

<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**

Siam Commercial Bank (SCB) was established by Royal Charter as Thailand's first indigenous bank on January 30, 1906. Since its inception, the Thai Royal Family and later the Crown Property Bureau have been the Bank's major shareholder. Over the past 110 years, SCB has had a pivotal role in shaping the Thai financial services landscape through many economic cycles and periods of political strife. With the strong support of its major shareholder, it has managed to emerge from these changes as a bigger, better and stronger Bank and today has the highest market capitalization in the financial sector.

Following the Asian financial crisis in 1997, SCB undertook a major recapitalization 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, 2015, 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%.

**Key Developments in 2015**

The Bank went through a major reorganization in 2015 to promote collaboration across functional units, empowerment and decision-making agility as well as customer centricity. As a result, SCB's organizational structure is now centered around five organizational clusters:

1. Customer Segment Cluster: Retail Segment, SME Segment, Wealth Segment, Corporate Segment and Client Acquisition.
2. Product Cluster: Auto Finance and Personal Loan Products, Mortgage and SSME Products, Retail Banking Solutions, Retail Credit, Commercial Banking Products, Investment Banking and Capital Markets, and Wealth Products.
3. Strategic Cluster: Corporate Strategy and Business Development, Business Strategy, Transformation, Partnership and Alliance, Digital Banking, International Banking and Human Resources.
4. Risk and Control Cluster: Risk Management, Audit, Legal, Compliance, Finance and Group Treasury, Financial Crime and Security Services, and Safety and Security.
5. Support Cluster: Special Business, Technology, Operations, MIS, CSR and Corporate Communications, Branding and Marketing, and Economic Intelligence Center (EIC).

## Management structure

As of January 1, 2016

### Functions under Each Organizational Grouping

Customer Segment	Product	Strategic	Risk and Control	Support
<ul style="list-style-type: none"> <li>• Retail Segment</li> <li>• SME Segment</li> <li>• Wealth Segment</li> <li>• Corporate Segment</li> <li>• Client Acquisition</li> </ul>	<ul style="list-style-type: none"> <li>• Auto Finance &amp; Personal Loan Products</li> <li>• Mortgage and SSME Products</li> <li>• Retail Banking Solutions</li> <li>• Retail Credit</li> <li>• Commercial Banking Products</li> <li>• Investment Banking and Capital Markets</li> <li>• Wealth Products</li> </ul>	<ul style="list-style-type: none"> <li>• Partnership &amp; Alliance</li> <li>• Transformation</li> <li>• Digital Banking</li> <li>• Corporate Strategy and Business Development</li> <li>• International Banking</li> <li>• Human Resources</li> <li>• Business Strategy</li> </ul>	<ul style="list-style-type: none"> <li>• Risk Management</li> <li>• Audit</li> <li>• Legal</li> <li>• Compliance</li> <li>• Finance &amp; Group Treasury</li> <li>• Financial Crime and Security Services</li> <li>• Safety and Security</li> </ul>	<ul style="list-style-type: none"> <li>• Special Business</li> <li>• Technology</li> <li>• Operations</li> <li>• MIS</li> <li>• CSR and Corporate Communication</li> <li>• Branding and Marketing</li> <li>• Economic Intelligence Center (EIC)</li> </ul>

### Major SCB Group Companies

<b>SCB</b> Securities 100% of ownership	<b>SCB</b> Asset Management 100% of ownership	<b>SCB</b> Life Assurance 99.17% of ownership
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## 2. Nature of Business Performance

### 2.1 Products and Services Features

#### Business Overview

As a leading universal banking group in Thailand, SCB provides 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.

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.

#### Percent of revenue for each business unit

(Consolidated, %)	2015	2014	2013
Corporate Segment <sup>*, **</sup>	20	21	22
SME Segment <sup>*</sup>	14	15	16
Retail Segment <sup>*, ***</sup>	57	57	55
Others <sup>****</sup>	9	7	7

\* Results of major subsidiaries have been allocated to each segment as appropriate.

\*\* Including Client Acquisition (mid-corporate) Segment

\*\*\* Including Wealth Segment

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

**2015 Performance**

2015 was a challenging year for SCB, characterized by a weaker-than-expected economy, a few one-off adverse events specific to SCB, as well as a leadership transition and ensuing internal reorganization of the Bank. While these challenges culminated in a decline in SCB's net profit for the first time in more than five years, the Bank has continued to outperform its sector and maintained its leadership position in terms of net profit and market capitalization. SCB's relatively sound financial results despite challenging conditions reflects the resilience of its business model, the soundness of its business strategies and its effective execution.

In 2015, the Bank registered a return-on-equity (ROE) of 15.9%, with a net profit of Baht 47.2 billion, an 11.5% yoy decrease of Baht 6.1 billion from the net profit of Baht 53.3 billion recorded in 2014.

Total income, at Baht 137.4 billion, increased 7.2% from 2014, mainly due to large gains from the sale of equity investments in 3Q15. Excluding these large one-off gains on investment, the 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 rose by 2.1% from the prior year, primarily due to the significant reduction in the cost of deposits in line with the Bank's strategy. Non-interest income also rose, due mainly to large gains on the sale of equity investments in 3Q15, while net trading and FX income and net fee income continued to grow.

To maintain stable profitability despite the sluggish economy, the Bank continued to focus on cost control and productivity improvements, resulting in a cost-to-income ratio excluding the large one-time investment gains of 36.6% (if the one-time investment gains were included the ratio would be 35.6%), an improvement from 37.5% in 2014, and much better than the target of 38-40% set at the start of the year.

The Bank reported total assets of Baht 2.77 trillion, an increase of Baht 74 billion (or 2.8%) from the end of 2014, the slower underlying growth reflective of the prevailing economic conditions.

Total loans grew by 3.2% yoy, in line with the Bank's revised target, which was revised downward as a result of both global economic volatility and lackluster economic growth in Thailand. The ratio of NPLs to total loans increased to 2.9%, after loans to two large corporate customers (SSI and SSI-UK) were classified as NPLs as well as the rising default levels in the SME and mortgage segments, which were affected by the weak economy. Further, the Bank set aside a 100% provision for SSI-UK, assuming no collateral value, and subsequently wrote off this loan at the end of 3Q15. For the loan to SSI Thailand, the Bank made substantial additional provisions. As a result, the provisions for loan losses increased significantly from Baht 13.2 billion in 2014 to Baht 29.7 billion in 2015. Given the significant rise in NPLs, the NPL coverage ratio fell from 138.1% to 109.8% in 2015.

The Bank maintained its leadership in a range of products and services across customer segments, as well as a leading position in terms of network reach throughout the country. At the end of 2015, the Bank had 1,209 branches, 9,904 ATMs, and 104 foreign exchange kiosks. In addition, the Bank

continued its significant investment in developing digital capabilities which was reflected in the rapid growth in its registered user base of mobile and internet banking services in 2015.

As a business in the services industry, the Bank believes in the critical importance of nurturing a high level of employee engagement, together with a high level of customer engagement. The Bank contracts third-party experts to measure both of these engagement levels using proven methodologies. The survey results show that SCB's robust engagement model has helped attain industry-high levels of customer and employee engagement, providing the Bank a unique competitive edge today and the best assurance of sustainable profitability in the years ahead.

## 2015 Highlights

### SCB sustained a strong market position in the Thai banking sector:

- Net profits at Baht 47.2 billion were the highest in the Thai financial sector despite a year-on-year decline due to the increase in loan loss provisions.
- A market capitalization of Baht 406 billion (as of December 30, 2015), the highest of the listed financial institutions in Thailand.
- ROE at 15.9% and ROA at 1.7%, levels that rank among the highest across all Thai banks.

## Strategy

### Long-term strategic focus/corporate objective

The financial services industry is undergoing a paradigm shift from the rapid change in customers' expectations, the regulatory landscape and competition from new digital entrants. These shifts have profound implications for existing businesses, prompting the Bank to rethink its business model for the future.

As a result, the Bank has initiated a bold new transformation journey with the following key thrusts:

- Emphasize value creation and long-term sustainability.
- Dedicate resources to 'building' new growth engines while 'doing' business-as-usual. In addition to growth from its core operations, the Bank has identified an initial set of six "national agenda" initiatives and has mobilized resources accordingly. These six initiatives are as follows:
  - **SME Transformation:** Develop and implement a new SME operating model that will leverage existing retail distribution strength and new digital technologies, particularly at the smaller end of this market. An initial proof-of-concept is underway.
  - **Wealth Transformation:** Develop and implement an improved operating model and related new capabilities to emerge as the best Thai bank in supporting customers in managing and growing their wealth.
  - **Mid-Corp Expansion:** Foster differentiation and create a distinctive customer experience to broaden existing customer base and strengthen relationships in the mid-corp client segment.

