

Part 1
Company's Business

1. Policy and Business Overview

Our Vision:

THE MOST ADMIRABLE BANK

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, has been the Bank's major shareholder. Over the past 111 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, 2016, Vayupak Fund 1 held 23.12% of SCB shares, while the Crown Property Bureau held 22.98% and the Ministry of Finance held 0.09%.

Major Developments in 2016

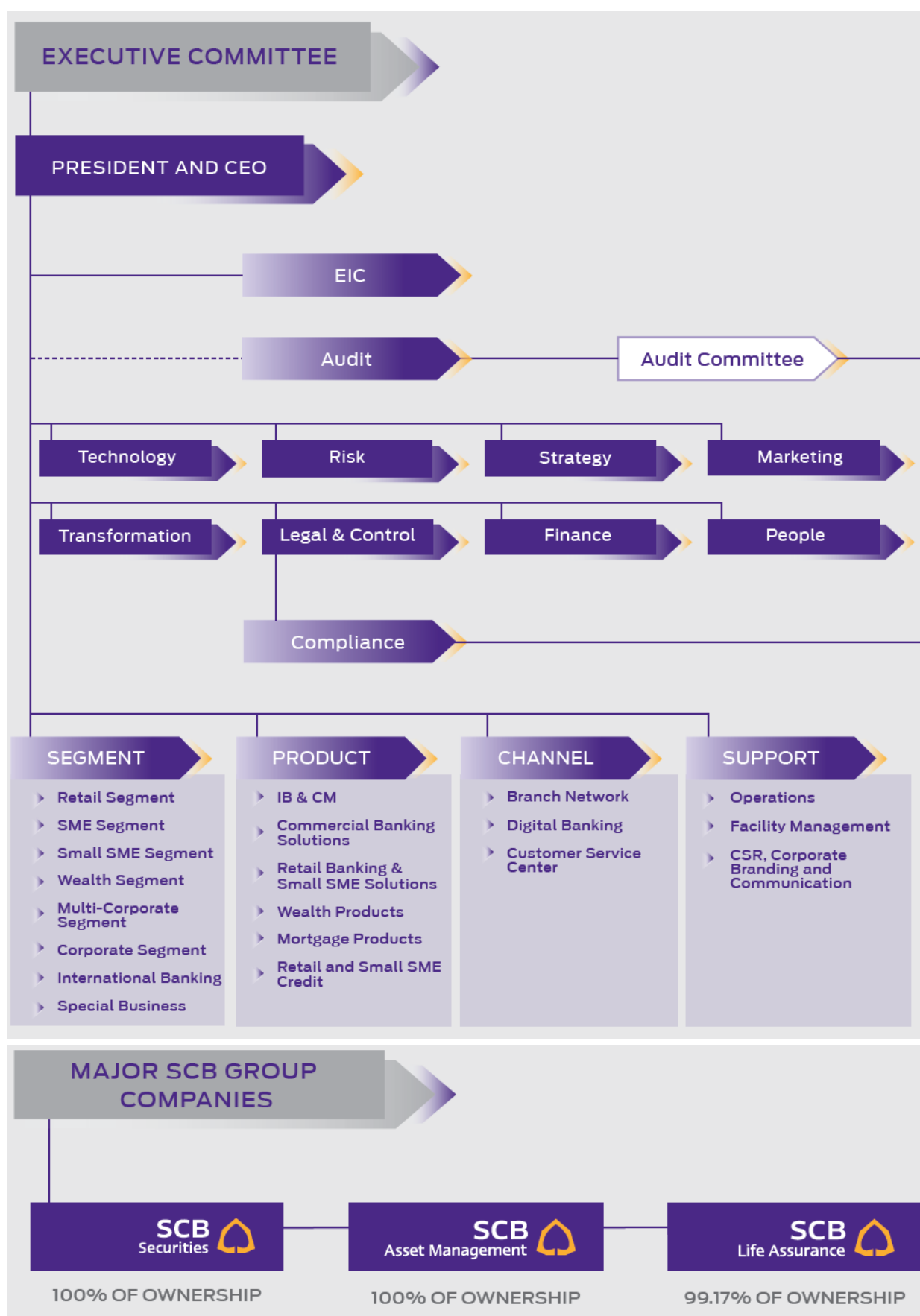
In 2016, the Bank embarked on a transformation journey, setting its vision to be **"The Most Admired Bank"** for all its constituents. Namely, the Bank aspires to become its customers' most preferred partner, while generating a sustainable return to its shareholders. In addition, the Bank strives to be known by its staff as a caring employer, by society as a responsible corporate citizen and by regulators as a prudent operator.

The transformation program is designed to enhance the Bank's long-term competitiveness amid the industry's structural shifts, which are driven by digital technology; changes in customer behavior; a changing regulatory landscape; and intensifying competition. This multi-year program will fundamentally alter the Bank's business model and overall capabilities, allowing it to sustainably differentiate and create value for customers.

