

**Part 1**

**Company's Business**

**1. Policy and Business Overview**

***Our Vision:***

**THE MOST ADMIRABLE BANK**

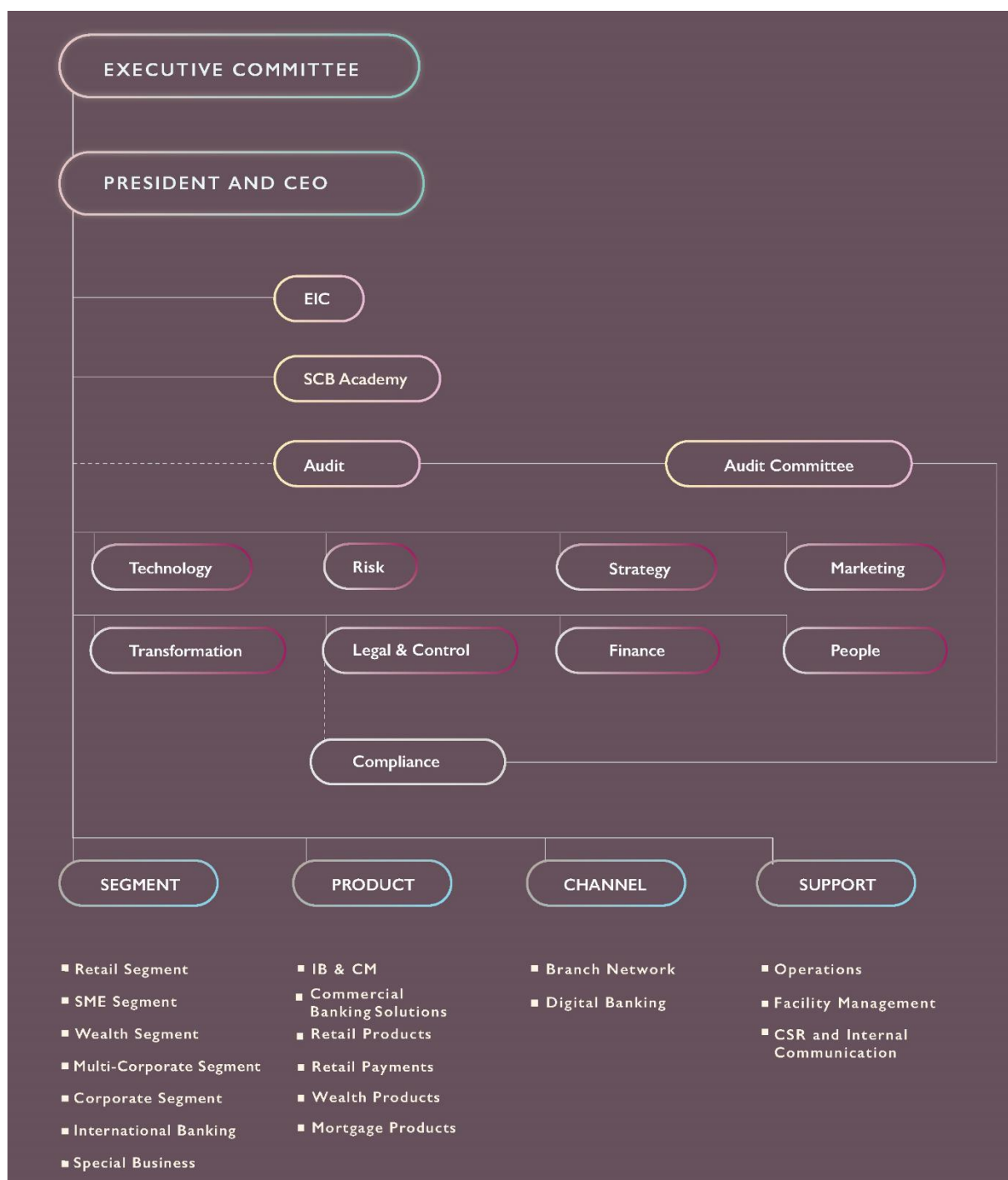
**Background**

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 110 years, SCB has played a pivotal role in shaping the country's financial service landscape through many economic cycles and periods of political strife. Backed by strong support of its major shareholder, the Bank has managed to emerge from these changes as a bigger, better and stronger Bank.

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). As a result, the Ministry of Finance and the Crown Property Bureau became the two largest shareholders of the Bank in May 1999. The Ministry of Finance subsequently established the Vayupak Fund 1 and transferred a substantial part of its stake to the Fund on December 1, 2003. SCB's major shareholders as of March 8, 2018 were Vayupak Fund 1 (23.10%), the Crown Property Bureau (19.61%) and the Ministry of Finance (0.09%).

## Management structure

As of January 1, 2018



### MAJOR SCB GROUP COMPANIES

**SCB**  
Securities



**100%**  
OF OWNERSHIP

**SCB**  
Asset Management



**100%**  
OF OWNERSHIP

**SCB**  
Life Assurance



**99.17%**  
OF OWNERSHIP

## 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. True to its status as a universal bank, SCB has a large footprint across the financial service landscape in Thailand covering all customer and product segments.

In addition to its core transactional services related to deposits and loans, the Bank provides a comprehensive range of products and services tailored to meet specific customer needs. Retail services include home loans, personal loans, 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 services, lending products, trade finance, treasury products, bond and equity products, corporate advisory, investment banking and other related financial services.

The Bank has three major subsidiaries to provide financial solutions that address customers' specific needs: SCB Securities Co., Ltd.; SCB Asset Management Co., Ltd.; and SCB Life Assurance PCL.

#### Share of revenue by customer segment

| (Consolidated, %)                     | 2017 | 2016 | 2015 |
|---------------------------------------|------|------|------|
| Multi Corporate & Corporate Segment * | 20   | 21   | 20   |
| SME Segment **, **                    | 14   | 16   | 14   |
| Retail & Wealth Segment *             | 54   | 59   | 57   |
| Others ***                            | 12   | 4    | 9    |

\* Include revenue from major subsidiaries allocated to each segment accordingly.

\*\* Include Small SME segment.

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

## Performance in 2017

2017 was another challenging year for SCB as financial institutions continue to face technological changes, including rapidly evolving consumer needs. These changes prompted the Bank to invest heavily in technology which is also part of the Bank's strategy to transform its organization and technology for transitioning into the digital era, causing net profit to decline from the previous year. However, the Bank still maintain the No. 1 position in terms of net profit.

In 2017, the Bank's consolidated net profit declined by 9.4% from 2016 to Baht 43.2 billion, mainly due to higher prudent provisions to align existing expected loss principles to those required under new accounting standard due to take effect in 2019 as well as higher operating expenses from investment in digital banking technology. Nonetheless, the Bank's total income increased 2.2% from 2016 mainly from growth in net interest income, net fee income and net trading and FX income while net insurance premium and gain on investments decreased from 2016.

Total loans grew by 4.9% from 2016, in line with the Bank's 2017 target of 4-6% loan growth driven by growth in corporate and retail segments while SME loan volume remained unchanged. Non-performing loan ratio increased to 2.83% in 2017 from 2.67% in 2016, while NPL coverage ratio rose to 137.3% in 2017. Moreover, total capital adequacy under Basel III remained strong, at 17.7% of total risk-weighted assets and common equity Tier I at 15.6%.

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 2017, the Bank had 1,153 branches, 9,560 ATMs, and 102 foreign exchange kiosks.

As a service business, keeping both employees and consumers highly engaged is the Bank's top priority. These engagement levels have been assessed by third-party experts with proven methodologies which show consistently high levels of customer and employee engagement, giving the Bank a unique competitive edge and the best assurance of sustainable profitability.

## SCB strategic roadmap

The financial service industry continues to face constant changes from external factors such as shifts in customer behavior, competition from digital players and fintechs, as well as regulatory and government policy changes, which have intensified over recent years. Specifically, rapid technological advancement (e.g., Blockchain, Big Data Analytics, Artificial Intelligence) has significantly changed the way people live and the way businesses are run. Today's banking competition is no longer limited to competition among traditional banks as global technology players, including telecom and fintech companies, starting to offer financial products and services that compete with banks, blurring the boundaries of the banking sector. Additionally, the banking business is also impacted by recent regulatory changes which will likely put significant pressure on the Bank's fee income. These shifts have prompted the Bank to rethink its business model to remain relevant to customers and thrive under the new paradigm.