- **Digitalization:** Create a new digital experience to better engage and excite customers through building a scalable digital banking platform.
  - **Business Intelligence:** Differentiate and create value for customers through distinctive insights, enabled by advanced analytics and knowledge sharing platforms.
  - **Payment:** Offer superior end-to-end payment and transaction banking solutions through a world-class payment platform and a comprehensive payment ecosystem.
- Invest in foundation-building, e.g., a new bank operating model with agile decision-making, a self-audit and control culture, cultivating a new mindset (new “DNA”) across all employees, and substantial investment in new technologies and strategic partnerships.

### Plans for 2016

In addition to embarking on the transformational journey, the Bank has identified several key performance imperatives for 2016, which aim at broadening, strengthening and sustaining the growth of its core operations:

- **Rebalance the portfolio:** Improve portfolio’s risk-adjusted return on capital (RAROC).
- **Grow within:** Increase the fee income and asset base from existing customers.
- **Drive digital:** Increase usage of all digital channels.
- **Leverage the bank:** Cross-utilize channels and customer base across the full span of the Bank’s many units and subsidiaries.

In addition, the Bank identified four key enablers to support its performance imperatives:

- **Risk:** Improve controls and centralize business intelligence.
- **Customer experience:** Reduce customer pain points, especially transactions and credit approval turnaround time.
- **Change management:** Focus on collaboration, execution and agility.
- **People:** Improve competencies through the SCB Business Institute.

Anchored on these elements, the 2016 business plan ensures that the Bank achieves long-term sustainability and value creation while continuing to deliver above-average profitability, return on equity (ROE) and return on assets (ROA).

The Bank will continue to place 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 level of customer engagement. These two drivers will further optimize shareholder value and provide a distinct competitive edge.

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

**Key Performance Targets Announced for 2016**

While the economic recovery is likely to be modest in 2016, the Bank expects to deliver competitive results, reflecting the sustainability of its performance and resilience of its strategies.

- Return-on-equity (ROE) of 15-18% (compared to 15.9% in 2015).
- Return-on-assets (ROA) at 1.6-1.9% (compared to 1.7% in 2015).
- Loan growth of 4-6% (compared to 3.2% in 2015).
- Cost-to-income ratio of 38-40% (compared to 35.6% in 2015).
- NPL ratio below 3.0% (compared to 2.9% in 2015).

**Business Operation of Four Business Units****Corporate Segment**

Setting aside the major financial impact from Sahaviriya Steel Industries and its U.K. affiliate (“SSI”) being classified as NPL, the Corporate Segment delivered positive income growth in 2015, despite a challenging economic backdrop in Thailand and globally. Structured finance solutions were a key contributor to this growth, as the Corporate Segment proved the soundness of its strategy, backed by effective execution, in growing income with less use of capital during a year characterized by weak business sentiment.

The Corporate Segment continued to sustain its leadership in investment banking, capital markets and financial markets by winning several major deals during the year. The Segment also maintained its market position in loans and deposits and grew substantially its volume of current and savings account (CASA) deposits and corporate trust services, attaining higher market share in both two sectors.

On the cost side, the Corporate Segment successfully lowered its cost of deposits while growing the deposit balance throughout the year. Likewise, effective implementation of expense control reduced total expenses, helping the Corporate Segment further optimize its profitability despite adverse conditions.

**2015 Performance**

- Delivered net operating profit growth of 6% yoy, with positive total income growth of 3% yoy (excluding the impact from SSI).
- Solid fee income growth from financial market derivatives, corporate trust and capital markets.
- Grew corporate customer CASA by 19% yoy while lowering cost thereof by 11 bps.

**Highlights of 2015**

- Good business growth with positive operating profit (excluding SSI) and relatively lower use of capital amid weak economic conditions.



- Delivered higher deposit balances while lowering cost of deposits throughout the year.
- Retained its position in the top ranks in investment banking, capital markets and financial markets.
- Successfully launched “PTT Cash Easy 1.0” as a sophisticated liquidity management solution and integrated online payment system for the national oil and gas company, marking a pioneering transformation of traditional cash management using innovative digital technology.
- Achieved industry recognition in key corporate products and services in 2015:
  - “Best Investment Bank” and “Best Foreign Exchange Bank” awards from *FinanceAsia*
  - “Best Equity House,” “Best Domestic Custodian,” “Best Domestic Bond House,” “Best Renminbi Bank” and “Best Trade Finance Solution” awards from *The Asset*.
  - “Top Underwriter” award from the Thai Bond Market Association.
  - “Best Debt House,” “Best Foreign Exchange Bank,” “Best Local Cash Management Bank for S-M-L Corporates,” “Best Overall Domestic Cash Management Services for S-M-L Corporates,” and “Best Overall Cross-Border Cash Management Services for S-M-L Corporates” awards from *Asiamoney*.
  - “House of the Year” from *Asia Risk Magazine*.
  - “Best Foreign Exchange Provider 2015” awards from *Global Finance*.

### Plans for 2016

In 2016, the Corporate Segment will focus on acquisition of new customers to broaden and diversify its base and pursue innovative structured deal solutions to maintain business growth momentum while ensuring long-term sustainability of its results. The main strategic thrusts for 2016 are to:

- Drive balance-sheet efficiency and risk-return control through disciplined portfolio management, particularly from proactively monitoring loan portfolio quality and containing, as far as possible, NPL growth.
- Overhaul the operating model to substantially expand the customer base and strengthen the franchise by active engagement of relatively passive customers, specifically from better use of SCB’s transaction banking services.
- Develop compelling value propositions through bundling products to enhance customer appeal.
- Maintain market leadership in the structured deal market by securing a majority of landmark deals through superior industry expertise and customized solutions. Building on its past successes, the Corporate Segment will transform its broad experience in closing large deals to create optimal templates and solutions for the lower-tier deals and for new clients.
- Maintain course with the government’s ambitious roadmap for infrastructure projects and identify high potential business opportunities where SCB may provide competitive value.

## SME Segment

In 2015, as the country faced sluggish economic recovery, the Bank embarked on a transformative journey to rebuild its SCB SME business unit, which will help strengthen capabilities to support Thai SMEs and expand growth in the years ahead. The Bank will continue to focus on providing superior solutions and excellent service levels for SME customers to promote sustainable growth. However, the Bank will aim to refine its operating model and improve productivity by leveraging from the retail business to better serve SME customers with integrated financial solutions and services. Also, by adopting a goal to become the customers' "Bank of Choice", the Bank will strive to accommodate the broad needs with comprehensive financial services and knowledge-sharing initiatives.

The Bank received the "Best SME Bank" award from *Alpha Southeast Asia* magazine and *Asian Banking & Finance* magazine for four consecutive years from 2012-2015, underscoring its efforts to both broaden and deepen its presence in the SME marketplace.

## 2015 Performance

- **Delivered credit growth in line with the market.** The SME lending portfolio grew by approximately Baht 16 billion, or 4.78%, to approximately Baht 357 billion, largely within the medium-size business segment and, to a lesser extent, smaller-size segment.
- **Contributed the largest portion of the government's soft loan phase 1 program** to support SMEs, allotting Baht 25 billion from a total project of Baht 100 billion to lending under this program.
- **Delivered increased fee revenue** from SMEs through a 5.93% expansion of fee-based income, largely through growth in loan-related fees.

## 2015 Highlights

- **Going beyond credit lending and driving towards transaction banking:** With an increased effort to become parts of the customers' everyday financial activities and to offer superior transaction banking, the Bank has been continuously developing and innovating its non-credit products and services to better satisfy customers' needs. Success in this area was reflected through the increased popularity of the BCM (Business Cash Management) packages, which are designed to support SME customers in managing their transactional activities, promoting more convenience and liquidity via special benefits and comprehensive product bundling. More than 10,000 packages were sold in 2015, testifying to their popularity.
- **Expanding offers across industries and throughout customers' supply chains:** By studying the SME market, the Bank has identified many new opportunities within and beyond the current market landscape. For example, the Bank has been offering a risk program to PTT gas stations which provides gas stations a significant increase in financial flexibility while also diverting some of PTT's cash management activities to SCB. Also, this business segment made a significant move to penetrate the lucrative chemical products industry, offering comprehensive financial products and solutions together with other value-added

offerings such as FX news, Economic Intelligence Center updates to downstream SME traders and manufacturers.