- Regarding customer centricity, the Bank has structured into eight customer segments including Retail, Wealth, Small SME, SME, Corporate, Multi-Corporate, International Banking, and Special Business. The newly established Small SME segment will focus on serving business owners / entrepreneurs as well as small non-individual clients.
- The Bank has introduced sales and service separation at branches, whereby Retail and Wealth under the Segment group will be responsible for sales, while Branch Network under Channels will take care of customer service.
- Under the Product group, Retail Banking Solutions and Commercial Banking Solutions will be responsible for identifying customers' needs and developing product solutions to address those needs for individual and non-individual customers respectively.
- The new Transformation group is established to help drive the Bank's multi-year transformation and ensure dedicated resources to drive change across the organization.

Management structure

As of January 1, 2017



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. 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 customer segments

(Consolidated, %)	2016	2015	2014
Multi Corporate & Corporate Segment [*]	21	20	21
SME Segment ^{*,**}	16	14	15
Retail & Wealth Segment [*]	59	57	57
Others ^{***}	4	9	7

^{*} Results of major subsidiaries have been allocated to each segment as appropriate.

^{**} Including Small SME segment.

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

Performance in 2016

2016 was a challenging year for SCB, yet amid a fragile global economic recovery, the Bank performed better than the previous year. In line with its strategies, the Bank was able to maintain its No. 1 position in terms of net profit and market capitalization.

In 2016, the Bank's consolidated net profit rose slightly by 0.9% yoy to Baht 47.6 billion, mainly due to higher net interest income and net fee and service income even though investment gains declined significantly.

Total loans grew by 5.8% yoy, in line with Bank's target of 4-6% loan growth, mainly from corporate loans and mortgage loans. The ratio of NPLs to total loans improved to 2.67% in 2016, down from 2.89% in 2015, while the NPL coverage ratio rose to 134.3%. Moreover, total capital adequacy under Basel III remained strong, at 17.7% of total risk-weighted assets and common equity Tier I at 14.8%.

The Bank maintained its leadership in a broad 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 2016, the Bank had 1,170 branches, 9,745 ATMs and 109 foreign exchange kiosks. In addition, in line with the government's aim to promote electronic payments through the national e-payment master plan, the Bank committed significant investment to developing digital capabilities, which was reflected in the rapid growth in 2016 in its registered user base of mobile and internet banking services as well as its PromptPay registered user base.

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 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.

Strategy

Long-term strategies

The financial services industry is undergoing a paradigm shift, owing to rapid changes 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.

To stay ahead of these changes and thrive in the new environment, the Bank has embarked on a transformation journey to further strengthen its leadership position in the industry and progress toward its vision of becoming "**The Most Admired Bank**" for all its stakeholders.

The Bank's transformation program is anchored around transformation of four key foundations, which can be summarized as follows:

- **People:** Put greater emphasis on capability-building and workforce management (e.g., rotation and redeployment) to bridge today's gap while preparing for the digital age as well as enhance overall well-being to take care of our employees.
- **Process:** Redesign and digitize the existing processes to be more customer-centric and leverage digital technologies (e.g., big data analytics to better understand customers' needs, e-KYC for digital onboarding) to enhance customer experience and promote operational efficiency.

- **Product:** Build advanced product capabilities with an agile development process and open architecture to shorten time to market, differentiate from competitors and maximize value creation for customers.
- **Technology:** Develop best-in-class digital technology infrastructure as key enabler to allow new capabilities, e.g., new mobile banking platform, new payment engine.

This multi-year program is designed to fundamentally alter the Bank's overall capabilities, which will allow SCB to sustainably differentiate and create value for customers. Given the importance of this ambitious program, the Bank will be committed to allocating a significant portion of its investment plan in the next two or three years to uplift these key foundations.

Plan for 2017

In parallel to the transformation program, the Bank will stay committed to driving execution of its business strategy to deliver core performance and sustain current growth momentum. Across all customer segments, the Bank will focus on executing its customer-centric strategy in expanding its customer base; embracing digital technologies to enable a new customer experience; growing its coverage and ecosystem; as well as continuing to enforce a disciplined control culture and risk management, with a prudent level of reserves to cushion volatility. In addition, the Bank is committed to provide full support to advancing Thailand's economic agenda (e.g., infrastructure investment projects, national e-payment master plan) and looks forward to further expanding its strategic partnership while capturing any inorganic growth opportunities that might arise.

Key Performance Targets Announced for 2017

The Bank expects to deliver competitive results, reflecting the sustainability of its performance and resilience of its strategies. The key performance targets for 2017 are as follows:

- Loan growth of 4-6% (compared to 5.8% in 2016).
- Net interest margin (NIM) of 3.1-3.3% (compared to 3.3% in 2016).
- Non-interest income growth of 3-4% (compared to -3.9% in 2016 which excluding large gains on the sale of equity investments in 2015).
- Cost-to-income ratio of 40-43% (compared to 38.7% in 2016).
- NPL ratio below 3.0% (compared to 2.7% in 2016).
- Coverage ratio of 130% (compared to 134.3% in 2016).

Multi-Corporate/Corporate Segment

In 2017, the Bank will continue focus on diversifying its Multi-Corporate/Corporate portfolio – both new to bank and existing customers – all along the value chain, with a key focus on recurring income and lower cost of deposits. On top of innovative structured deal solutions, which have been its key strength, the Bank plans to uplift its transaction banking capabilities and differentiate through a distinctive end-to-end, technology-enabled customer experience from onboarding to customer service provision.