The Bank has embarked on the transformation journey since mid-2016 to further strengthen its leadership position in the industry and achieve the vision of becoming "The Most Admired Bank". During its initial phase over the past 1.5 years, the Bank's transformation program has focused on creating

strategic alignment and building strong organizational foundations. Going forward, the Bank aims to be a technology-driven bank by adopting technology to lower cost base and capture revenue delta in new businesses as well as uplifting customer experience. Therefore, in parallel with the ongoing foundation transformation, the Bank's focus will shift to transforming the organization and business model to create agility and immunity to prepare the Bank for the new paradigm under the "Going upside down" strategy which comprises of 5 key strategic priorities listed as follows.

## **1. Lean the organization**

The Bank recognizes the importance of transforming the business model to lower its cost base to keep pace with evolving customer behavior and changing competitive landscape. Lower costs can then be passed on to customers in a form of lower fees which make the Bank's services accessible to all groups of customers. Key initiatives to lean the organization are:

- Encourage and ease customers' transition to digital and automated channels through education and incentives, e.g., fees that reflect lower costs of these channels, which also supports the government's cashless society agenda.
- Leverage digital technology to improve internal processes and streamline customer service procedures to optimize limited resources and ultimately uplift the customer experience.
- Significantly downsize its traditional branch network in response to changes in customer behavior by considering growth potential, business size, transaction volume, the number of branches or alternative service channels in the same area. In addition, the Bank plans to roll out new branch formats (i.e., Investment center, Business center, Service center, and Express), shifting away from the traditional one-size-fits-all branch model toward customized service touchpoints for each customer segment to address diverse customer needs with an emphasis on both transaction and financial/business advisory services.
- Adequately downsize the workforce while preparing employees for the digital age and exponential growth in digital transaction volume. The Bank has also created a plan to ease career transition of employees affected by branch closure which includes job assignment reviews and skill retraining.

## **2. Digital acquisition**

The Bank plans to build engagement and significantly expand its digital customer base. Although the number of traditional branches is in decline, the Bank believes that, with changes in customer behavior and preferences, it can effectively engage and maintain customer satisfaction through a digital platform that can address every aspect of customer needs. Last year, the Bank redesigned its mobile platform (SCB Easy App) that comes with a lifestyle application to better meet customers' day-to-day needs. In addition, the Bank has developed and promoted QR code payment under the lifestyle payment concept by launching "SCB Easy Pay – Mae Manee Money Solution" campaign during the last quarter of 2017. The QR code payment scheme, supported by the "Merchant App", is designed for retail customers' day-to-day spending on 5 target merchant groups: retail shops, universities, fresh markets, transportations, and temples. In 2018, the Bank plans to offer more comprehensive financial services by leveraging new technology to create better customer experience in parallel with expanding non-financial service coverage through strategic partnership

to be part of customer's everyday life. This effort will start from promoting C2C payment (retail customers to retail stores) through the ongoing "SCB Easy Pay – Mae Manee Money Solution" campaign and extending the coverage throughout the country, especially in big cities, such as Chiang Mai, Phuket, Hat Yai, Khon Kaen, and other major economic cities. The Bank also continues to develop "Merchant App" capability to accommodate all forms of payment (QR code, Payment card, Physical credit card/Virtual credit card, WechatPay and Alipay) with a plan to expand the merchant base to 500,000 participating stores. Moreover, the Bank also plans to bring in API gateway technology to connect with other business partners on customer lifestyles as well as using advanced analytics to better serve customers and increase accessibility to the Bank's comprehensive lending services. The Bank plans to increase the loan application channels for retail and SSME customers by introducing SCB Digital Lending on SCB Easy App.

### **3. High margin/alternative lending business**

To enhance accessibility of the Bank's lending services across all customer segments, the Bank plans to introduce alternative lending options to customers, e.g., credit card, unsecured personal loan, SSME loans. Since the Bank currently has small market shares in these loan products, the alternative lending business that offers high margins presents an attractive growth opportunity for the Bank. The Bank plans to redefine its business model to take advantage of this opportunity by leveraging technology to build new capabilities, including data analytics, while managing risk to be at an appropriate level.

### **4. Data capabilities**

In the future, data will be the key to competitive advantage. The Bank believes that data technology, such as big data analytics and machine learning, will deepen its insights on customer needs and behavior which will, in turn, enable the Bank to deliver the right products and services to customers. The Bank has started redesigning its data management system since the beginning of SCB Transformation including upgrading the data storage system and building a data lake to improve data access for relevant functions, developing employees' capabilities to leverage data for the Bank's competitiveness, and deepening the data-driven culture across the organization. In its 2018 business plan, apart from expanding customer base to benefit from additional data as mentioned above, the Bank is also in the process of identifying new strategic partners to increase its access to non-financial data as well as exploring new business models by making the best use of existing data, e.g. enriching the risk analytics system with customer behavior data.

Moreover, the Bank set up SCB Abacus as a wholly owned subsidiary to focus on applying Artificial Intelligence technology in the business operations. The new company has started to explore providing data analytics services using the Bank's existing data.

### **5. Bank as a platform**

Given drastic changes in the Bank's ecosystem as mentioned above, the Bank is in the process of exploring a new business model which deploys technologies and data insights to ultimately become "Bank as a platform" for both businesses and consumers. The Bank focuses on customer

engagement, directly or indirectly through strategic partners, and building a business ecosystem with bank as a platform to best meet customer needs and expectations. In addition, this new business model will generate valuable data which will enable the Bank to better understand its customers and deliver products and services that meet their needs as well as creating better and more seamless experience.

Examples of the Bank's initiatives in this area implemented last year include collaboration with universities to create a cashless society through "SCB Easy Pay – Mae Manee Money Solution" campaign and "Merchant App" which allow students and university staff to pay for products and services on campus with the Bank's app. Moreover, the Bank took part in a collaborative effort to revolutionize the retail experience in the Retail 4.0 era under the "First Cashless Retail Experience" concept as part of the lifestyle solutions for consumers in the digital age. To create a cashless shopping experience, the Bank installed Smart Self-checkout Kiosks that accepts QR code payment and Smart Tax Kiosks that issue VAT refund documents for foreign tourists using only passports and receipts as well as issuing full tax invoices for Thai people using only national ID cards.

Additionally, People and Culture foundation and Technology foundation are key enablers to support and drive success in the Bank's transformation journey. As for people and culture, even though digital technology will play a significant role in future service delivery, engagement between the Bank's employees and customers will still be crucial and must be maintained. To this end, the Bank has set up SCB Academy to develop people capabilities to prepare for changes in bank employee roles. Moreover, the Bank focuses on creating the mindset of putting customers first for all bank employees as well as encouraging employees at all levels to trust and use their common sense as a new approach to work. The Bank also places an emphasis on reshaping the organizational culture to value speed and agility, being goal-oriented rather than task-oriented, customer centricity, being data-driven and tech-savvy. The Bank also places high emphasis on supervision and corporate governance within the organization to ensure that management practices adhere to fair market conduct which constitutes one of consumers' basic rights. For technology investment, the Bank plans to drive digital innovation and focus on cyber security which involves both internal and external implementations. Internally, the Bank prepares for digital threats that may affect the Bank's data and operations by, for instance, developing protection system particularly for primary foundations and developing data privacy protection. Externally, the Bank invests in digital technology through Digital Ventures, which is a subsidiary within SCB Group, to implement the strategy of extending the boundary of disruptive technologies, such as Blockchain, Big Data, Artificial Intelligence, Machine Learning, and Location Based technology, which are playing important roles in the business world and financial services. The Bank looks for and learns from best-in-class technology/start-up companies for new product and service opportunities.

The Bank believes that a business cannot grow sustainably by focusing solely on performance but must have an ability to quickly adapt to changing business environment while striking the right balance in creating sustainable benefits with fairness for all groups of stakeholders. The Bank has improved its sustainability practices by integrating economic, social, and environmental considerations into its business processes as well as having clear, well-defined sustainability targets to ensure concrete and measurable outcomes.