- **Strengthening connections among business owners/successors through networking programs:** To continue emphasizing the importance of strong business connections and the resulting business opportunities, the Bank arranged special workshops for customers under the IEP (Intelligent Entrepreneur Program) and YEP (Young Entrepreneur Program); namely, “Speed Networking” and “IEP Reunion” meeting events, which allow members from past years to return and share their experience as well as insights for running successful businesses. With up to 300 attendants at IEP and 200 at YEP (the programs have been running for 11 and 19 years successively), the events were a great success in fostering cooperation.
- **No. 1 contributor to government’s soft loan program:** In a swift response to the government’s soft loan program, SCB was the first bank to originate loans under the program, securing up to Baht 25 billion from a total project of Baht 100 billion in loans used to help boost growth in Thai SME sector; showcasing SCB as a big and committed contributor to both the program and Thai SMEs.
- **SCB as a superior and trusted brand among Thai SMEs:** Through promoting SME-related products and services over the past year, SCB SME has gained a much stronger presence and brand association among Thailand’s small enterprises. The success was also reflected in the “2015 Thailand’s Most Admired Brand among SMEs” award to SCB - given by *BrandAge* magazine. The award was based on research in major cities across the country via teams from many universities.

#### Plans for 2016

- Expand portfolio by strategically adding assets in targeted industries.
- Proactively manage portfolio quality by setting up prevention teams to assist and give advice to SME customers impacted by business downturn to ensure smooth business performance.
- Strive to increase ‘Bank of Choice’ share among SMEs by offering innovative solutions and services that promote greater convenience, financial liquidity and transaction efficiency.
- Improve and differentiate branches serving SMEs to increase convenience and pave the path for SCB to be recognized as a superior transactional bank, as well as setting the stage for future digital migration.
- Reinforce the SCB brand association with SME businesses by hosting events that proactively support SMEs, such as SCB SME expo, SCB SME Business matching, etc.

#### Retail Segment

Despite the economic headwinds in 2015, the Retail Segment, by far the Bank’s largest unit in terms of revenue and profitability, continued to deliver strong financial performance and maintained its leadership positions in key retail banking products. In light of the subdued economic outlook for 2016, the Bank will continue to maintain a cautious stance toward expansion of consumer lending,

with the aim to increase returns through prudent portfolio growth, to lower the cost of deposits and to further improve its risk management practices.

The Retail Segment remained fully committed to provide the highest level of customer service in 2015 and to efficiently operate one of the most extensive branch networks in Thailand. SCB continued to expand its network and to uplift its service level to achieve even higher customer convenience and satisfaction. During the year, the Bank added 12 branches and 367 ATMs to increase the network's physical footprint and nationwide coverage. Concurrently, the Bank enhanced its digital services to better support rapidly growing online volume of non-branch/non-cash transactions, following increased customer adoption of electronic banking channels, particularly via mobile devices.

### 2015 Performance

- **Expanded prudently while retaining #1 rank in retail credit:** Given adverse conditions in 2015, the Retail Segment focused on growing mortgage loans, which have proven resilient during economic slowdown. As a result, mortgage lending grew by 8.7% yoy, contributing to the Retail Segment's strong loan growth of 6.7% and maintaining the Bank's leadership position in retail lending. (SCB's Retail Segment is skewed toward the middle and high end of the retail market, which have faced less economic stress compared to the lower end of the market.)
- **Reduced funding cost:** The SCB Group's combined deposits and AUM (placed mainly through SCB Asset Management) increased slightly (0.1% yoy) to Baht 2,691 billion, primarily from the growth of mutual funds while deposits dropped slightly yoy. The continuous shift toward asset management products, primarily from shifting funds formerly placed in high-yield fixed deposits, is a reflection of customers' increasing appetite for higher risk and return as well as the sharp drop in fixed deposit rates across the banking sector. This ongoing shift was the main factor in reducing the cost of deposits (including B/Es) by 0.16% in 2015, which in turn resulted in a significant increase in net interest income for the Retail Segment during the year.
- **Improved asset quality:** The Retail Segment managed to contain its NPL ratio at 2.02% in 2015, a significant decrease from the 2.27% a year earlier, through pre-emptive interventions where customers faced liquidity pressures and effective NPL management, including sales.

### 2015 Highlights

- **Sustained leadership position in retail credit:** Notwithstanding intensified competition amid adverse economic conditions, the Retail Segment successfully maintained its position as Thailand's #1 provider of retail credit. Specifically, its mortgage business has continued to grow in line with market growth, supporting the entrenched #1 position of the Bank in mortgage lending, with a market share of over 30%. In terms of hire-purchase loans, credit cards and personal lending products, the focus in 2015 was on growing the portfolio

prudently and actively managing credit risks. The result was a significant decrease in aggregate retail NPLs namely, 2.02% in 2015, down from 2.27% in the preceding year.

- **Expanded network and enhanced service:** As part of its continual efforts to improve customer convenience and service quality, the Bank extended its distribution network to a total of 1,209 branches, 9,904 ATMs and 104 foreign-exchange kiosks nationwide in 2015. This expansion of SCB's market-leading footprint proceeded at a somewhat slower pace than in 2014, and in response to customer's changing lifestyles and branch-type preference, the focus was on locations with high transaction volumes, such as malls and shopping centers. In addition, SCB continued to maintain its high level of customer satisfaction as measured by the 'TRIM' index score of 89, measured on a regular basis by independent third parties. This performance stands within the 90<sup>th</sup> percentile of all banks participating in this worldwide survey.
- **Won marketplace recognition for wealth management franchise:** Despite the sluggish economy, the SCB Private Banking service for high-net-worth customers and SCB FIRST Privilege Banking for affluent customers continued to grow, with a steady increase in the number of customers in 2015. SCB supports both these customer groups with wealth management advisory services and specialized products. SCB Private Banking has won recognition and awards from globally recognized media, including:
  - "Best Private Bank" in Thailand (fourth consecutive year) in the *Euromoney* Private Banking and Wealth Management Survey.
  - The "Best Private Bank" in Thailand award (third consecutive year) from *The Banker* magazine.
  - "Best Private Bank" in Thailand award from *The Asset* magazine.

With the aspiration to provide services that correspond to a high international standard, SCB collaborated with the Wealth Management Institute (WMI) in Singapore, whose prestigious Master of Science in Wealth Management program was ranked the top in Asia and 3<sup>rd</sup> in the world by the *Financial Times* in 2015. The Bank and WMI have jointly implemented the SCB Wealth Academy programs, which will develop Private Banker and SCB FIRST Privilege relationship managers so that they have a substantially improved capacity to advise customers on investment products and to better match a portfolio to the client's risk profile.

### Plans for 2016

In 2016, the Retail Segment will further reduce its funding cost, maintain stringent risk management practices over underwriting and collection activities, and promote further adoption of digital banking. To better serve customers, the Retail Segment plans to enhance its distribution channels in major ways, to uplift service and to broaden its product offerings to address the emerging needs of all clients. In particular, it plans to:

- Drive CASA (current account and saving account) to lower the cost of funding.
- Enhance the distribution network to reflect the needs of different segments (SME, wealth customers, etc.).

- Drive digital solutions that offer customers greater convenience yet with lower operating cost to the Bank.
- Deploy Big Data technologies to gain deep customer insights.
- Equip staff with appropriate segment-specific knowledge (SME, wealth) so that they are able to offer financial advisory and solutions that match the needs of customers in all retail segments.

### **Special Business Function (SBF)**

The Special Business Function (SBF) is responsible for managing the Bank's portfolio of non-performing loans (NPLs) and non-performing assets (NPAs). Previously known as the Special Business Group, this unit broadened its scope of responsibility in 2008 to encompass the management of proactive, preventative approaches for handling potential non-performing loans. These approaches include identifying potentially 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 from a difficult business and/or financial situation.

SBF's key achievement in 2015 was its success in reducing the Bank's NPL portfolio to mitigate the impact of new delinquencies, which continued to rise as a result of weak economic conditions throughout the year. This performance reflects the effectiveness of SBF's efforts to strengthen its NPL work-out capabilities. In particular, the SBF made progress by centralizing and automating more processes, which further improved the results from debt collection activities compared to previous years.

### **2015 Performance**

- **NPL reduction:** The Special Business Function has had a pivotal role in reducing the Bank's consolidated gross NPL ratio from 3.25% at the end of 2010 to 2.89% at the end of 2015. 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 Bank successfully disposed of assets of approximately Baht 1.3 billion.
- **Prevention:** The SBF 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 borrowers in managing the financial difficulties they face. In 2012, the preventive method was upgraded to "Special Attention," which emphasized loans-at-risk and identified pre-emptive measures that could be of use for these borrowers.