The key strategic initiatives for 2017 are to:

- Capture landmark deals and government infrastructure projects.
- Leverage the Bank's strength in large corporates to win new business and acquire new customers along the clients' value chain.

SME Segment

The sluggish economy in 2016 has put severe pressure on SMEs. As a consequence, the Bank will continue to stay close to its SME clients to support their recovery while proactively managing its asset quality and NPLs. In addition, in line with its long-term plan to significantly grow its SME franchise, the Bank will focus on becoming the main operating bank of its existing SME customers while expanding its SME customer base by leveraging its retail network to better serve SMEs and enhancing its financial solutions through analytics capabilities.

The key strategic initiatives for 2017 are to:

- Cross-sell through existing lending relationships to capture flow business, increase recurring fee income and ultimately win main operating account.
- Industrialize the sales process and onboarding process with enhanced analytics capabilities.
- Adopt retail-like acquisition model to support mass acquisition of small SMEs.

Retail/Wealth Segment

To better serve customers, the Bank plans to enhance the distribution channels (especially its internet and mobile banking platform), uplift service standards and customer experience as well as broaden product offerings to address the emerging needs of all clients.

The key strategic initiatives for 2017 are to:

- Build integrated wealth-advisory platform (e.g., wealth, securities, insurance, asset management, etc.).
- Accelerate digital adoption and improve onboarding.
- Enhance customer coverage/touchpoints, nurture targeted ecosystems and develop engagement platform that incentivizes everyday banking behaviors.

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 nine branches as well as an online channel (www.scbsonline.com), SCBS has won the trust of investors and has become established as one of Thailand's leading securities companies.

In 2016, the market's average daily trading value (excluding proprietary trading) was at Baht 47 billion, increasing by 17% from Baht 40 billion in 2015, largely contributed by foreign and institutional clients. At the same time, the industry's average equity trading commission rate declined due to more intense competition in the industry and a higher proportion of online trading.

Amid higher competition and the growth in market share of institution-based brokers, SCBS earned a market share of 3.64%, decreasing from 4.01% in 2015. SCBS's rank among 36 brokers moved down by three notches to #11.

SCBS continually improved services to clients. These included our innovative Easy Stock online account opening, which is a paperless service that can be completed within just 15 minutes; a no-minimum-commission campaign; and our Stock Advisor smart application for mobile devices. In 2016, SCBS won the Best Prime Broker in Thailand award from The Asset magazine (H.K.) for the second consecutive year, and Best Domestic Equity House in Thailand award from *Asiamoney* magazine (U.K.), showing that our service quality is at the highest standard.

SCB Asset Management Co., Ltd. (SCBAM)

The Bank offers mutual funds, provident funds and private funds products through its wholly owned subsidiary SCB Asset Management Co., Ltd. (SCBAM). SCBAM remained the No.1 asset manager in the Thai market with Baht 1,307 billion of assets under management (AUM), including resolving financial institution problem funds and country funds, as of December 30, 2016, representing growth of 12.4% from December 31, 2015. On account of its solid investment performance and the distribution capability provided through more than 1,170 bank branches, SCBAM had an 18.5% share of the total market in mutual funds, with AUM of Baht 862 billion, growing by 7.7% from December 31, 2015. SCBAM's private funds business had AUM of Baht 325 billion at the end of 2016, a 32.7% growth yoy. As of December 30, 2016, SCBAM also manages a portfolio of property funds (Type I) and infrastructure funds with total AUM of Baht 141 billion.

SCB Life Assurance PCL (SCB Life)

SCB Life is a 99%-owned subsidiary of the Bank. SCB Life's primary business is life insurance underwriting, focusing mainly on non-participating individual life, credit life and health insurance products. These products are distributed primarily through the Bank's branches and SCB Life agency offices.

SCB Life reported total gross premiums of Baht 52.7 billion for the financial year 2016, a 0.5% decline from the previous year. The decline was attributable to a strategic decision by the Company to stop the sale of certain tactical savings products given the prevailing low interest rates amid a volatile local and global investment environment. As at the end of 2016, SCB Life was ranked 5th out of 24 life insurance companies (unchanged from the previous year) with a 7.1% market share in terms of new business premiums (where first year premium equals 100% plus 10% of single premiums), down from a 10.2% market share in the previous year.

2.2 Marketing and Competition

Industry and Competition Review

Both the Thai economy and the profitability of Thai commercial banks remained under pressure in 2016. The global economic recovery was fragile and was shaken by unexpected political change and uncertainty regarding the direction of economic and financial policies in the major advanced economies. Nevertheless, Thailand's commercial banks achieved moderate growth in terms of assets, loans and deposits. Capital buffers and loan loss provisions remained high, providing a comfortable cushion against risks that might arise from deteriorating credit quality.

Comparison of SCB's Performance with Thai Commercial Banking Sector* as at December 31, 2016					
(Consolidated)	Thai Commercial Banking Sector*		Change % yoy	SCB 2016	SCB market share %
	2016	2015			
Assets	16,078	15,544	3.4	2,913	18.1
Gross loans	10,964	10,686	2.6	1,939	17.7
Deposits	10,953	10,753	1.9	2,026	18.5
Net profit (attributable to shareholders of the Bank)	200	193	3.7	48	23.8

Unit: Baht billion

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

In 2016, the Thai commercial banking sector's aggregate net profit was Baht 200.1 billion, a 3.7% increase from Baht 193.0 billion in the preceding year.