To operate the business in parallel with its transformation program, the Bank remains committed to enhancing the current performance and creating sustainable growth by focusing on the Bank's 3 core businesses: business lending, consumer lending and wealth management. Nonetheless, the Bank's business model needs to incorporate new digital technology and data capabilities in product and service delivery while maintaining customer engagement to ensure the best customer experience.

- **Business lending**

- Focus on rebalancing corporate portfolio to reduce loan and revenue concentration.
- Transform business model from "Fund provider" to become "SME ecosystem provider".
- Grow SSME customer base by leveraging technology and data capabilities.

- **Consumer lending**

- Increase customer acquisition, especially on the digital platform, and increase main operating accounts by leveraging technology and data capabilities to create better customer experience.
- Grow new revenue stream by expanding into high-margin/alternative lending business and leveraging technology and data capabilities in risk management to ensure acceptable risk levels.
- Lower cost to serve by leveraging automation to replace manual processes.

- **Wealth management**

- Grow asset under management and profitability by leveraging digital enablement.
- Build new wealth management capabilities to deliver world-class experience to customers, such as changing employees' roles from sales officers to financial advisors, offering creative financial solutions that address customer needs, increasing the number of Investment Centers to provide better coverage, building a central product and service platform for the best customer experience.

Payment transaction banking, though generating less fee income than in the past, will remain the Bank's core service because of its strategic significance. Specifically, banking transactions facilitate customer engagement and generate valuable data for the Bank to analyze and apply the insights to design products and services that truly meet customer needs.

## **Key Performance Targets Announced for 2018**

The Bank expects to deliver competitive results, reflecting its sustainable performance and resilient strategies. Key performance targets for 2018 are:

- Loan growth of 6-8% (compared to 4.9% in 2017).
- Net interest margin (NIM) of 3.1-3.3% (compared to 3.2% in 2017).
- Non-interest income growth ≤5% (compared to -2.2% in 2017).
- Cost-to-income ratio of 42-45% (compared to 42.3% in 2017).
- NPL ratio below 3.0% (compared to 2.8% in 2017).
- Coverage ratio above 130% (compared to 137.3% in 2017).

**Corporate segment**

In 2018, the Bank will continue to focus on diversifying its corporate portfolio to reduce revenue concentration for both new-to-bank and existing customers. The Bank plans to increase the number of main operating accounts by creating a prototype for providing specialized services to broad-based customers, offering transactional products, improving the Bank's internal processes and creating a single touchpoint. At the same time, the Bank will focus on maintaining its strategic partnership position with corporate customers and continue to be the lead in major financial deals for both government and private projects.

**SME segment**

In line with the long-term plan to significantly grow its SME franchise, the Bank continues its service commitment to support SME customers to achieve their business goals. In 2018, the Bank plans to transform its business model for the SME segment and grow SSME customer base.

Key strategic initiatives include:

1. Transform the business model to become "SME ecosystem provider":
  - Be a service platform to help SME customers grow, e.g. providing business coaching, delivering integrated financial and non-financial solutions to address both business and personal needs.
  - Create excellent customer experience through business centers and seamless onboarding processes.
  - Develop the right product solutions and tools for customers.
2. Grow SSME customer base by leveraging data capabilities and digital platform.

**Wealth segment**

The Bank will focus on increasing its wealth management capabilities to all customers with appealing value proposition and introducing a new platform to expand investment product offerings. The Bank plans to grow asset under management and profitability by adopting digital technology.

Key strategic initiatives for 2018 include:

1. Deliver product and service solutions that address customer needs, e.g. retirement planning, asset management.
2. Offer comprehensive service coverage at SCB Investment Center, e.g. online seminars with investment experts, allocated space for investors to meet and share their investment/asset management ideas.
3. Increase capabilities of wealth advisors through intensive training and coaching by SCB Wealth Academy and leveraging digital advisory tools to offer holistic wealth management advice.

## Retail segment

In response to the Bank's long-term "Going Upside Down" strategy, the Bank's retail segment strategic priorities are to grow customer base, especially main operating accounts, and to create new revenue streams, while lowering cost to serve by building technology and data capabilities.

Key strategic initiatives include:

1. Grow customer base and increase main operating accounts:
  - Create customer value proposition and increase customer loyalty with a loyalty program.
  - Enhance product value proposition with effective execution plan.
  - Improve digital/physical services to enhance customer experience and convenience.
  - Create ecosystem with strategic partners to expand customer base.
2. Create new revenue streams from high-margin/alternative lending:
  - Identify customer needs and purchasing propensity with in-depth data analysis to pinpoint the right timing for product offering and improve risk management.
  - Build digital capabilities to increase accessibility and speed.
  - Re-design end-to-end lending processes to better serve customers with the right timing.
  - Enhance internal process e.g., early warning, monitoring and debt collection capabilities.
3. Lower cost to serve:
  - Increase digital acquisition.
  - Increase automatic machines to facilitate customer migration from branch transactions to digital platform.
  - Optimize service channels to better serve customers and keeping cost low at the same time.
  - Revamp call service center as a key touchpoint to effectively serve customers.

## Business Operation of Key Subsidiaries

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

Established in 1995, SCB Securities Co., Ltd. is a brokerage arm and a 100%-owned subsidiary of SCB. The Company operates a securities business and offers equity products and services to institutional and retail investors. SCBS has won the trust of investors and has become one of Thailand's leading securities companies with its head office at SCB Park Plaza and nine branches as well as an online channel ([www.scbsonline.com](http://www.scbsonline.com)).

In 2017, the market's daily average trading value for equities (excluding proprietary trading) was at Baht 45 billion, down by 5% from Baht 47 billion in 2016. The main reason was lower trading volume by retail investors while trading volume of foreign and institutional investors increased from the prior year. Since equity trade commissions for institutional investors are generally lower than what retail investors are charged, a higher share of institutional trades has led to a decline in average trade commissions for the industry.

Despite fiercer competition from new entrants, SCBS was able to expand its customer base and capture a market share of 4.10%, an increase from 3.64% in 2016. Consequently, the ranking of SCBS among 38 brokers has improved by four notches to #7 from #11 a year ago.

SCBS is committed to continuous improvement in customer services by offering brokerage account opening services at all SCB branches countrywide with a streamlined process that requires only Thai citizen ID cards. Additionally, customers can also open an account online via Easy Stock which is a paperless service that can be completed in 15 minutes. SCBS responded to the digital trend by launching “Stock Advisor” which is a smart phone app for investment recommendations as well as expanding customer communication options to include online channels. In 2017, SCBS won the Best Brokerage House award and the Best Prime Broker in Thailand award from *The Asset* magazine (H.K.) for the third consecutive year, a strong testament to the Company’s commitment to service quality

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

The Bank provides asset management services by offering products in the form of mutual funds, provident funds, and private funds through its wholly owned subsidiary, SCB Asset Management Co., Ltd. As of December 31, 2017, SCBAM still maintained its No. 1 ranking in Thailand in terms of asset under management (AUM) with total AUM of Baht 1.375 trillion (including mutual fund for resolving financial institution problems), up 5.2% from the prior year.

Solid investment performance and effective distribution channel through 1,153 bank branches nationwide have enabled SCBAM to gain a 17.8% market share in the mutual fund business, with AUM of Baht 897 billion, a 4.1% growth from the prior year.

AUM of the Company’s private fund business reached Baht 364 billion at the end of 2017 which amounted to a 12.1% growth year-on-year. SCBAM also manages a portfolio of property funds (Type I) and infrastructure funds with total AUM of Baht 145 billion. In 2017, SCBAM won SET Award of Honor for the third consecutive year and Best Asset & Fund Manager by Alpha SEA for the third consecutive year.

### **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 primarily on non-participating individual life, credit life and health insurance products. These products are distributed chiefly through the Bank’s branches and SCB Life agency offices.

SCB Life reported total gross premiums of Baht 49.5 billion for the financial year 2017, a 6.0% decline from the previous year. The decline was attributable to generally slower sales in the life insurance market, as well as the continuation of a strategic decision by the Company to focus on protection products that are generally smaller ticket-size and 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 2017, SCB Life was ranked 5<sup>th</sup> out of 22 life insurance companies (the same rank as in the previous year) with an 8.2% market share in terms of total premiums.