In 2015 SBF developed new measures specifically for customers that were facing the brunt of the slowing economy and identified actions that customers should consider to minimize potential financial difficulties.

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

### 2015 Highlights

- Improved processes to prevent new NPL formation and/or to reduce the NPL portfolio given the subdued economic conditions that pushed up delinquencies during the year.
- Sold NPAs totaling Baht 1.3 billion during the year.

### Plans for 2016

Given the uncertain economic outlook for 2016 amid a number of downside risks, SBF intends to continue to use a proactive stance, focusing special attention on lowering the formation of NPLs. Also, it will emphasize strengthening communications with all business units that originate loans so as to collaborate to reduce NPL formation.

- **NPL prevention:** SBF will continue a “Preventive Workout” approach that will extend the scope and depth of SBF services to handle loans-at-risk at an earlier stage so as to prevent subsequent delinquency, in close collaboration with the business units that originated these loans and the Risk Management Function.
- **Expedite NPL reduction:** SBF will modify its organizational structure to handle NPL customers by segments and execute resolution strategies that best fit with each segment. Also, SBF will canvass investors interested in purchasing NPL portfolios to expedite NPL reduction.
- **NPA sales:** SBF plans 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 to cover more customer segments, SBF will further enhance its capabilities in NPL reduction through streamlining operational workflow and improving productivity of the work-out teams.

## Business Operation of Key Subsidiaries

### SCB Securities Co., Ltd. (SCBS)

Established in 1995, SCB Securities Co., Ltd. (SCBS) is the brokerage and equity capital market arm of the Bank. 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 its head office at SCB Park Plaza and its eight branches (Sinhorn, Chalermnakorn, Ratchayothin, Central West Gate, Chiang Mai, Faculty of Medicine Chiang Mai, Tha Phae, and Hat Yai) as well as an online channel ([www.scbsonline.com](http://www.scbsonline.com)), SCBS has won the trust of investors and has become established as one of Thailand's leading securities companies.

SCBS was able to enhance its competitive positioning during a year when Thai brokers were pressured by lower trading volume and higher competition. Whereas the industry's aggregate revenue declined by 6%, the company declined its income by 1%. SCBS's rank among brokers climbed three notches to #8. The company benefited from its leadership in innovation, increasing new online account openings sevenfold after the launch of Easy Stock, a paperless digital service that opens an account in just 15 minutes. SCBS also offered innovative new services and programs that are especially appealing to sophisticated investors and high-net-worth individuals, in line with its strategy to focus on high-yield market segments.

## 2015 Performance

- The weak pace of global economic recovery and other factors dragged the Thai capital market downward, reducing the average daily trading value to Baht 40 billion (excluding market proprietary trading), down 3% from Baht 42 billion in 2014. Competition increased as two new online brokers opened operations during 2015, following the entry of four new brokers the year before. Also, the aggregate income of all securities companies declined to Baht 41 billion, a fall of 6% yoy, while aggregate profits fell to Baht 9 billion, a drop of 20% yoy.
- Despite all the above negative factors, SCBS outperformed the industry as a whole. Revenues maintained at Baht 1.6 billion, down 1% from the previous year. However, net profit fell to Baht 453 million, a decline of 24% that was largely attributable to the litigation claim in 2015 and high base effect of an income tax reversal that had lifted profits in 2014. Excluding this one-time factor, the profit decline in 2015 would have been only 11%. SCBS's 18% ROE and 65% cost-to-income ratio were generally much better than the industry averages. The company's market share rose to 4.01%, a gain of 0.30% from 3.71% in 2014. SCBS's broker ranking climbed to #8, up from #11 in the previous year.

## 2015 Highlights

- Won "Best Prime Brokers in Thailand" award from *The Asset Triple A* magazine.
- Reaffirmed National Long-Term Rating at AA- (tha) by Fitch Ratings.
- Increased investment in SuperNap (Thailand) Ltd. to Baht 70.5 million. This landmark investment in a best-in-class co-location data centre is expected to return significant profits within a few years.
- Acted as a lead IPO underwriter for Bangkok Ranch PCL (BR), Star Petroleum Refining PLC (SPRC), and Amata VN PCL (AMATAV).
- New online account applications skyrocketed by sevenfold, following the launch of Easy Stock, the nation's fastest way to open a brokerage account. Easy Stock allows any SCB client to open an SCBS account online via SCB Easy Net within just 15 minutes, without submitting any paper documents. No competing service is as streamlined or convenient.
- Offered DIY offshore online trading tool for clients to invest and keep track of their money offshore 24/7. This appeals especially to sophisticated investors and any client seeking to



diversify, as this platform facilitates trades in 19 countries around the world, including the United States, Europe, Japan, Hong Kong, the AEC nations and others.

- Introduced an innovative and exclusive investment seminar called SCBS Infinite Wealth Program. Some 800 applicants competed to join the program, which accepted 40 members in its first session and 60 in the second session. It offers classes four times a month over four months as well as an overseas trip to meet with SCB's partners at major investment banks. Participants were mostly young, ages 25-45, and included prominent business figures and high-net-worth individuals.

### **Plans for 2016**

- Focus on high-yield brokerage business segments via projects to increase integration with SCB's wealth management and retail banking businesses.
- Boost derivative product capability to scale up the volume while leveraging the deal flow from SCB's wealth management and corporate banking clients.
- Further enhance efficiency and productivity by transforming technology and building people capability.
- Assure service quality is up to the desired high standard for every client touch point.

### **SCB Asset Management Co., Ltd. (SCBAM)**

SCB and other investment partners established the 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, as a result of its solid investment performance and its extensive distribution capabilities through more than 1,209 SCB branches, together with access to the Bank's large customer base.

SCBAM had another successful year in 2015, marked by consistent growth in total assets under management (AUM) and increased industry recognition, even though the industry's growth rate was minimal due to the economy's stagnation. SCBAM had Baht 1.2 trillion of assets under management, growing by 15.2% from the prior year, and emerging as the #1 ranked asset manager in the Thai market. In the private fund business, it retained the #1 rank, with a 41.5% share in the market. These and other good results helped SCBAM to win nine industry awards, the most of any year in its history, including honors both at home and abroad.

SCBAM is positioned to grow steadily as demand for its high performing asset management services is poised to rise in the years ahead. Yet, several challenges are likely, particularly during periods of slow economic growth and external uncertainties. Pressure will also result from rising competition, as the launch of the ASEAN Economic Community may bring new competitors into the local marketplace. Responding to the opportunities and pressures, SCBAM seeks to continuously develop its investment products and services, as well as building on the company's strong performance track record through enhanced capabilities and relationships.

**2015 Performance**

- SCBAM's AUM (including the management of funds related to the resolution of the problems of financial institutions) grew by 15.2% to Baht 1.2 trillion, comprising mutual funds, provident funds and private funds. The company now has more than 864,286 unit holders and is ranked #1 in Thailand by AUM.
- SCBAM had a 19.7% share of the total market in mutual funds, with AUM of Baht 800 billion and was placed as #2 in terms of market share in Thailand.
- Provident funds' AUM rose to Baht 118 billion, up by 6.7%, with a higher market share of 13.3%, compared to Baht 110 billion and 13.2% market share the previous year.
- Private funds' AUM retained the industry's #1 position in terms of market share, at Baht 245 billion, growing by 129.6%, with a higher market share of 41.5%, compared to Baht 107 billion and 22.3% market share the preceding year.
- SCBAM operates a portfolio of property funds (type 1) and infrastructure funds, accounting for 25.4% of the overall industry in this category, with AUM of Baht 129 billion.