Net interest income (NII) remained the main source of the sector's income, and the proportion of NII to total income stood at 65% in 2016, up from 63% in the prior year. In absolute terms, NII increased by 7.7% yoy to Baht 480.4 billion, mainly as a result of the huge decline in interest expenses, which fell by 15.4% yoy, as well as loan growth of 2.6% yoy.

Non-interest income fell by 2.4% yoy to Baht 257.5 billion, mainly due to the lower gain on investments and lower net insurance premiums, while net fee and service income expanded by 4.0% yoy. Thus, the proportion of non-interest income to total income fell to 35%, down from 37% in the prior year.

Non-interest expenses increased by 3.6% yoy to Baht 321.6 billion, mainly due to higher personnel-related expenses, higher other expenses and higher premises and equipment expenses. Because operating expenses growth was lower than revenue growth, the sector's cost-to-income ratio fell slightly to 43.6%, down from 43.7% in the prior year.

Gross loans rose by 2.6% to Baht 10,964 billion. Loan growth slowed year-on-year because the economy remained sluggish. Meanwhile, deposits in the Thai commercial banking sector grew by 1.9% yoy to Baht 10,935 billion. Competition for deposits was relatively low in 2016 due to lower demand for loans. To illustrate, the growth in deposits was due mainly to the restructuring of deposits that resulted from an expansion of the deposit base in savings and current accounts and the gradual maturation of high-cost deposits. Amid low interest rates, it is essential that banks manage the cost of deposits effectively.

As at December 31, 2016, the Thai commercial banking sector's gross NPLs on a consolidated basis stood at Baht 383.5 billion, up from Baht 343.7 billion in 2015. In percentage terms, the NPL ratio increased to 3.1%, up from 2.9% in the preceding year. However, the NPL coverage ratio of the banking sector improved to 137%, up from 129% in 2015, as a result of higher provisions in 2016 as well as the reclassification of the NPLs of one large corporate customer in the manufacturing industry.

All Thai commercial banks have adopted Basel III since January 1, 2013. Furthermore, in 2016, the Bank of Thailand (BOT) required commercial banks to hold an additional capital conservation buffer in order to absorb losses under stressed conditions according to Basel III. As a consequence, the minimum regulatory capital requirement ratio was adjusted to "not less" than 9.125%. As at December 31, 2016, the Thai commercial banking sector's total capital adequacy on a bank-only basis remained at 17.3%, above the current minimum regulatory requirement under Basel III.

Thai commercial banks still 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 Basel, and to prepare for new threats from non-bank competitors, particularly from new digital entrants into the banking space.

In 2017 and beyond, Thai commercial banks are likely to strengthen their income-generating capabilities and focus on digital banking to serve the rapid changes in customer lifestyles and needs. In particular, they will focus on fintech, the technology-driven financial service innovations that are considered likely to have a huge impact on the banking sector. Moreover, Thai banks will face challenging global and domestic factors, including volatility in economic and political conditions.

2.3 Product and Service Offering

Sources and Uses of Funds

As of December 31, 2016, deposits accounted for 69.6% of SCB's funding base. Other major sources of funds were: 11.5% from shareholders' equity, 7.4% from liabilities under insurance contracts recorded by the Bank's insurance subsidiary (SCB Life Assurance PCL), 3.7% from the issuance of debt instruments, and 3.5% from interbank borrowings. As of December 31, 2016, the funds were deployed as follows: 66.6% for loans, 20.3% for investments in securities, 8.8% for interbank and money market lending, and 1.4% held in cash.

Debt issued and borrowings

As at December 31, 2016 and 2015, debt issued and borrowings were as follows:

(in million Baht)								
(Consolidated)	Interest rate (%)	Year of maturity	Domestic	2016 Foreign	Total	Domestic	2015 Foreign	Total
Bonds								
- US Dollar	3.38-3.50	2017-2019	-	65,573	65,573	-	80,549	80,549
- Baht	1.03-1.16	2017	267	-	267	-	-	-
Subordinated bonds								
- Baht	4.50-4.65	2022-2024	40,000	-	40,000	40,000	-	40,000
Structured notes								
- Baht	0.41-0.75	2017	914	-	914	508	-	508
Others								
			84	-	84	107	-	107
Total			41,265	65,573	106,838	40,615	80,549	121,164

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 Multi-Corporate Segment Function and Corporate Segment 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 function, (5) credit risk management manager (6) senior credit officers and (7) credit officers. The credit approval authority under (6) and (7) 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 behavior in order to evaluate the ability to pay and refine appropriate strategic actions on each client segment.

As for initial collection efforts, Business Relationship Management Units are responsible for business banking accounts. In case of a non-performing loan (NPL), the collection will typically be transferred to the Special 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.

3. Risk Factors

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 five distinct components, also detailed below. For the purpose of effectiveness in risk management, the Bank has classified its key risk factors into seven 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, interest rate risk in the banking book, liquidity risk, operational risk 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 on 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 any crisis event that might interrupt business. 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).

