.000%
9	<b>SOR.OR.KOR. PCL <sup>(1)</sup></b> (The Siam Industrial Credit PCL) 9 Siam Commercial Bank PCL, Head Office, 19 <sup>th</sup> Floor, Zone C, Ratchadapisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2544-2301-4 Fax: 0-2544-3317	Commercial	Ordinary	597,423,062	595,883,972	99.742%

No.	Company name and Address	Type of business	Type of shares	Paid-up shares	Number of shares	% of ownership*
10	<b>SIAM COMMERCIAL LEASING PCL</b> SCB Park Plaza Bldg., Tower 2 West, 22 <sup>nd</sup> Floor, 18 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2949-1800 Fax: 0-2949-1900	Collection Company	Ordinary	567,797,502	564,336,277	99.390%
11	<b>SCB LIFE ASSURANCE PCL</b> Siam Commercial Bank PCL (Chidlom), Bldg. 1, 4 <sup>th</sup> -10 <sup>th</sup> 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%
12	<b>SIAM SAT NETWORK CO., LTD.</b> <sup>(1) (3)</sup> SCB Park Plaza Bldg., Tower 2 West, 21 <sup>st</sup> Floor, 18 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900	Settlelite service	Ordinary	11,250,000	9,182,012	81.618%
13	<b>SIAM TECHNOLOGY SERVICE CO. LTD.</b> <sup>(1) (2)</sup> SCB Park Plaza Bldg., Tower 1 West, 18 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900	Consultant	Ordinary	3,000,000	1,949,993	65.000%
14	<b>SIAM MEDIA AND COMMUNICATION CO., LTD.</b> <sup>(1)</sup> SCB Park Plaza Bldg., Tower 2 West, 17 <sup>th</sup> -22 <sup>nd</sup> Floor, 18 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900	Holding company	Ordinary	7,000,000	2,333,800	33.340%
15	<b>VINA SIAM BANK</b> 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%
16	<b>SUPERNAP (THAILAND) CO., LTD.</b> SCB Park Plaza Bldg., Tower East, 18 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2544-2301 Fax: 0-2544-3317	Data center	Ordinary	141,000,000	35,250,000	25.000%
17	<b>NATIONAL ITMX CO., LTD.</b> 5/13 Moo 3, Chaengwattana Rd., Khlongkluea, Pakkret, Nonthaburi 11120 Tel: 0-2558-7555 Fax: 0-2558-7566	Payment system service provider	Ordinary	500,000	98,600	19.720%
18	<b>THAI U.S. LEATHER CO., LTD.</b> <sup>(1)</sup> 39/98 Rama II Rd., Banghrachao, Muang, Samutsakhon 74000 Tel: (034) 490-082-7	Industry	Ordinary	25,000,000	2,500,000	10.000%
19	<b>NAVUTI CO., LTD.</b> 920/4 Moo 7, 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%
20	<b>THAI OBAYASHI CORP., LTD.</b> 161 Nantawan Bldg., 11 <sup>st</sup> 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%

**Remarks**

\* In case of indirect investment by Bank's affiliates, in which the Bank holds more than 30% of their 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, or in process of dissolution or liquidation.

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

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