**2015 Highlights**

- Awarded "The World's Best Asset Managers for Corporates Awards 2015: Thailand Best Asset Manager" by *Global Finance* magazine (London).
- Awarded "Asset Management Awards 2015: Thailand Fund House of the Year" by *AsianInvestor Asset Management* magazine (H.K.).
- Awarded "SET Awards 2015: Best Asset Management Company Awards," by the Stock Exchange of Thailand (SET) and *Money & Banking* magazine (2<sup>nd</sup> consecutive year).
- Awarded "Asia Asset Management, Best of the Best Awards (Thailand): Best Pension Manager" by *Asia Asset Management* magazine (H.K.).
- Awarded "Asia Asset Management, Best of the Best Awards (Thailand): CIO of the Year" for Mr. Narongsak Plodmechai by *Asia Asset Management* magazine (H.K.).
- Awarded "9<sup>th</sup> Annual Alpha Southeast Asia Best Financial Institution Awards 2015: Thailand Best Asset & Fund Manager" by *Alpha Southeast Asia* magazine (H.K.).
- Fitch Ratings (Thailand) affirmed the National Asset Manager Rating (AMR) at "Highest Standards (tha)" for the 3<sup>rd</sup> consecutive year in recognition of SCBAM's strong domestic market position in Thailand.
- Awarded "Money & Banking Awards 2015: Best Equity General" for SCB SET Index Open End Fund (SCBSET), by *Money & Banking* magazine.
- Awarded "Money & Banking Awards 2015: Best RMF Money Market" for SCB Short-Term Fixed Income RMF (SCBRM1), by *Money & Banking* magazine (3<sup>rd</sup> consecutive year).

**Plans for 2016**

Highlights of SCBAM's plans for 2016 are to:

- Enhance fund management practices in order to sustain above-average industry performance.

- Establish reciprocity with global partners to diversify asset allocation and investment products available to the market.
- Maintain #1 position in the asset management industry in Thailand for private fund business and increase market share for mutual fund business, including property funds (type1) & infrastructure funds, and the provident fund business.
- Enhance brand reputation in the market as a trusted asset manager with strong investment capabilities, high performing products and excellent services.
- 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 the life insurance arm of the SCB Group and is a leader in the life assurance industry in Thailand. As of 2015, SCB owned 99.17% of SCB Life, while public investors owned the remaining 0.83%. During the year, the Bank made a voluntary tender offer to acquire the minority shareholding as part of a delisting initiative that was a tactical response to non-compliance with the Stock Exchange of Thailand's requirement regarding minimum free float, namely, the portion of shares held by public investors was less than 15%. The Company was delisted from the SET on May 20, 2015.

SCB Life focuses mainly on the development and underwriting of traditional life insurance products for sale primarily through the SCB branch network and to a lesser extent SCB Life agents through branch/agency offices throughout Thailand.

### **2015 Performance**

2015 was another successful year for SCB Life despite higher competition in its industry and Thailand's subdued economic conditions. SCB Life increased its after-tax net profit by 17% from the year before, with net profit rising to Baht 6.8 billion. Gross premium income climbed by 9% to Baht 53 billion, up largely from policy renewals and sales of single-premium policies. SCB Life lifted its market-share rank to 5<sup>th</sup> out of 24 life insurance companies in 2015 on a total premium basis, with a 9.9% market share, up from 6<sup>th</sup> position and a 9.6% market share the year before. On a new business basis, SCB Life was ranked 5<sup>th</sup> out of 24 life insurance companies, with a market share of 10.2%, down from 4<sup>th</sup> and a 12.1% market share in the prior year.

### **2015 Highlights**

- Won recognition as the "Best Life Insurance Company, Thailand" from *World Finance* magazine.
- Increased net profits by 17% to Baht 6.8 billion.
- Lifted total gross premiums by 9% year-on-year to Baht 53 billion.
- Sustained the high return on equity of 35%.

**Plans for 2016**

In January 2016, SCB and SCB Life established a joint task force to reexamine and, where necessary, enhance the way the SCB Group conducts its life insurance business. The primary focus of this joint task force is to invigorate the Group's leadership in the bancassurance channel by ensuring that the business model meets ever-increasing customer expectations and responds to a higher level of market competition.

As well, SCB Life will build upon the new core life insurance system implemented in 2015 to further raise its operational efficiency and the quality of customer service, as described below.

In 2016, the Company will focus on:

- **Delivering above-par products that meet customers' life insurance requirements:** Growing public awareness of the advantages of life insurance and the various types of insurance products has raised customers' expectations for policies tailored to meet specific needs dictated by lifestyle choices and related demographic characteristics.
- **Continuing to build the agency sales channel:** Following introduction of a new agency compensation scheme in early 2015 to better focus on qualitative issues, the Company will continue to develop its agents to increase productivity and contribution to growth.
- **Leveraging on the new core system:** Following the successful implementation of a new core life insurance system, SCB Life will further automate and re-design policy administration processes to be more efficient, as well as to enhance service delivery and improve the customer experience.
- **Reinforce risk management practices:** As global financial markets and the Thai capital markets become increasingly volatile, the investment climate will become increasingly challenging. In response, SCB Life will upgrade its risk management policies and practices to ensure that risks are properly measured, adequately monitored and effectively managed.

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

2015 was a challenging year for the Thai banking sector, given lackluster economic growth and its impact on both income and asset quality. Still, Thailand's commercial banks achieved modest growth in terms of assets, loans and deposits. By year-end, the number of Thai commercial banks registered in Thailand stood at 19, comprising 14 commercial banks, 1 retail bank and 4 foreign bank subsidiaries, up from 17 at the end of 2014. The increase was from two foreign banks (namely ANZ Bank (Thai) and Sumitomo Mitsui Trust Bank (Thai)) that received a license to set up a subsidiary under the Bank of Thailand's Financial Sector Master Plan Phase II. In early 2015, one foreign bank branch, namely the Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU), was successfully integrated into the Bank of Ayudhya.

**Comparison of SCB's Performance with Thai Commercial Banking Sector\***  
as at December 31, 2015

Unit: Baht billion

(Consolidated)	Thai Commercial Banking Sector*		Change % yoy	SCB 2015	SCB market share %
	2015	2014			
Assets	15,544	14,682	5.9	2,774	17.8
Gross loans	10,686	10,091	5.9	1,833	17.2
Deposits	10,753	10,486	2.5	1,891	17.6
Shareholders' equity	1,632	1,452	12.4	307	18.8
Net interest income	446	427	4.4	83	18.6
Non-interest income	264	229	15.1	55	20.7
Non-interest expenses	311	293	5.9	49	15.8
Operating profits	399	363	9.9	88	22.1
Loan loss provision	149	94	58.6	30	20.0
Corporate income tax	46	51	-11.0	11	25.1
Net profit (attributable to shareholders of the Bank)	193	207	-6.8	47	24.4

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

In 2015, the Thai commercial banking sector's aggregate net profit was Baht 193.0 billion, a 6.8% decline from Baht 207.0 billion in the prior year. All big Thai banks reported a decline in net profit, mainly due to the huge increase in loan loss provisions, albeit that their operating profit registered positive growth. However, aggregate net interest income and non-NII of all Thai banks increased by 4.4% yoy and 15.1% yoy, respectively.

Net interest income (NII) remained the main source of the sector's income, and the proportion of NII to total income stood at 63% in 2015, down from 65% the prior year. In absolute terms, NII increased by 4.4% to Baht 445.9 billion in 2015, from Baht 427.1 billion the year preceding, mainly as a result of loan growth of 5.9% yoy as well as the substantial decline in interest expenses on deposits. In 2015, the sector's net interest margins (NIM) dropped significantly by 17 bps to 3.10%, mainly due to a large drop in yield on earning assets, particularly at big banks, following the two policy rate cuts in 1H15, which was partly offset by the reduction in the cost of deposits.

Non-interest income grew significantly by 15.1% to Baht 264.1 billion in 2015, from Baht 229.5 billion the year before, mainly due to the higher net fee and service income, higher net trading and FX income and higher gain on investments; the latter mostly from the gain on sale of equity investments by a few big banks in 2015. Thus, the non-interest income contribution increased to 37% in 2015, from 35% of total income in the prior year.

Non-interest expenses increased by 5.9% to Baht 310.6 billion in 2015, from Baht 293.3 billion in the previous year, mainly from higher personnel-related expenses and 'other expenses' as one big bank recorded a large impairment on IT in 2015. As operating expense growth was lower than revenue growth, the sector's cost-to-income ratio fell to 43.7% in 2015, from 44.7% in the prior year.

As at December 31, 2015, the aggregate assets of the Thai commercial banking sector stood at Baht 15,544 billion. Specifically, total assets, a key growth index for banking institutions, grew by Baht 862 billion, a 5.9% year-on-year increase, in part from loan growth and in part from the merger of a local bank with a foreign bank branch in the first quarter of 2015.

Gross loans rose by 5.9% yoy to Baht 10,686 billion. The yoy growth in loans was mainly from the SME segment, as a result of the Government's soft-loan scheme, and from the merger of a local bank with a foreign bank branch in the first quarter of 2015. Excluding loans relating to the merger, sector loan growth would be at 3.6% yoy. The growth in loans by commercial banks registered in Thailand, including foreign bank branches, as classified by business type, was as follows: Personal/consumer loans (28.1% of total loans) grew by 6.3% yoy, mainly from home loans (+9.5% yoy) given the continued demand in the residential property market, while hire-purchase loans expanded slightly by 1.0% yoy. On the commercial side, manufacturing/production loans, which accounted for 17.2% of total loans, increased by 1.3% yoy; utilities loans (electricity, gas, steam and air conditioning supply) grew by 14.1% yoy; and loans for real estate activities rose by 9.0% yoy.