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 or approving certain policies where delegated/authorized by the Board of Directors. 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.

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

4. Risk Governance

4.1 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.

4.2 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).

4.3 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.

4.4 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.

4.5 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 each 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 formed by the oversight functions (e.g., Risk Management Function, Compliance Functions), which facilitate and monitor 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.

For risk management of the SCB Financial Group, the Bank as the core company has the responsibility to govern 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.

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.

5. Chief Risk Office

The Chief Risk Office 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 Chief Risk Office 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. Moreover, other relevant units are responsible for specific risks; for example, the Group Treasury Function is responsible for liquidity risk and interest rate risk in the banking book (IRRBB).

Key Risk Factors for Banking Operations

Thailand's economic growth during 2016 was supported by the government's short-term economic stimulus measures. Exports remained sluggish, and the private sector delayed investment plans. External risks rose during the second half of the year, amid unexpected political change in the U.S. and Europe. Growth in Thailand's tourist arrivals came under downward pressure in the second half of the year.

The Bank forecasts that Thailand's GDP will grow by 3.3 percent year-on-year in 2017, supported by higher household purchasing power and increased government spending. Growth in private consumption will boost the economy. Rising commodity prices will help support the incomes of exporters as well as rural households involved in farming many key crops. Some households will benefit from an increase in income tax deductions. Many will enjoy higher spending power after paying off car loans initiated during the first-car tax rebate program five years ago. Government spending will surge as numerous infrastructure mega-projects get underway. The budget for public investment projects in 2017 is expected to double in size from the prior year. The economy will also benefit from the government's use of provisional stimulus measures.

Domestic risks hinge on the pace of government budget disbursement for infrastructure projects. These public projects will be crucial in strengthening confidence of the private sector to invest. As for consumers, household debt remains at a high level and is concentrated among low-income families, posing a risk to household spending. The economy might also continue to be impacted by the government's crackdown on zero-dollar tours, which has slowed the previously fast rise in arrivals from China, a major engine of growth for Thai tourism.

External risks to growth will be significantly higher in 2017 than the year before. Changes in the political landscape in the European Union and a shift in the direction of various U.S. policies under President Donald Trump will create short-term financial volatility, potentially affecting global trade and investment in the medium- to long-term. China's economic slowdown and mounting corporate debts are also another set of issues that need to be closely monitored, since Thailand's direct and indirect reliance on the Chinese economy has become high. Furthermore, monetary policy is diverging among the world's major economies, which could add volatility to asset prices and cross-border capital flows. Specifically, the U.S. Federal Reserve is on track to increase its policy interest rate, whereas other major economies, including Europe, Japan and China, still face domestic economic challenges that will prevent them from tightening their monetary policies. This divergence will lead to unevenness in the global economic recovery, with sporadic

volatility in the financial markets. The Fed's rate hike will increase corporate borrowing costs via bond issuance and will weaken the Thai baht.

In managing risks from economic uncertainties, SCB will examine loan quality at the borrower level on a regular basis. This is to ensure adequate allowance for doubtful accounts and to establish a process to monitor loan distribution within the lending portfolio in preparation for potential economic crises. The Bank also implements a stress test to determine adequacy of capital as a part of ICAAP enforced by the Bank of Thailand.

1. Credit Risk

1.1. 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 with any major borrower and related parties or project must not exceed, without regulatory approval, 25% of capital of full Consolidation companies.
- The sum of lending, investment, contingent liabilities or lending-like transactions with 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.

1.2. 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.

1.3. 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.

1.4. 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 2016, Bank-only NPLs stood at Baht 56,544 million, or 2.6%, down in absolute terms and in terms of percent of total credit from Baht 57,197 million, or 2.8%, in 2015. (Further explanation on NPLs is provided in the MD&A section.) These NPLs can be classified into four categories: restructured debts 69.0%, debts pending completion of restructuring negotiations 7.7%, debts pending the outcome of legal proceedings 11.2%, and debts pending legal execution 12.0%.

The Bank manages its NPL risk by setting aside adequate loan loss provisions for expected losses. At the end of 2016, the Bank had total loan loss provisions of Baht 76,628 million, covering 135.5% of NPLs.

1.5. 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 2016, the Bank's obligations arising from aval and guarantees, liabilities under unmatured import bills, and letters of credit amounted to Baht 63,502 million, up by 51.2% 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.

1.6. 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 might 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 a 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 one 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.

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

2.1. Foreign exchange risk

Fluctuation in exchange rates affects the value of the Bank's foreign currency-denominated assets and liabilities. 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 30, 2016, the Bank's foreign currency position was as a net creditor of USD 210.81 million (USD equivalent), and VaR was Baht 84.93 million.

2.2. 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 30, 2016, VaR of interest rate risk exposure in the trading book was Baht 72.81 million. For the banking book, a 1% increase of interest rates for a period of one year would decrease net interest income by Baht 434 million, and would decrease economic value by Baht 8,085 million.

3. 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. At the end of December 2016, the Bank had liquid assets at 28.8% of total deposits, thus assuring the Bank of ample liquidity under both normal situations and crisis scenarios.

4. 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.

5. 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 item 6 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 2016.