## 2.2 Marketing and Competition

### Industry and Competition Review

Global economic recovery has led to an expansion in Thai exports which, in turn, boosted GDP growth in 2017 to be higher than the prior year. Gross loans and deposits in the Thai commercial banking sector also grew at 4.8% and 6.2% in 2017 respectively, compared with 2.6% and 1.9% in 2016, with the majority of deposit growth coming from savings deposits.

**Comparison of SCB's Performance with Thai Commercial Banking Sector\***  
as at December 31, 2017

Unit: Baht billion

| (Consolidated)   | Thai Commercial Banking Sector* |        | Change<br>% yoy | SCB<br>2016 | SCB<br>market share<br>% |
|--|---------------------------------|--------|-----------------|-------------|--------------------------|
|  | 2017                            | 2016   |                 |             |                          |
| Assets   | 16,915                          | 16,049 | 5.4             | 3,024       | 17.9                     |
| Gross loans  | 11,494                          | 10,964 | 4.8             | 2,035       | 17.7                     |
| Deposits   | 11,634                          | 10,953 | 6.2             | 2,092       | 18.0                     |
| Net profit<br>(attributable to shareholders of the Bank) | 187                             | 200    | -6.7            | 43          | 23.1                     |

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

For the overall sector performance, total income of Thai commercial banks grew at a moderate pace. Net interest income (NII), which remained the main source of total income, grew in tandem with loan growth and also benefited from efficient cost management, despite a one-time lending rate cut in May. Net fee income of the sector continued to grow. In addition, many Thai commercial banks have invested in digital technology in response to changing consumer needs, causing operating expenses to outstrip income. Higher expenses coupled with higher prudent provisions and preparation for the new accounting standards to take effect in 2019 resulted in a decline in the sector's net profit.

The Thai commercial banking sector had a strong capital position with total capital adequacy ratio (CAR) on a bank-only basis at 17.4% in 2017, which was higher than the minimum capital required under Basel III (Additional details on minimum capital requirement are shown in MD&A). In addition, many Thai commercial banks set aside higher provisions which raised the coverage ratio to 140% from 137% in 2016.

Thai commercial banks continue to maintain a high level of capital to accommodate future regulatory changes from the new accounting standards (IFRS) and new Basel capital requirements. Furthermore, changing customer needs toward digitization and new players entering the financial business have caused Thai commercial banks to face intensified competition from both bank and non-bank competitors. Going forward, Thai commercial banks will need to adapt quickly to constantly changing business environment, be it from FinTech innovations, especially in payments business which has to develop according to National e-Payment Master Plan, changes in the banking business model which has become increasingly digitized, as well as domestic and global economic and political uncertainties.

## 2.3 Product and Service Offering

### Sources and Uses of Funds

As of December 31, 2017, deposits accounted for 69.2% of SCB's funding base. Other major sources of funds were: 12.0% from shareholders' equity, 8.2% from liabilities under insurance contracts recorded by the Bank's insurance subsidiary (SCB Life Assurance PCL), 3.6% from interbank borrowings, and 2.6% from the issuance of debt instruments. As of December 31, 2017, the funds were deployed as follows: 67.3% for loans, 18.9% for investments in securities, 10.5% for interbank and money markets lending, and 1.3% held in cash.

### Debt issued and borrowings

As at December 31, 2017 and 2016, debt issued and borrowings were as follows:

| (in million Baht)  |                   |                  |               |               |               |               |               |                |
|--------------------|-------------------|------------------|---------------|---------------|---------------|---------------|---------------|----------------|
| (Consolidated)     | Interest rate (%) | Year of maturity | 2017          |               |               | 2016          |               |                |
|                    |                   |                  | Domestic      | Foreign       | Total         | Domestic      | Foreign       | Total          |
| Bonds              |                   |                  |               |               |               |               |               |                |
| - US Dollar        | 0-3.50            | 2019-2023        | 715           | 53,070        | 53,785        | -             | 65,573        | 65,573         |
| - Baht             | -                 | 2020             | 737           | -             | 737           | 267           | -             | 267            |
| - Euro             | -                 | 2018             | 20            | -             | 20            | -             | -             | -              |
| Subordinated bonds |                   |                  |               |               |               |               |               |                |
| - Baht             | 4.65              | 2024             | 20,000        | -             | 20,000        | 40,000        | -             | 40,000         |
| Structured notes   |                   |                  |               |               |               |               |               |                |
| - Baht             | 0.27-0.75         | 2018             | 3,815         | -             | 3,815         | 914           | -             | 914            |
| Others             |                   |                  |               |               |               |               |               |                |
|                    |                   |                  | 181           | -             | 181           | 84            | -             | 84             |
| <b>Total</b>       |                   |                  | <b>25,468</b> | <b>53,070</b> | <b>78,538</b> | <b>41,265</b> | <b>65,573</b> | <b>106,838</b> |

### Lending Activities

SCB has well-defined credit policies, strategies, and lending targets that emphasize both credit quality and market opportunities. Credit planning is a coordinated effort among the Head Office, business relationship centers, and branches with plans and targets being reviewed regularly. The Bank's lending policy takes into account relevant regulatory requirements, the overall economic growth, and trends within specific business segments.

SCB lending policy is directed by the Credit Policy Guide (CPG), which serves as the Bank's overall lending policy framework. Underwriting standards have been put in place to guide the Bank's business strategies for existing and new clients by 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 provides guidelines and detailed credit procedures in line with the Credit Policy Guide.

For credit underwriting, the Bank emphasizes checks and balances in its organizational structure pertaining to lending by having a clear separation between business origination and credit approval functions.

Business origination units are responsible for strengthening relationships and expanding business with existing clients, acquiring new clients, and creating new markets. Business origination units are organized based on the nature of each business to best serve different client needs. The Multi-Corporate Segment Function and Corporate Segment Function are responsible for corporate and commercial lending, whereas the SME Segment Function is specifically responsible for small and medium-size enterprise (SME) lending.

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 credit approval considerations of authorized approvers.

In addition, credit approval authority has been assigned to reflect different risk profiles and governed by the three-signature rule.

For the Bank's retail customers and SSMEs, credit approval will be carried out in accordance with product programs / test programs and scoring models which have been approved by the Executive Committee or the Retail Credit Committee. Credit approval authority and criteria, including cases of exceptions, have been clearly and explicitly specified.

### **Lending Policy**

The Bank diversifies its lending to cover different business segments, including retail customers, SSMEs, SMEs, and corporate customers. For business loans, the Bank focuses on high-potential, high-growth businesses among both existing and new clients. In its credit approval considerations, the Bank places a strong emphasis on clients' cash flows and repayment abilities without neglecting collateral analysis in terms of both valuation and liquidity to mitigate potential loss severity.

### **Credit Underwriting and Approval Process**

The Bank strives to create a credit underwriting process to have appropriate risk diversification and reasonable risk-adjusted returns. Regardless of their levels of credit approval authority, staff members involved in the credit process are expected to avoid any conflicts of interest and to comply with the Bank's Credit Policy Guide and underwriting standards.

For loan approval, SCB has designated credit approval authority to individual employees and committees. Individual employees with credit approval authority are (1) the chairman of the Executive Committee, (2) the president, (3) the chief risk officer, (4) the head of credit risk management function, (5) credit risk management senior managers (6) senior credit officers, and (7) credit officers including individual employees in retail and SSME lending. A staff member may or may not be granted credit approval authority, and different staff members in the same position may have different credit approval authority. Each delegation depends on the individual's experience and expertise which is considered 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 loans within the scope set forth by the regulations on credit approval authority. Any lending to SCB-related business entities, SCB major shareholders, or their related parties falls within the approval authority of the Board of Directors.
2. The Executive Committee has the authority to consider, review, and approve loans within the scope set forth by the regulations on credit approval authority and to make recommendations to the Board of Directors on cases that require the Board's approval.
3. The Credit Committee (CC), Retail Credit Committee (RC), and Special Assets Committee (SC) are responsible for approving loans under their areas of authority and to make recommendations to the Executive Committee on cases beyond their scope of authority. The Credit Committee also considers underwriting risk for firm underwriting transactions.