During 2015 the central bank cut its policy rate by a total of 50 bps to 1.50%, from 2.00% at the end of the prior year. As a result, the sector's minimum lending rates (MLRs) dropped to 6.50%-8.62% at the end of 2015, from 6.75%-8.72% in the previous year.

Deposits at the Thai commercial banking sector rose by 2.5% yoy to Baht 10,753 billion due to the merger of a local bank with a foreign bank branch. Excluding the impact from the merger, sector deposit growth would be only 1.1% yoy. In 2015, the competition for deposits was relatively mild, as a result of the weak demand for loans amid lukewarm business sentiment. The three-month fixed deposit rates fell to 0.25%-2.00% at the year-end, from 1.00%-2.50% at the end of 2014. Nonetheless, the gross loan-to-deposit ratio of the Thai commercial banking sector rose to 99.4% at the end of 2015, from 96.2% at the end of the preceding year, as customers shifted to higher yield products and loans growth outpaced deposits.

As at December 31, 2015, the Thai commercial banking sector's gross NPLs on a consolidated basis stood at Baht 343.7 billion, up from Baht 289.1 billion in 2014. In percentage terms, the NPL ratio increased to 2.9%, from 2.5% the year before. The increase in absolute NPLs was from: loans to one large corporate customer in the manufacturing sector (and its offshore affiliate) that were classified as NPLs in 2015; loans to wholesale and retail trade (mostly in the SME segment); the consumer loan segment (mainly housing and auto loans). Given the substantial increase in NPLs, the NPL coverage ratio of the banking sector fell to 129% in 2015, from 138% in 2014.

All Thai banks adopted Basel III from January 1, 2013. As at December 31, 2015, the Thai commercial banking sector's total capital adequacy on a bank-only basis stood at 16.6%, higher than the current minimum regulatory capital requirement under Basel III which requires a total capital ratio of not less than 8.5%.

Overall, the Thai banking sector was faced with deterioration of asset quality, resulting in an increase in loan loss reserves and a decline in net profit. However, total income in the Thai banking sector continued to grow from both NII and non-NII, and the capital positions remained robust to support both business growth and any unforeseen adverse events.

Thai banks are likely to maintain a high level of capital adequacy in order to meet future regulatory changes, which will arise from the implementation of international accounting standards (IFRS and IAS) and Basel IV, and to prepare for new threats from non-bank competitors, particularly from new digital entrants into the banking space.

In 2016 and beyond, Thai banks are likely to strengthen their income-generating capabilities and focus on digital banking to serve the rapid change in customer lifestyle and needs. Also, banks will face a challenging global and domestic economic landscape.

## 2.3 Product and Service Offering

### Sources and Uses of Funds

As at December 31, 2015, deposits accounted for 68.2% of SCB's funding base. Other major sources of funds were: 11.1% from shareholders' equity; 6.7% from liabilities under insurance contracts recorded by the Bank's insurance subsidiaries (SCB Life Assurance PCL); 5.2% from interbank borrowings and 4.4% from the issuance of debt instruments. The funds were applied as follows on December 31, 2015: 66.1% was used for loans; 19.4% was applied to net investments in securities; 9.4% was lent in the interbank and money markets; and 1.4% was held in cash.

### Debt issued and borrowings

As at December 31, 2015 and 2014, debt issued and borrowings were as follows:

(in million Baht)								
(Consolidated)	Interest rate (%)	Year of maturity	Domestic	2015 Foreign	Total	Domestic	2014 Foreign	Total
Bonds								
- US Dollar	3.38-3.90	2016-2019	-	80,549	80,549	-	73,625	73,625
Subordinated bonds								
- Baht	4.50-4.65	2022-2024	40,000	-	40,000	40,000	-	40,000
Structured notes								
- Baht	0.64-1.29	2016	508	-	508	104	-	104
Others			107	-	107	188	-	188
<b>Total</b>			<b>40,615</b>	<b>80,549</b>	<b>121,164</b>	<b>40,292</b>	<b>73,625</b>	<b>113,917</b>

### 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 Corporate Segment Function and Client Acquisition Function are responsible for corporate and commercial lending, whereas the SME Segment Function caters specifically to small and medium-size enterprise (SME) lending.

For retail lending, the Retail Credit Function is responsible for personal lending, small business (SB), 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 the 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) credit risk management division, (5) credit risk management manager (6) senior credit officers and (7) 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 underwriting 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 worse. 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 less than 50 million to develop better credit underwriting practices. However, clients in high risk groups shall be reviewed individually. For retail banking clients, a periodic client review is required at least four times using analysis of historical payment behaviour 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 Business Function 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 and Auto Loans are handled by SCB Plus throughout the process, for collection. Non-performing loans involving secured products are handled by the Special Business Function.

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### 3. Risk Factors

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#### Risk Management and Risk Factors

##### Risk Management

SCB's many consecutive years of strong performance imply the mandate to sustain and build further upon this track record. This in turn requires a stance of ongoing prudence and responsiveness, 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. The environment in which the Bank operates is also increasingly complex and subject to fluctuation and change. With all this in mind, SCB emphasizes vigilance in risk management as a key responsibility and top priority.

The Bank has put in place a robust risk management framework that centers on four major parts described below. This framework is supervised by a transparent and sturdy governance structure that has 10 distinct components, also detailed below. For the purpose of effectiveness in risk management, the Bank has classified its key risk factors into 15 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 well apprised of current and emerging economic conditions, whether favorable or otherwise, and remain appropriately responsive.

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 "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 as well as risk models to estimate loss given default (LGD) and exposure at default (EAD). For derivative products, the Bank relies upon the potential future exposure (PFE) methodology to measure credit risk exposure.

- **For market risk**, 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 cover balance-sheet structure, cash flows of assets and liabilities, and 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, applying both measures 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 business interruption related 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 has oversight of the Bank's insurance management framework to reduce the impact from 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 that comprises 10 elements, as follows:

### 1. Policies

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

Beyond these, the Board of Directors approves two other key related guidelines: Strategic Risk Management Guidelines; and Reputation Risk Management Guidelines.

### 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** comprises independent members of the Board who are responsible for reviewing the adequacy of the Bank's risk management 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 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 that are approved by the Executive Committee or the Retail Credit Committee. Additionally, the Bank assesses and measures retail credit portfolio risks through portfolio segmentation analysis by both product and customer segment.

#### 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 triggers (MAT).

#### 6. Interest rate risk in the 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, the risk estimates

and risk management strategies are then reported to the Assets and Liabilities Management Committee (ALCO) which takes further action, if necessary.

## **7. Liquidity risk governance**

The Bank has controls and liquidity risk management in place to ensure that it maintains adequate sources of liquidity in order to have sufficient future cash flows to cover its activities under both normal and stress conditions by using cash flow forecasts and liquidity gap projections. These cash flows and liquidity gap forecasts are then used to monitor and control the Bank's overall liquidity risk. The Bank's policy is to maintain the liquidity ratio (liquid assets, as a percentage of total deposits including bills of exchange) at an appropriate level, and to monitor net cash outflows under several time buckets to ensure that the Bank 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 a core 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., Risk Management and Compliance functions), which facilitates and monitors the effectiveness of risk management practices as well as noncompliance with applicable laws and regulations.

The Bank's third line of defense comprises 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 Risk Management Function presents an operational risk agenda at business-level committees and provides 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 companies in the solo consolidation group to promptly report, and seek prior agreement for any transaction 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 require that any such transactions shall not have any special conditions that are 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 Function**

The Risk Management Function 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 Function 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 from economic uncertainties**

Thailand's economy recovered only moderately in 2015, as weak global and local economic conditions stalled exports and the private sector reduced capital spending. Further, falling agricultural prices and the drought have reduced household purchasing power.

As for 2016, the Bank forecasts that Thailand's GDP will grow at 2.5 percent, driven by fiscal stimuli. This stimuli include tax measures, the acceleration of the Public-Private Partnership (PPP) scheme for infrastructure investment, investment promotion via special privileges from the BOI, and fast-tracking investment in transportation infrastructure. However, exports are unlikely to recover, while household spending will continue to be constrained by high indebtedness and lower farm income.