Risk pertaining to changes in statutory policies, laws, rules and regulations is part of operational risk.

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, coordinating with the relevant functions within the Bank, and set up the control and monitoring program, 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.

6. 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.

Capital Adequacy

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

The BOT has required Thai commercial banks to hold a capital conservation buffer according to Basel III since January 1, 2016. This additional capital requirement is being gradually added to the common equity Tier 1 capital requirement at the rate of 0.625% p.a. until it reaches a 2.5% target in 2019. As a result, minimum regulatory capital requirement ratios under Basel III for 2016 were increased to 'not less than 5.125%' for common equity Tier 1 (CET1), 'not less than 6.625%' for total Tier 1 and 'not less than 9.125%' for total capital. Banks that cannot meet this minimum requirement may be subject to earnings-distribution restrictions, e.g., 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 as well as risk assessment and management, on a semi-annual basis. This information appears on the Bank's website under 'Pillar III Disclosure.'

At the end of December 2016, under the Basel III framework, the Bank had total capital of Baht 337 billion (17.4% of risk-weighted assets), of which Baht 280 billion is classified as CET1/Tier 1 capital (14.5% of risk-weighted assets) and Baht 57 billion (2.9% of risk-weighted assets) is classified as Tier 2 capital. For SCB Financial Group, the total capital stood at Baht 352 billion (17.7% of risk-weighted assets), of which Baht 295 billion is classified as CET1/Tier 1 capital (14.8% of risk-weighted assets), and Baht 58 billion (2.9% of risk-weighted assets) is classified as Tier 2 capital.

Furthermore, if the Bank's 2H16 net profit were to be incorporated in determining capital adequacy, CET1/ Tier 1 capital would stand at 15.6% on a bank-only basis and 15.9% on a consolidated basis.

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

		(in million Baht)	
Basel III Consolidated Supervision		2016	2015
Common Equity Tier 1 / Tier 1 capital		294,566	265,491
Tier 2 capital		57,752	59,140
Total capital funds		352,318	324,631
Total Tier 1 capital / Total risk weighted assets	(minimum 6.625%)	14.8%	14.1%
Total Tier 2 capital / Total risk weighted assets		2.9%	3.2%
Total capital / Total risk weighted assets	(minimum 9.125%)	17.7%	17.3%
Total risk weighted assets		1,986,927	1,880,484

Risks to Shareholders

Risks to shareholders might arise in the event that shareholders would 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 fund 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 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, 2016 and 2015, the changes to the net premises and equipment were as follows:

	(in million Baht)	
(Consolidated)	2016	2015
Land	19,236	19,293
Premises	27,550	26,885
Equipment	21,310	19,975
Others	330	672
Total	68,426	66,825
<u>Less</u> Accumulated depreciation	(27,199)	(26,498)
Allowance for Impairment	(339)	(339)
Premises and equipment, net	40,888	39,988

Operating leases

Leases as lessee

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

The branch offices rental, foreign exchange booths, ATM rental areas, cars, and office equipment were entered into many years ago as combined leases of land, buildings, vehicles, and equipment which were classified to operating leases. The rent paid to the lessors are adjusted to market rentals at regular intervals, and the Bank and its subsidiaries do not have an interest in the residual value of the rental assets. As a result, it was determined that substantially all of the risks and rewards of the rental assets are with the lessors.

(a) Future minimum lease payments

At 31 December, the future minimum lease payments under non-cancellable leases were payable as follows.

		(in million Baht)	
(Consolidated)	Period	2016	2015
Land and/or premises	Within 1 year	2,046	1,974
	1 - 5 years	1,668	1,617
	Over 5 years	219	192
Equipment	Within 1 year	163	83
Vehicles	Within 1 year	214	209
	1 - 5 years	562	617
	Over 5 years	80	-
Total		4,952	4,692

(b) Amount recognised in profit or loss

		(in million Baht)	
(Consolidated)		2016	2015
Lease expense		2,658	2,502

2. Loans to customers

As of December 31, 2016, loans (excluding accrued interest receivable) were Baht 1,939,048 million, up Baht 105,642 million (5.8%) from the end of 2015.

Asset Classification

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

To accommodate this Act, the Bank of Thailand amended Notification Sor Nor Sor 5/2559: Loan Classification and Provisioning Criteria of Financial Institutions, dated June 10, 2016, which requires banks to clearly maintain a written policy for loan classification, provisioning, and asset write off.

Classified Assets

- Gross non-performing loans The Bank adopts the Bank of Thailand's announcement dated June 10, 2016 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, 2016, non-performing loans in the consolidated financial statement were Baht 57,593 million, representing 2.7% of total loans, down Baht 1,403 million from Baht 58,996 million (2.9%) in 2015.