### **Credit Quality Control and Review**

After each individual loan approval, the Bank regularly monitors clients' account movements and undertakes periodic customer reviews with an objective that goes beyond ex-post rationalization. The Bank focuses on forward-looking analysis to gain insight on both positive and negative changes in a specific industry or business related to each customer, as well as assessing future strength of the customer's balance sheet. This approach enables the Bank to review and monitor risk of each customer in order to formulate appropriate business strategies and action plans going forward.

Business relationship management staff is responsible for conducting customer reviews within a specified timeframe at least once a year and undertaking additional reviews when warranted by events that have material impacts on customers. Reports on customer reviews shall be prepared in a standard format and submitted for approval from authorized persons.

For retail customers and SSMEs, the Bank reviews customer risk rating to gain insight on customer behavior and formulate an appropriate strategy for portfolio management, such as creating an early warning. The review is conducted at least once a year or more frequently if warranted by material changes in customer risk rating.

Debt collection for business customers is initially the responsibility of Business Relationship Management Units. However, in the case of a non-performing loan (NPL), the collection responsibility will be transferred to the Special Business Function within one month from the date of 3-month delinquency on principal or interest for further action by work-out specialists.

For retail customers and SSMEs, the Bank has a collection strategy that depends on borrowers' risk rating so that the Collection Units and the Special Business Function can monitor and arrive at appropriate resolutions on a timely basis.



**Disclosure of Intra-Group Transaction Policy and SCB Group Risk Management Policy**Governance on Intra-Group Transactions

For transparency of intra-group transactions within the SCB Financial Group and to prevent any conflicts of interest between SCB and other shareholders in businesses that are not wholly owned by SCB, the Bank has established the Intra-Group Transaction Policy which has been approved and annually reviewed by the SCB Board of Directors. This Policy serves as a risk management guideline for intra-group transactions and establishes controls for any significant transactions. In particular, materiality ratios for lending, investment, contingent liabilities, and lending-related transactions are applied in a manner consistent with the Bank of Thailand's quantitative supervision guidelines.

In addition, this Policy requires that every transaction be concluded formally, i.e., in writing and with legal enforceability, and must not include special terms and conditions that materially differ from other business transactions with similar risk profiles or, in the absence of any similar transactions, conform with market practices. Also, the Policy requires that all documentary evidence be retained in accordance with customary business practices, and that approval authority for such transactions be consistent with their risk levels and materiality.

### 3. Risk Factors

#### Risk Management and Risk Factors

##### Risk Management

SCB's strong performance in the past few years has been accompanied by significant expansion in assets, customer base, and workforce. As the Bank's operations grow in complexity and size, the Bank must shift its priority toward sustainability. Moreover, the Bank's past success has also ratcheted up the expectations of customers, shareholders, and other stakeholders. Against this backdrop, the Bank believes that effective risk management will continue to be the key to sustainable growth and profitability.

Risk management aims to create long-term stability for the business to achieve its goals within the risk appetite as well as mitigating risks in critical or uncontrollable situations. SCB is committed to developing and strengthening its entire risk management system, starting from risk identification, risk measurement, risk monitoring and control, and risk reporting, to be prepared for any current and future changes. The backbone of SCB's risk management consists of the policy formulation process, implementation framework, and the audit process in parallel with building a risk culture by empowering people with knowledge and accountability to all participate in risk management.

SCB's overall risk management structure, policy, and system comprise the following:

##### Risk Management System

SCB's risk management system has four major components:

###### 1. Risk identification

Major risks of the Bank involve transactions and activities with customers and counterparties. These risks are strategic risk, credit risk, market risk, interest rate risk in the banking book, liquidity risk, operational risk, reputational risk, people risk, and technology risk. These risk categories are discussed in detail below in the "Key Risk Factors for the Banking Business" Section.

###### 2. Risk measurement

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

- **For credit risk**, measures include borrower risk ratings to gauge the probability of default (PD). The Bank applies credit scoring, such as application scores and behavioral scores to assess risk profiles of retail clients and small SMEs. In addition, the Bank has developed 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**, 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 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 measurements include liquidity ratio, maximum cumulative outflow (MCO) as well as the recently introduced liquidity coverage ratio (LCR) under Basel III rules.
- **For operational risk** measurement, the Bank uses risk and control self-assessments as well as loss incident data to determine operational risk and internal control effectiveness for each function. 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 may cause business disruptions. The Bank's operational risk management approach requires all new products and any material changes to existing products to undergo a risk profile review. This approach ensures that operational risk remains within the Bank's risk appetite to reduce the impact from potential operational risk events.
- **For strategic risk**, the Bank's assessments are primarily based on qualitative risk factors and quantitative economic indicators.
- **For reputational risk, technology risk, and people risk**, the Bank mainly applies risk analysis, including quantitative and qualitative risk management

To implement forward-looking risk management, the Bank also performs stress-testing in addition to other risk measurement tools, particularly for market risk, credit risk, and liquidity risk.

### 3. Risk monitoring and control

The Bank establishes a Risk Appetite Statement (RAS) that is aligned with SCB Group's long-term goals to guide its overall risk considerations and controls. The Bank regularly reviews its capital adequacy, as well as monitoring and controlling 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 an internal control process to manage risks in accordance with the Bank's policies and procedures.

### 4. Risk reporting

Risks in all categories are reported promptly and accurately to relevant functions and management on a regular basis to ensure effective risk management and control. Risk reports are created at the product level, the function level, and for the overall risk of the Bank.

## Risk Governance Structure

The risk governance structure comprises 5 key following components:

### 1. Policies

The Board of Directors has the responsibility to review and approve the Bank's major risk management policies, such as Risk Management Policy of SCB Financial Group, Intra – SCB's 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.

In addition, the Board of Directors approves two other key related guidelines which are Strategic Risk Management Guidelines and Reputational Risk Management Guidelines.

## 2. Authority

The Board of Directors has the responsibility to delegate approval 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 delegated risk management duties to three committees as follows:

3.1.1 **The Executive Committee** is responsible for reviewing and making recommendations on risk management policies for the Board's approval as well as approving certain policies as delegated by the Board of Directors. In addition, the Executive Committee is authorized to approve loans and investments and to administer related functions as assigned by the Board of Directors.

3.1.2 **The Audit Committee** comprises independent directors who are responsible for reviewing the adequacy of the Bank's risk management policies, internal control, and the effectiveness of the Bank's and SCB Group's risk management implementation.

3.1.3 **The Risk Management Committee** is responsible for reviewing and making recommendations on risk management policies and frameworks for risk management and control to the Executive Committee and the Board of Directors for approval. The Committee also formulates risk management strategies to be consistent with the Board's guidance and oversees the Bank's and SCB Group's overall risk management.

3.2 The Bank set up 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 on the Bank's equity investment portfolio.

3.2.3 **The Credit Committee, Retail Credit Committee, and Special Assets Committee** are responsible to approve loans within their approval authority. Any loans exceeding the committees' authority levels require approval from the Executive Committee and the Board of Directors as set forth in the Rules on Credit Approval Authority and the Rules on Credit Approval Authority for Non-performing Loans and Non-performing Assets. However, loans for Bank-related businesses, major shareholders, or related persons must be approved by the Board of Directors. Loans viewed by the Executive

Committee as contentious with potential reputational risk may be escalated to the Board for approval as deemed appropriate.

3.2.4 **The Underwriting Risk Committee** is responsible for reviewing and approving underwriting limits based on market risk considerations. The Committee makes recommendations to the Executive Committee or the Board of Directors for approval on cases of high-risk transactions or when underwriting limits exceed its approval authority.

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

## **4. Risk Governance**

### **4.1 Credit risk governance**

The Bank has long emphasized the importance of proper checks and balances in its organizational structure by separating business functions and credit approval functions for effective internal control. 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 retail credit, the Bank monitors and controls retail lending through the established Credit Policy Guide and approval authority as well as underwriting criteria approved by the Executive Committee or the Retail Credit Committee. Additionally, the Bank assesses and measures credit risk by product and customer segment as well.

### **4.2 Market risk governance**

The Bank sets a variety of market risk limits for its trading portfolios which have been approved by the Executive Committee and the Board of Directors. For the Bank's key market risks which are interest rate risk and foreign exchange risk, the Committee sets risk limits for trading positions based on information from a number of risk monitoring and assessment tools such as 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 limits for IRRBB by measuring impact of net interest income and economic value of equity (EVE) to interest rate fluctuations under stress situations. To monitor IRRBB, the Bank produces repricing gap reports for risk analysis and risk assessment. This analysis, assessment, and risk management strategies are then reported to the Assets and Liabilities Management Committee (ALCO) for further actions.