A risk for the economy would be any slowing in disbursement of the government budget for infrastructure investment. These long-awaited projects will be crucial in boosting private-sector confidence and stimulating private investment. Nevertheless, household debt, which now stands at about 80 percent of GDP and is concentrated among low-income households, will forestall any recover in consumer spending. Farm incomes may be further reduced by the current drought and low global prices for rubber and other agricultural commodities.

With respect to external factors, China's economic slowdown is the key risk, which has to be closely monitored. This will drag on not only Thailand's economy but also those of its trading partners in Southeast Asia. The divergence in monetary policy among the world's major economies may lead to volatility in financial asset prices and international flows of capital. Whereas the United States' policy interest rate is expected to rise, the euro zone and Japan will continue to inject liquidity into their economies and maintain abnormally low interest rates. Also, China may reduce its policy rate and

devalue the yuan to fight the economic slowdown. On the other hand, higher U.S. interest rates will raise funding costs in the bond market, in line with U.S. treasury yields, and weaken the baht.

To manage the risk arising from economic fluctuations, the Bank regularly reviews its credit quality to ensure the adequacy of loan loss provisions, and regularly monitors its portfolio for potential credit concentration that could 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 technique that the Bank employs under ICAAP to ensure that it can cope with economic downturns and that it 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 business 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 and related parties or project must not exceed, without regulatory approval, 25% of capital of full Consolidation companies.
- Sum of Lending, investment, contingent liabilities or lending-like transactions to all major borrowers and related parties, of which 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 the counterparty's credit ratings and the Bank's own 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 2015, Bank-only NPLs stood at Baht 57,197 million or 2.8%, up in absolute terms and percent of total credit from Baht 41,626 million or 2.1% in 2014. (The explanation for this increase is provided in the MD&A section.) These NPLs can be classified into four categories: restructured debts 75.7%, debts pending completion of restructuring negotiations 9.4%, debts pending the outcome of legal proceedings 6.8%, and debts pending legal execution 8.1%.

The Bank manages its NPL risk by setting aside adequate loan loss provisions for expected losses. At the end of 2015, the Bank had total loan loss provisions of Baht 63,541 million, covering 111.1% 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 2015, the Bank's obligations arising from aval and guarantees, liability under unmatured import bills, and letters of credit amounted to Baht 42,005 million (a 8.3% decrease 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, a sluggish property market in which property prices may decline would negatively affect this collateral. 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 through the 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.

In terms of the choice of appraiser, the Bank is allowed by the BOT to use its internal appraiser for loans of any size. To ensure transparency, and prevent conflicts of interest, the Bank's pricing appraisal process is independent from the credit approval function. Also the Bank assigns the internal appraiser to monitor property price movements in the market on a regular basis. In the event that there is any reason to believe that a market price is likely to change by more than 20% within a period of 1 year, the internal appraiser must report this trend to the Bank immediately to ensure that the Bank will take action to review the collateral value.

## **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 were in a net-debtor position, the appreciation of the Thai baht would generate a foreign exchange gain for the Bank; and conversely, the depreciation of Thai baht would create 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, 2015, the Bank's foreign currency position was as a net debtor of USD 292 million (USD equivalent), and VaR was Baht 41.06 million.

## 9. Interest rate risk

The fluctuation of interest rates affects the Bank's interest income and expenses, and economic value of equity. 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, 2015, VaR of interest rate risk exposure in the trading book was Baht 74.59 million. For the banking book, a 1% increase of interest rates for a period of one year would increase net interest income by Baht 327 million, and will decrease economic value by Baht 5,816 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.

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

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 on 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 2015, the Bank had liquid assets at 28.83% 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 major strategies, 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 Corporate Strategy and Business Development Function 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 Corporate Strategy and Business Development Function 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. (For reputation risk please refer to 14 below). 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 unit 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 2015.

**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 Function, responsible for providing advice, recommendations and opinions on various issues, co-ordinating with the relevant functions within the Bank, and set up the control and monitoring programme, 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. The Compliance Function reports significant compliance issues to the Bank's management and to relevant committees so as to manage compliance risk effectively.

**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.

The CSR and Corporate Communication Division, which includes the Public Relations Unit, 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.

CSR and Corporate Communication Division is responsible for conducting 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. Beyond the Basel III minimum requirement of 4.5% in CET1

capital, the BOT plans to adopt an additional 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 and continuing 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, and on the same date adopted the guidelines for the consolidated basis ahead of the corresponding BOT deadline. 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. Also, the Bank continues to manage, monitor and report its capital adequacy position through the internal capital adequacy assessment process (ICAAP), which includes developing estimates for future capital requirements and stress testing. The Bank 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 the end of March. Furthermore, in order to encourage market discipline, the BOT requires commercial banks to disclose key information on capital structure and adequacy, risk exposure and risk assessment and management, or 'Pillar III disclosure' on the Bank's website, on a semi-annual basis.

At December 31, 2015, under the Basel III framework, the Bank had total capital of Baht 316 billion, of which Baht 257 billion is classified as CET1/Tier 1 capital (14.0% of risk-weighted assets) and Baht 59 billion (3.2% of risk-weighted assets) is classified as Tier 2 capital. For SCB Financial Group, the total capital stood at Baht 325 billion, of which Baht 265 billion is classified as CET1/ Tier 1 capital (14.1% of risk-weighted assets) and Baht 59 billion (3.2% of risk-weighted assets) is classified as Tier 2 capital.

Furthermore, if the Bank's 2H15 net profit were to be incorporated in determining capital adequacy, CET1/ Tier 1 capital would stand at 14.9% on a Bank-only basis and 15.0% on a consolidated basis.

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

#### Legal Capital Funds (Consolidated Supervision)

	(in million Baht)	
<b>Basel III Consolidated Supervision</b>	<b>2015</b>	<b>2014</b>
Tier 1 capital	265,491	243,919
Tier 2 capital	59,140	57,835
<b>Total capital funds</b>	<b>324,631</b>	<b>301,754</b>
Total Tier 1 capital / Total risk weighted assets (minimum 6.00%)	14.1%	13.7%
Total Tier 2 capital / Total risk weighted assets	3.2%	3.3%
Total capital / Total risk weighted assets (minimum 8.50%)	17.3%	17.0%
Total risk weighted assets	1,880,484	1,776,687

**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, 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, 2015 and 2014, the value of premises and equipment, net were as follows:

(in Baht million)		
(Consolidated)	2015	2014
Land	19,293	13,905
Premises	23,843	23,400
Equipment	23,017	21,431
Others	672	438
Total	66,825	59,174
<u>Less</u> Accumulated depreciation	(26,498)	(24,891)
Allowance for Impairment	(339)	(507)
<b>Premises and equipment, net</b>	<b>39,988</b>	<b>33,776</b>

#### Long-term leases and service agreements

As at December 31, 2015 and 2014, the remaining rental and service expenses to be paid for long-term leases and service agreements were as follows:

(in Baht million)			
(Consolidated)	Period	2015	2014
Land and/or premises	Within 1 year	1,974	1,859
	1 - 5 years	1,617	1,682
	Over 5 years	192	192
Equipment	Within 1 year	83	3
	1 - 5 years	-	2
Vehicles	Within 1 year	209	241
	1 - 5 years	617	305
Total		4,692	4,284

### 2. Loans to customers

As of December 31, 2015, loans (excluding accrued interest receivable) were Baht 1,833,406 million, up Baht 56,271 million (3.2%) from the end of 2014.

## 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, 2015, non-performing loans in the consolidated financial statement were Baht 58,996 million, representing 2.9% of total loans, up Baht 16,253 million from Baht 42,743 million (2.1%) in 2014.
- 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)	2015	2014
Normal	1,745,381	1,675,361
Special Mention	33,495	62,790
Sub-Standard	24,985	16,709
Doubtful	14,809	8,265
Doubtful Loss	19,281	17,824
<b>Total</b>	<b>1,837,951</b>	<b>1,780,949</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:

<b>Classified assets</b>		(in Baht million)
(Consolidated)	2015	2014
Normal	1,952,707	1,927,992
Special Mention	33,498	62,791
Sub-Standard	24,989	16,712
Doubtful	14,813	8,269
Doubtful Loss	23,431	21,849
<b>Total</b>	<b>2,049,438</b>	<b>2,037,613</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.