- Classified debtors under the Bank of Thailand's criteria consist of loans and accrued interest receivables as follows:

Loans and accrued interest receivables*

	(in million Baht)	
(Consolidated)	2016	2015
Normal	1,840,936	1,745,381
Special Mention	44,618	33,495
Sub-Standard	20,698	24,985
Doubtful	9,707	14,809
Doubtful Loss	27,217	19,281
Total	1,943,176	1,837,951

* Net of deferred revenue

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

Classified assets

	(in million Baht)	
(Consolidated)	2016	2015
Normal	2,058,514	1,952,707
Special Mention	44,620	33,498
Sub-Standard	20,715	24,989
Doubtful	9,712	14,813
Doubtful Loss	35,084	23,431
Total	2,168,645	2,049,438

Allowance for doubtful accounts

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

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

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

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

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 million Baht)	
(Consolidated)	2016	2015
As at 1 January	64,423	58,993
Transfer in	-	289
Bad debt and doubtful accounts	21,153	31,864
Bad debts written off	(11,779)	(26,594)
Others	(444)	(129)
As at 31 December	73,353	64,423

Revaluation allowance for debt restructuring

	(in million Baht)	
(Consolidated)	2016	2015
As at 1 January	354	21
Increase during the year	3,650	333
As at 31 December	4,004	354

Loan classification and allowance as at December 31, 2016

(in million Baht)							
(Consolidated)	Loans and accrued interest receivables	Individual approach (All loans except for finance leases)			Collective approach (Finance leases)		Total
		Net amount used to set the allowance for doubtful accounts	%used for setting the allowance	Allowance for doubtful accounts***	Net amount used to set the allowance for doubtful accounts	Allowance for doubtful accounts***	
Minimum allowance of BoT regulations							
Normal	1,840,936	1,646,674 *	1	16,388	155,903	2,796	19,184
Special Mention	44,618	33,195 *	2	664	9,626	2,336	3,000
Sub-Standard	20,698	9,204 **	100	9,204	895	450	9,654
Doubtful	9,707	2,956 **	100	2,956	416	197	3,153
Doubtful Loss	27,217	14,851 **	100	14,851	1,781	790	15,641
Total	1,943,176	1,706,880		44,063	168,621	6,569	50,632
Allowance established in excess of BoT regulations							22,721
Total							73,353

* Net of cash and near cash collateral

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

*** Excluding revaluation allowance for troubled debt restructuring

Loan Loss Provision

The Bank set aside loan loss provisions in 2016 in the amount of Baht 22,528 million or 119 bps of total loans, a decrease from Baht 29,723 million in 2015. Part of the reason for lower provisions was because one large corporate customer underwent a debt restructuring process causing a reduction in NPLs. Moreover, the coverage ratio also increased to 134.3% at the end of 2016 from 109.8% at the end of 2015.

Allowance for doubtful accounts as of December 31, 2016 stood at Baht 73,353 million, an increase from Baht 64,423 million at the end of December 2015 which was higher than the minimum requirement of the BoT at Baht 50,632 million at the end of December 2016.

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, 2016, the changes to the net properties for sale were as follows:

				(in million Baht)
(Consolidated)	Beginning Balance	Additions	Disposals/ Decrease	Ending Balance
Foreclosed assets				
Immovable assets	10,798	1,940	(1,042)	11,696
Movable assets	226	7,202	(7,039)	389
Total	11,024	9,142	(8,081)	12,085
Others	131	292	(269)	154
Total properties for sale	11,155	9,434	(8,350)	12,239
<u>Less</u> allowance for impairment	(597)	(58)	20	(635)
Total properties for sale, net	10,558	9,376	(8,330)	11,604

4. Investments

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

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

Debt securities and marketable equity securities that are not classified as trading securities, held-to-maturity securities, and investment in subsidiaries and associate are classified as available-for-sale securities and are stated at fair value, with the valuation surplus or deficit on investments presented as a component of total equity until realised upon disposition or sale of the underlying securities. Debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity securities. Held-to-maturity investments are stated at amortised cost, less impairment losses, if any. Impairment losses and foreign exchange differences are recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

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

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

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

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

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

Disposal of investments

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

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

Provisioning for the Write-down of Securities

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

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

Provisioning for the write-down of securities is based on the write-down of securities criteria under accounting standards. As of December 31, 2016, the Bank set aside investment in debt and equity securities in a total amount of Baht 217 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, 2016, 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 Bank owns the following plots of land and buildings, used as its office and branches to conduct business, which are free from any mortgages or pledges as of December 31, 2016:

Items	Ownership	Value (Million Baht)
Land	Owned	19,236
Building	Owned	27,550

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, 2016.

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 1,100 million 3.375% due September 2017	Deutsche Bank Luxembourg SA 2 Boulevard 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 USD 750 million 3.5% due April 2019	Deutsche Bank Trust Company Americas 60 Wall Street, 16th Floor New York, New York 10005 United States

Fiscal Agent

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, 50th-51st Floor,
1 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, 2016 the Bank owned 10% or more of the issued shares of the following companies.