### **4.4 Liquidity risk governance**

The Bank manages and controls liquidity risk to ensure that it maintains adequate sources of liquidity in order to maintain sufficient future cash flows to cover its activities under both normal and stress situations by using Cash flows report or Liquidity gap report 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) and Liquidity Coverage Ratio (LCR) at an appropriate level and to monitor net cash outflows over different time horizons 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 the “Three Lines of Defense” as a core principle in its risk management practices. Front-line business functions constitute the first line of defense by applying the risk management and control principles to their day-to-day operations. The second line of defense is made up of the oversight functions (e.g., Risk Management Function, Compliance Functions, etc.) to ensure that all business functions have effective risk management practices.

The third line of defense comprises independent assurance providers (e.g., internal audit and other independent assurance providers), who provide independent review and objective assurance on the effectiveness of the Bank’s internal control system.

Additionally, the Risk Management Function holds regular meetings with business-level committees to discuss operational risk issues as well as providing risk management information to management across key functions to facilitate their business decision-making.

#### **4.6 People risk governance**

The Bank applies the “Three Lines of Defense” to manage people risk in the same manner as that of operational risk. The first line of defense involves the People Function, business functions, and relevant support functions. The second line of defense involves a shared service group which is responsible for providing recommendations, supports, alerts, and testing for approaches adopted by the People Function to manage people risks. The shared service group comprises Operational Risk Management, Compliance and Operational Control, Technology Security & Risk, Fraud Control, and others. Lastly, the third line of defense is carried out by independent units which will conduct tests on processes and procedures set out by the People Function (including the people risk management process). The last line of defense, which is under the responsibility of the Audit Division, provides assurance to the Audit Committee and the Board of Directors that the Bank and SCB Group companies have effective control measures for people risk.

#### **For risk management of SCB Group, the Bank as the core company has an oversight responsibility for the risk management of subsidiary companies.**

The Bank’s subsidiaries are responsible for establishing risk and internal control policies and practices to ensure effective risk management at an equivalent level to the Bank and consistent with the Bank of Thailand’s guidelines on consolidated supervision. The Board of Directors has approved the Risk Management Policy of SCB Financial Group which requires each subsidiary to: formulate a risk management policy, set up an appropriate organizational structure, set risk tolerance limits, establish risk management approaches, and prepare risk reports as specified by the Bank’s risk management guidelines which depend on the nature of its business.

For Intra - SCB’s Financial Group Transaction Policy, the Bank follows the principle of good governance by requiring that these transactions be conducted under no special terms and conditions. Any company that is wholly owned or substantially owned by the Bank, which is considered equivalent to the Bank’s business unit, can use the Bank’s shared services/resources or provide services to the Bank at prices, terms and conditions that are reasonable and acceptable to both sides.

## 5. Chief Risk Office

The Chief Risk Office, which reports directly to the President and Chief Executive Officer, is responsible for setting risk management framework, making risk policy recommendations, as well as reporting and monitoring major types of risk. The Chief Risk Office is responsible to bring the Bank's risk management policies and practices up to global standards and to ensure that the Bank and its subsidiaries have a comprehensive and integrated risk management framework. Moreover, other relevant functions are responsible for specific risks; for example, the Chief Financial Office is responsible for liquidity risk and interest rate risk in the banking book (IRRBB); the Chief People Office is in charge of people risk; and the Chief Strategy Office handles strategic risk.

## Key Risk Factors for the Banking Business

### Risks from economic uncertainties

The expansion of Thailand's economy in 2017 was largely due to a strong rebound in the export sector. However, the benefits of this rebound have not yet translated into higher purchasing power among low-income households. Moreover, the country's economy is still vulnerable to flood and foreign political risks.

SCB expects that the Thai economy will grow by 4.0% in 2018, propelled in large part by exports, tourism, and the ongoing public investment in large-scale projects, which will lead to recovery in the private sector. Moreover, private-sector consumption will pick up in certain income levels and product groups, such as high-income earners and close to one million First-Car Policy buyers who now approach the end of their car loan payments. Moreover, the post-mourning period and the government welfare card scheme will also contribute to higher spending in the private sector.

Potential risk to the domestic economy will depend on how fast the government's budget translates into actual spending and the clarity on terms of benefits, rights, and regulations of large-scale public investment projects. Particularly, the Eastern Economic Corridor (EEC) project will be a pivotal factor for determining investor confidence level among both Thai and foreign investors. Similarly, domestic investment is also subject to additional risk of labor shortage for both foreign and high-skilled workers. Household debt remains high and concentrated among low-income earners which may delay the recovery of household spending. Moreover, there is still lingering risk from Thailand's elusive general elections and thus uncertainty around future economic policies that may affect investor confidence.

As for external risks, geopolitical conflict still looms large as a major source of concern. The main risk revolves around Korean Peninsula conflict which, though a low-probability event, will deal a detrimental blow to the global economy and trade in the worst-case scenario. Moreover, political risks from the previous year continue to be a concern, ranging from President Donald Trump in the US, the anti-EU sentiment in Italy, Catalonia's secession movement in Spain, political battles in Germany, to the unresolved Brexit. Moreover, there are signs of trouble in the finance sector as global financial markets rebounded sharply last year amid contractionary monetary policies worldwide which increase the risk of asset price normalization.

To manage risk from economic uncertainties, SCB regularly monitors borrowers' credit quality to ensure adequate provisions for non-performing loans. In addition, the Bank closely monitors loan concentration

in the portfolios to take prompt actions in the event of an economic downturn. The Bank has also created a stress-testing process to appraise capital adequacy which is part of the ICAAP requirement 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 a business sector with a potential to produce large losses for the Bank if problems arise in that entity or sector.

The Bank manages credit concentration risk by setting concentration limits based on loss potential for each borrower group. Specifically, the Bank controls and monitors the following ratios:

- 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 any specific industry. This is determined from industry trends, 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 risk**

Counterparty risk is the risk of losses from counterparties violating the contract agreements particularly for derivatives contracts, such as interest-rate swaps, currency swaps, equity instruments, and forward rate agreements. Generally, the Bank enters into derivative contracts with customers who need to square their positions and minimize their risk exposure. To keep market risk exposure under the limit, the Bank may hedge its risk exposure in part or whole by entering into off-setting agreements (back-to-back) with foreign banks in the OTC derivatives markets which creates counterparty risk with these banks.

The Bank sets a risk limit for each counterparty based on the same underwriting process as credit customers. To determine counterparty limits, the Bank takes into consideration the counterparty's credit ratings and its level of Tier 1 capital. The Bank also establishes a sovereign limit for each country. For risk monitoring, the Bank closely monitors counterparties' credit conditions based on aggregate exposure, credit default swap (CDS) spread, changes in credit ratings, and changes in equity prices. This information is reported to senior management on a daily basis as input to assist with keeping the risk level within the Bank's risk appetite during normal and stress situations.

To mitigate counterparty risk, the Bank signs ISDA credit support annexes (CSA) with its major counterparties which require posting collateral in the form of cash or highly liquid securities when the contract's fair market value changes more than the threshold.



### **1.3. Country risk**

The Bank monitors its exposure to both direct and indirect country risks by assessing loss probability within an appropriate time horizon in an event of adverse conditions to the country or to businesses in that country. The Bank manages country risk by setting a policy limit and a 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 borrowers fail to repay their debts according to the agreed schedules which may cause the Bank to lose not only interest income, but sometimes part of or the entire principal, with an impact on the Bank's profitability and capital adequacy.

At the end of 2017, Bank-only NPLs stood at Baht 64,537 million, or 2.8%, up in absolute term and in percent term of total credit, from Baht 56,544 million, or 2.6%, in 2016. (Further explanation on NPLs is provided in the MD&A section.) These NPLs can be classified into four categories: restructured debts 66.2%, debts pending completion of restructuring negotiations 5.8%, debts pending the outcome of legal proceedings 15.0%, and debts pending legal execution 13.0%.