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

Bad debt written off is recorded as a decrease in the allowance for doubtful accounts. Write offs are only made for loans which the Bank 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)	2015	2014
As at January 1,	59,014	59,942
Transfer in from subsidiary	289	-
Bad debt and doubtful accounts	31,864	14,893
Bad debts written off	(26,594)	(15,843)
Others	204	22
<b>As at December 31,</b>	<b>64,777</b>	<b>59,014</b>

**Revaluation allowance for debt restructuring**

(in Baht million)

(Consolidated)	2015	2014
As at January 1,	-	374
Decrease during the year	-	(374)
<b>As at December 31,</b>	<b>-</b>	<b>-</b>

**Loan classification and allowance as at December 31, 2015**

(in Baht million)

(in Bant 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	1,745,381	1,536,211 *	1	15,295	156,698	2,855	18,150
Special Mention	33,495	23,404 *	2	469	8,875	1,856	2,325
Sub-Standard	24,985	14,087 **	100	14,087	1,058	468	14,555
Doubtful	14,809	7,801 **	100	7,712	641	275	7,987
Doubtful Loss	19,281	10,811 **	100	10,811	1,808	764	11,575
<b>Total</b>	<b>1,837,951</b>	<b>1,592,314</b>		<b>48,374</b>	<b>169,080</b>	<b>6,218</b>	<b>54,592</b>
Allowance established in excess of BoT regulations							10,185
<b>Total</b>							<b>64,777</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 original provisioning guidance for 2015 was to set aside annualized loan loss provisions of approximately 75-80 bps of total loans outstanding on a bank-only basis, largely on the expectation that after a disappointing 2014 the Thai economy was poised to recover. However, the Thai economy has yet to recover and the level of delinquencies has continued to rise during the year. Accordingly, the Bank revised its credit cost guidance to about 100-110bps in the second quarter. In 3Q15, the Bank decided to set aside substantial additional provisions of Baht 11 billion, over and above the normal loan provision in 3Q15, following the classification of SSI and SSI-UK as NPLs at the end of 3Q15 given that SSI-UK was placed in official receivership in early October 2015. On a **bank only** basis, the Bank has set aside Baht 29,726 million of impairment loss provision for 2015. On a **consolidated** basis, the provision was Baht 29,723 million in 2015 or 165 bps of total loans.

**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, 2015, the changes to the properties for sale, net were as follows:

(in Baht million)				
(Consolidated)	Balance at Jan 1, 15	Additions	Disposals	Balance at Dec 31, 15
Foreclosed assets				
Immovable assets	9,724	2,200	(1,126)	10,798
Movable assets	694	6,696	(7,164)	226
Total	10,418	8,896	(8,290)	11,024
Others	298	418	(585)	131
Total properties for sale	10,716	9,314	(8,875)	11,155
<u>Less</u> allowance for impairment	(995)	-	398	(597)
<b>Total properties for sale, net</b>	<b>9,721</b>	<b>9,314</b>	<b>(8,477)</b>	<b>10,558</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 associates 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 associates 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 December 31, 2015, the Bank set aside investment in debt and equity securities in a total amount of Baht 224 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, 2015 can be divided into two groups as follows:

#### **1. 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 and sustainable return, the Bank encourages companies under this umbrella to collaborate for the maximum benefit of the group as a whole.

## 2. 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 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 December 31, 2015:

Items	Ownership	Value (Million Baht)
Land	Owned	19,293
Building	Owned	23,843

## 5. Legal Dispute

SCB does not have 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, 2015.



## 6. General Information

### THE SIAM COMMERCIAL BANK PUBLIC COMPANY LIMITED

Type of business	Banking
Company Registration Number	0107536000102
Head Office	
Address:	9 Ratchadapisek Road, Jatujak, Bangkok 10900
Website:	www.scb.co.th
Tel:	66 2 544-1000
Fax:	66 2 937-7721
SCB Call Center:	66 2 777-7777
SCB Business Call Center	66 2 722-2222

### Registrar

Ordinary and Preferred Shares	The Thailand Securities Depository Company Limited 93 Ratchadapisek Road, Dindaeng, Dindaeng, Bangkok 10400 Tel: 0-2009-9000 Fax: 0-2009-9476
Siam Commercial Bank Subordinated Debentures No. 1/2012, due in 2022, 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
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
Senior Unsecured Notes USD 400 million 3.9% due November 2016	Deutsche Bank Luxembourg SA 2 Boulewarde Konrad Adenauer L-1115 Luxembourg Luxembourg
Senior Unsecured Notes USD 1,100 million 3.375% due September 2017	Deutsche Bank Luxembourg SA 2 Boulewarde Konrad Adenauer L-1115 Luxembourg Luxembourg  Deutsche Bank Trust Company Americas 60 Wall Street, 27th 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, 16th 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, 27th 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, 2015 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>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	400,000	400,000	100.000%
2	<b>RUTCHAYOTHIN ASSETS MANAGEMENT CO., LTD.</b> SCB Park Plaza Bldg., Tower West A, 12 <sup>th</sup> Floor, 18 Rutchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel. 0-2544-2477 Fax 0-2544-2165	Asset management	Ordinary	2,500,000	2,500,000	100.000%
3	<b>SIAM COMMERCIAL LEASING PCL</b> SCB Park Plaza Bldg., Tower 2 West, 22 <sup>nd</sup> Floor, 18 Rutchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2949-1800 Fax: 0-2949-1900	Collection company	Ordinary	567,797,502	564,336,277	99.390%
4	<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	610,000	100.000%
5	<b>SCB PLUS CO., LTD.</b> 1060 Tower 3, 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%
6	<b>SCB TRAINING CENTRE CO., LTD.</b> SCB Head Office Bldg., 9 Rutchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel. 0-2544-1702, 1704, 1707 Fax 0-2544-1701	Training center	Ordinary	5,490,000	5,490,000	100.000%
7	<b>MAHISORN CO., LTD.</b> <sup>(a)</sup> SCB Park Plaza Bldg., Tower East, 2 <sup>nd</sup> Floor, 18-19 Rutchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2937-5400 Fax: 0-2937-5438	Property (building) management	Ordinary	669,490	669,490	100.000%
8	<b>SIAM PHITIWAT CO., LTD.</b> SCB Park Plaza Bldg., Tower West A, 3 <sup>rd</sup> Floor, 18 Rutchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2530-7500 Fax: 0-2530-7515-6	Appraisal service	Ordinary	1,000,000	1,000,000	100.000%
9	<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 Rutchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel. 0-2949-1000 Fax 0-2949-1001	Securities	Ordinary	200,000,000	200,000,000	100.000%

No.	Company name and Address	Type of business	Type of shares	Paid-up shares	Number of shares	% of ownership*
10	<b>SCB ASSET MANAGEMENT CO., LTD.</b> SCB Park Plaza Bldg., Tower 1 West, 7 <sup>th</sup> - 8 <sup>th</sup> Floor, 18 Rutchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel. 0-2949-1500 Fax 0-2949-1501	Asset management	Ordinary	20,000,000	20,000,000	100.000%
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	65,948,600	99.171%
12	<b>SOR.OR.KOR. PCL</b> <sup>(1)</sup> <b>(The Siam Industrial Credit PCL)</b> 9 Siam Commercial Bank PCL, Head Office, 19 <sup>th</sup> Floor, Zone C, Rutchadapisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel. 0-2544-2301-4 Fax 0-2544-3317	Commercial	Ordinary	597,423,062	595,883,972	99.742%
13	<b>SIAM SAT NETWORK CO.,LTD.</b> <sup>(1) (3)</sup> SCB Park Plaza Bldg., Tower 2 West, 21 <sup>st</sup> Floor 18 Rutchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900	Satellite service	Ordinary	11,250,000	9,182,012	81.618%
14	<b>SIAM TECHNOLOGY SERVICE CO.,LTD.</b> <sup>(1) (2)</sup> SCB Park Plaza Bldg., Tower 1 West, 18 Rutchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900	Consultant	Ordinary	3,000,000	2,249,993	75.000%
15	<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 Rutchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900	Holding company	Ordinary	7,000,000	2,333,800	33.340%
16	<b>SUPERNAP (THAILAND) CO., LTD.</b> <sup>(2)</sup> SCB Park Plaza Bldg., Tower East, 18 Rutchadaphisek Rd, Jatujak, Jatujak, Bangkok 10900 Tel: 0-2544-2301 Fax: 0-2544-3317	Data center	Ordinary	200,000,000	50,000,000	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 service provider	Ordinary	500,000	99,000	19.800%
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 Moo7, Mae Fah Luang, Mae Fah Luang, Chiang Rai 57110 Tel: (053) 767-015 Fax: (053) 767-077	Agribusiness	Ordinary	600,000	60,000	10.000%
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.