No.	Company name and Address	Type of business	Type of shares	Paid-up shares	Number of shares	% of ownership*
1	CAMBODIAN COMMERCIAL BANK LTD. 26 Monivong Rd., Sangkat Phsar Thmei 2, Khan Daun Penh, Phnom Penh, Kingdom of Cambodia Tel: 001-855 (23) 426-145, 213-601-2 Fax: 001-855 (23) 426-116	Banking	Ordinary	575,000	575,000	100.000%
2	RATCHAYOTHIN ASSET MANAGEMENT CO. LTD. 9 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2544-2477 Fax: 0-2544-2165	Asset Management	Ordinary	2,500,000	2,500,000	100.000%
3	SCB PLUS CO. LTD. 1060 Tower 3, 9 th -10 th Floor, Siam Commercial Bank PCL, New Phetchaburi Rd., Makkasan, Ratchathewi, Bangkok 10400 Tel: 0-2792-3800 Fax: 0-2255-1565	Collection company	Ordinary	100,000	100,000	100.000%
4	SCB TRAINING CENTER CO. LTD. SCB Head Office Bldg., 9 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2544-1702, 1704, 1707 Fax: 0-2544-1701	Training Center	Ordinary	5,490,000	5,490,000	100.000%
5	MAHISORN CO., LTD. ⁽¹⁾ SCB Park Plaza Bldg., Tower East, 2 nd Floor, 18-19 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2937-5400 Fax: 0-2937-5438	Property (Building) management	Ordinary	669,490	669,490	100.000%
6	SCB SECURITIES CO. LTD. SCB Park Plaza Bldg., Tower 3 East, 20 th -21 st Floor, RCP Tower G Floor, 19 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2949-1000 Fax: 0-2949-1001	Securities	Ordinary	240,000,000	240,000,000	100.000%
7	DIGITAL VENTURES CO., LTD. ⁽²⁾ 96 Mahanakorn CUBE Tower, 2 nd floor (L2-02), Narathiwat Ratchanakharin Rd., Silom, Bang Rak, Bangkok 10500 Tel: 02-061-6166	Venture capital	Ordinary	4,000,000	4,000,000	100.000%
8	SCB ASSET MANAGEMENT CO. LTD. SCB Park Plaza Bldg., Tower 1 West, 7 th -8 th Floor, 18 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2949-1500 Fax: 0-2949-1501	Asset Management	Ordinary	20,000,000	20,000,000	100.000%
9	SCB LIFE ASSURANCE PCL Siam Commercial Bank PCL (Chidlom), Bldg. 1, 4 th -10 th Floor, 1060 New Petchaburi Rd., Makkasan, Ratchathewi, Bangkok 10400 Tel: 0-2655-4000 Fax: 0-2256-1666	Life insurance	Ordinary	66,500,000	65,948,600	99.171%
10	SIAM PHITIWAT CO. LTD. ⁽³⁾ SCB Park Plaza Bldg., Tower A Zone A West, 3 rd Floor, 18 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2795-1800	Appraisal service	Ordinary	1,000,000	1,000,000	100.000%
11	SOR.OR.KOR. PCL ⁽³⁾ (The Siam Industrial Credit PCL) 9 Siam Commercial Bank PCL, Head Office, Ratchayothin, 19 th Floor, Zone C, Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2544-2301-4 Fax: 0-2544-3317	Commercial	Ordinary	597,423,062	595,883,972	99.742%

No.	Company name and Address	Type of business	Type of shares	Paid-up shares	Number of shares held	% of ownership*
12	SIAM COMMERCIAL LEASING PCL ⁽³⁾ SCB Park Plaza Bldg., Tower 2 West, 22 nd Floor, 18 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900 Tel: 0-2949-1800 Fax: 0-2949-1900	Collection Company	Ordinary	567,797,502	564,336,277	99.390%
13	SIAM SAT NETWORK CO., LTD. ^{(2) (3)} SCB Park Plaza Bldg., Tower 2 West, 21 st Floor 18 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900	Satellite service	Ordinary	11,250,000	9,182,012	81.618%
14	SIAM TECHNOLOGY SERVICE CO. LTD. ^{(1) (3)} SCB Park Plaza Bldg., Tower 1 West, 18 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900	Consultant	Ordinary	3,000,000	2,249,993	75.000%
15	SIAM MEDIA AND COMMUNICATION CO., LTD. ⁽³⁾ SCB Park Plaza Bldg., Tower 2 West, 17 th -22 nd Floor, 18 Ratchadaphisek Rd., Jatujak, Jatujak, Bangkok 10900	Holding company	Ordinary	7,000,000	2,333,800	33.340%
16	SUPERNAP (THAILAND) CO., LTD. ⁽¹⁾ 18 th -19 th SCB Park Plaza Tower East, Ratchadaphisek 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	NATIONAL ITMX CO., LTD. 5/13 Moo 3, Chaengwattana Rd., Khlongkluea, Pakkret, Nonthaburi 11120 Tel: 0-2558-7555 Fax: 0-2558-7566	Payment system service provider	Ordinary	500,000	99,000	19.800%
18	THAI U.S. LEATHER CO., LTD. ⁽³⁾ 39/98 Rama II Road, Bangkrachao, Muang, Samutsakhon 74000 Tel: (034) 490-082-7	Industry	Ordinary	25,000,000	2,500,000	10.000%
19	NAVUTI CO., LTD. 920/4 Moo7, Mae Fah Luang, Mae Fah Luang, Chiang Rai 57110 Tel: (053) 767-015 Fax: (053) 767-077	Agribusiness	Ordinary	600,000	60,000	10.000%
20	THAI OBAYASHI CORP., LTD. 161 Nantawan Bldg., 11 th 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 any affiliate of the Bank in which the Bank holds more than 30% of 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) Company held jointly by the Bank and a Bank affiliate in which the Bank holds more than 30% of shares.

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

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