The Bank manages its NPL risk by setting aside adequate loan loss provisions for expected losses. At the end of 2017, the Bank had total loan loss provisions of Baht 89,227 million, covering 138.3% of NPLs.

### **1.5. Off-balance-sheet risk**

To adhere to the Generally Accepted Accounting Principles, some of the Bank's obligations with customers and counterparties are classified as off-balance-sheet items which have underlying counterparty risk and market risk from the event of contractual failures. However, both sides of the contracts can face losses as a result this risk, unlike general credit risk in which losses are often one-sided.

At the end of 2017, the Bank's obligations from aval and guarantees, liabilities under unmatured import bills, and letters of credit amounted to Baht 47,721 million, down by 24.9% from the year before.

To manage off-balance-sheet exposure, the Bank treats such obligations as a form of loans and business units are required to follow the normal credit approval process. The Bank controls this risk by setting counterparty risk limit for each customer along with country risk limit. Monitoring is also done by keeping abreast of current situations and related information. To quantify credit equivalent amount of an off-balance-sheet item, the Bank computes the current exposure based on mark-to-market prices plus an add-on factor.

The Bank also controls its derivatives risk exposure to market 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 is in the form of real estate, a sluggish property market and lower house prices will negatively affect the value of the Bank's collateral which may result in higher losses from NPLs. The

Bank has established the 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 values, especially for setting loan loss provision, capital calculation and debt restructuring.

The Bank has managed impairment risk through the Collateral and Non-Performing Assets Appraisal Policy as mentioned above which requires collateral for credit lines exceeding Baht 20 million to be reassessed every five years. Collateral for non-performing loans (NPLS) is reassessed every three years unless there is a decision to be made which depends on collateral value, such as trouble loan restructuring. In that case collateral value must be reassessed within one year to reflect fair market value. For non-performing assets, collateral is re-appraised every year.

For the choice of appraiser, the Bank is authorized by the BOT to use its internal appraiser for loans of any size. To ensure transparency and prevent conflicts of interest, the Bank's internal appraisal process is independent from the credit approval function. The Bank's internal appraiser is responsible for monitoring property price movements in the market on a regular basis and notifying the Bank promptly if property prices have changed more than 20% within a year so that the Bank can take further actions on reappraisal.

## **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. Transactions exposed to foreign exchange risk include proprietary trading transactions and money transfers as well as payments related to international trade and foreign investment, which may result in the Bank's net currency position being short or long at any point in time. Thai baht appreciation against the currency in which the Bank has a net long position will result in foreign exchange losses, whereas Baht depreciation will result in foreign exchange gains. On the other hand, if the Bank is in a net short position, the Bank will make a gain on the position when Baht strengthens but a loss when Baht weakens.

The Bank controls foreign exchange risk by setting risk limits on foreign exchange risk exposure both in terms of statistical limits, such as VaR, and monetary limits, such as net open position, open position by currency, management action triggers, etc.

As of December 31, 2017, the Bank's foreign currency position was long USD 52.93 million (USD equivalent) with VaR of Baht 41.82 million.

### **2.2. Interest rate risk**

Interest rate fluctuation affects the Bank's interest income and expenses, and economic value of equity. The Bank faces four types of Interest rate risk:

- **Repricing risk** is the risk from maturity/timing mismatches of the Bank's assets and liabilities which cause interest rates at reset to differ due to yield curve movements. For example, assuming all other factors being constant, if the Bank's assets can be repriced faster than liabilities (a 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 (a negative gap), then interest margins narrow when interest rates rise.

- **Yield curve risk** arises from interest rates at different maturities changing differently.
- **Basis risk** occurs when the Bank's assets and liabilities are based on different reference interest rates, e.g., fixed-deposit rates, interbank lending rates, THBFIX interest rates, etc. Therefore, any change in reference 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 where exercising these options might affect the Bank's revenue and costs. For example, an option on three-month or six-month deposits that allows early withdrawal before maturity will, if exercised, cause the Bank's costs to rise sooner than expected.

To manage its interest rate risk, the Bank sets risk tolerance limits for both the trading book and banking book. For trading book exposures, there are limits on VaR, sensitivities to yield curve and basis shifts (basis point value), and stress testing. For banking book exposures, limits are determined based on percentage of income and capital.

As of December 31, 2017, VaR of interest rate risk exposure in the trading book was Baht 66.14 million. For the banking book, a 1% increase in interest rates for a period of one year would decrease net interest income by Baht 1.21 billion.

### 3. Liquidity risk

Liquidity risk is the risk that the Bank is unable to honor its obligations upon maturity because it cannot liquidate assets or raise sufficient funds on reasonable terms, which may create losses.

To manage the underlying liquidity risk, SCB has laid out a Liquidity Risk Management Policy which is approved by the Board of Directors. The Asset and Liability Management of the Bank is responsible for ensuring that liquidity risk management complies with the policy.

Additionally, SCB has implemented a system to handle daily liquidity management in both baht and foreign currencies. The system applies various risk management tools, such as daily net liquidity position reports for both remaining time to maturity and behavioral adjustment basis, net liquidity position by currency, and others. Moreover, SCB sets risk limits and requires daily reporting of liquidity risk exposure to management to ensure that liquidity risk remains within the Bank's risk appetite.

The Bank also regularly performs stress testing under scenarios set out by the Bank of Thailand and SCB. Results from the test are used as part of the formulation of a Contingency Funding Plan. The plan sets out appropriate guidelines under various circumstances and clearly specifies roles and responsibilities for liquidity management under critical situations.

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 2017, the Bank's liquid assets represented 26.9% of total deposits which is reassuring that there will be adequate liquidity under both normal situations and crisis scenarios.

#### **4. Strategic risk**

Strategic risk refers to the risk on the Bank's profits, capital, or stability both now and in the future that arise from changes in the business environment, adverse strategic decisions, improper implementation of major strategies, or untimely responses 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. In addition to having a strategic risk assessment and monitoring process, the Bank manages strategic risk throughout the strategy planning process with consists of: 1) Strategy formulation, 2) Strategy alignment and change management, 3) Implementation and monitoring, and 4) Performance evaluation and recommendations. This process ensures that relevant information has been appropriately incorporated into the Bank's strategy planning while the strategic risk assessment and monitoring process monitors changes in external and internal factors that may affect the business.

At present, the Corporate Strategy and Business Development Function is responsible for both the strategic risk assessment process and the strategic planning process with key duties to support the Board and senior management in strategic formulation and review.

#### **5. Operational risk**

The Bank defines operational risk, based on Basel II's definition, as the risk of losses resulting from inadequacy or failure of internal processes, people, and systems or from external events which also includes legal risk, and impact on reputation from operational risk, but excludes strategic risk. (Details on reputational risk are in item 6 below). Operational risk factors can arise from both internal and external environments, such as changes in key personnel, organizational structure, processes, systems, products, natural disasters, riots, etc.

The Bank realizes that the business must face operational risk and therefore places great emphasis on operational risk management and has continually improved this crucial process over time.

Business and support functions within the Bank are responsible for managing their operational risk by applying the methodologies and approaches that the Bank has adopted. Each function performs a risk and control self-assessment (RCSA) which entails identifying key risks, evaluating the effectiveness of controls, and establishing action plans to mitigate or prevent these risks to be within the level of risk appetite appropriate for each function. The Bank has reviewed the previous RCSAs and identified key risks at the Bank level for which senior management must establish mitigation and prevention measures to control such risks to be within the risk appetite. Each function must specify key risk indicators (KRIs) for certain important risks that require monitoring to ensure that risks are within the risk appetite and managed in a timely fashion. In the case of losses, the Bank not only has a process to rectify the issues systematically, but also capitalizes on lessons learned by collecting the information to guide future prevention and mitigation plans.

The Bank's risk assessment and control process undergoes periodic reviews to identify new emerging risks and detect ineffective controls that worsen existing risks. The results are reported to relevant committees and senior management for approval and to determine action plans to reduce or eliminate such risks.

To ensure that the business can continue in critical situations, the Bank revised the Crisis Management Plan as well as consistently improving its crisis management and business continuity capabilities throughout 2017.

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

Beside the operational risks already mentioned, the Bank, as a financial institution, has a duty to comply with laws, statutory rules, and regulations of several regulatory agencies, such as the Bank of Thailand, the Securities and Exchange Commission, the Stock Exchange of Thailand, the Anti-Money Laundering Office, and others.

The Bank's Compliance and Operational Control Function is responsible to provide regulatory advice, clarifications, and recommendations to other related functions to ensure that the Bank and SCB Group comply with laws, regulations, and internal rules. The Compliance Function reports any material regulatory risks to senior management and related committees to ensure effective regulatory risk management.

## **6. Reputational risk**

Maintaining the organizational reputation is a critical part of running the business, especially for financial businesses, since the Bank's reputation comes from the confidence and trust that have been built up over many years. Reputation is not easy to build but easy to ruin.

Recognizing the importance of reputational risk, SCB has developed a reputational risk management guideline and process which will be applied to the Bank and SCB Group companies. Each business is required to take necessary prevention measures against potential reputational risk from both internal and external factors, whether income generating or not.

Application of the reputational risk management guideline depends on the nature of the business in terms of reputational risk exposure. Financial companies exposed to high reputational risk must implement the reputation risk management policy with a clear reputational risk management process, whereas companies with non-material reputational risks are required to report any reputational risk incidents to senior management.

Any transactions which may negatively affect the Bank's reputation require prior approval by the Executive Committee and may be reported to the Board of Directors if deemed appropriate by the Chairman of the Executive Committee.

The CSR, Corporate Branding, and Communication Function is responsible for working closely with other internal functions and SCB Group companies to determine reputational risk factors as well as assessing and reporting reputational risk issues to the Risk Management Committee and the Executive Committee.

## 7. People Risk

People risk refers to risk exposure to an organization from people's actions or negligence and, vice versa, risks to people from an organization's actions or negligence. As people are the most important assets of an organization, people risk can influence other risk types, i.e. credit risk, market risk, liquidity risk, reputational risk, operational risk, and strategic risk.

SCB recognizes the importance of people risk in the business and has made serious efforts to address people risk. The Board of Directors has set an effective framework for people risk management as well as conducting overall risk review. Senior management oversees people risk management and control within their functions as well as coordinating with the People Function and other relevant functions.

The People Function, together with business functions and relevant support functions, are responsible for identifying people risks based on appropriate analysis given the business complexity of each function, as well as assessing, controlling, monitoring, and reporting risks to the Bank's management with periodic reviews and updates of potential risks.

The people risk management framework involves three major considerations:

- 1. People capacity and capability:** SCB's business approach is based on having adequate people capacity to perform duties as well as having people capability that are appropriate for job positions and responsibilities. The Bank expands the scope of people's decision-making authority, increases their capabilities, and provides learning opportunities and conducive working environment to enable them to reach their full potential.
- 2. People conduct:** SCB's business approach is based on people's integrity and risk owner, especially for risks within their areas of responsibilities, as well as internal collaboration to create a positive work culture.
- 3. People health and safety:** SCB's business approach is based on a strong commitment to creating a safe working environment for people with considerations to both physical and emotional health.

Failure to put any of the above considerations into practice may lead to varying degrees of people risk depending on the situation. Therefore, it is critical to assess, control, and mitigate people risks to remain within the Bank's risk appetite.

People are vital resources in the banking business. Not only must the Bank provide suitable products and services that meet customer needs, there are also rules and regulations on customer protection with which the Bank and its staff must comply to avoid market misconduct. Therefore, the Bank needs people capacity and capability to help achieve its business goals in a sustainable manner. SCB recognizes the importance of human resources which have been under significant and constant challenges in today's environment. A key challenge is the advent of new technologies which may replace existing service delivery platforms and put pressure on an organization to reform or transform itself. Such broad-scale organizational change raises demand on human resources both in terms of quality and quantity. Specifically, an organization requires knowledgeable, well-rounded, and adaptable people to drive changes in the organization. SCB has taken measures to mitigate such risks by building a risk culture whereby risk awareness and ownership are the norm, and risk mitigation and prevention are the responsibilities of all staff. Moreover, the Bank set up SCB Academy to build additional skills

and knowledge for its people, such as product knowledge and data analytics skills related to business analysis and planning. The Bank also changed its organizational structure by separating sales and services functions as well as putting an emphasis on helping people build their career paths to ensure business success and sustainable growth. The Bank places importance on providing a safe and conducive work environment to foster employee engagement.

For people risk management, the Bank and SCB Group also apply the “Three Lines of Defense” principle used in operational risk management to ensure effectiveness in people risk management and internal control.

## **8. Technology risk**

Today’s technology is changing rapidly. If the Bank cannot adapt or come up with a long-term plan to accommodate the changes, the Bank’s business may suffer and lose market share. Specifically, the Bank may not be able to serve customers effectively in terms of meeting their product or pricing needs. Moreover, technology risk may also cause business and service disruptions which may lead to lower profitability and market share for the Bank.

Because of these wide-ranging and inter-related impacts, managing technology risk is the Bank’s priority. SCB has adopted a world-class technology risk management framework with the following key components: 1) Risk identification; 2) Risk assessment; 3) Risk response; and 4) Monitoring and reporting. Furthermore, the Bank recognizes and has taken steps to build and enhance the organization’s risk culture, particularly for technology risk, by educating and training people, managing knowledge platforms on technology risk to be accurate and up-to-date, applying risk management tools that meet international standards, along with continually improving its risk management framework to be in line with global practices.

The technology risk management process enables the Bank to adequately manage technology risk at both the strategic and operational levels. At the strategic level, the Bank aims to build a modern, flexible, and secure IT architecture to support omnichannel service delivery for customers, along with providing data management capabilities for marketing and credit management analysis. At the operational level, the Bank takes into consideration the IT organizational structure, system procurement and development, system accuracy and security, and critical data management, such as customer data, system capacity to support transaction workloads, including service continuity in case of any emergency or critical situations, IT outsourcing system management, and others, which help increase its competitiveness and profitability.

## **Emerging Risks**

The Bank enhances the effectiveness of its risk management process by requiring all functions to assess and review emerging risks for both short term (within 1 year) and long term (between 3-5 years) that are within their purview. Each function is also responsible for presenting its list of emerging risks to the Management Committee for acknowledgement and sign-off. This process will enable the Bank to confront and manage risks effectively with diverse data sources while also creating bank-wide awareness on the importance of risk management.

In 2017, the Bank identified key emerging risks with potential long-term impacts on the Bank's operations which are categorized into internal and external risks.

### **Internal Risks**

#### **Risks from technological changes**

Today's rapid and drastic technological changes have affected customer needs and expectations in terms of both method and speed of service delivery. The Bank, therefore, has increased the share of technology investment under the Transformation Program to create a faster service delivery platform that can meet customer changing needs as well as developing a process to prevent cyber risk.

#### **Risks from organizational changes**

Transitioning into full-scale digital banking and ensuring organizational adaptability to technological changes and higher competition may pose a challenge in recruiting and attracting experienced candidates with specialized technical skills, such as data management and data analytics. To prevent shortage of talents which may disrupt the business, the Bank set up SCB Academy to develop necessary knowledge and skills in finance and banking business for staff as well as providing knowledge on technology. The Bank also has a talent program and a successor plan to identify and prepare candidates with knowledge, capability, and potential to fill vacancies for existing or newly created positions.

#### **Risks from procedural changes**

Different changes, ranging from technology, rules, and regulations, organizational structure, or even changes in customer needs, may create market conduct risk or execution risk that cause the Bank to lose customer trust or face regulatory penalties. The Bank has, therefore, established an approval framework for new product launch which requires an overall impact assessment and approval from all related parties. The Bank also provides training and maintains constant communication with staff to prevent unprofessional conduct.

### **External Risks**

#### **Risks from environmental changes**

Risks from environmental changes, such as drought, flood, and global warming, may cause the Bank's customers, such as those in agricultural and natural power sectors, to face difficulty reaching their business targets with a consequence on their debt servicing ability. The Bank's approach to manage such risks is to incorporate environmental impact consideration into its credit underwriting criteria, as well as providing financial support to businesses that help reduce environmental impacts, specifying conditions of short-term loans, calibrating credit limits to agricultural product prices, and requiring customers to buy insurance against losses from business disruptions or natural disasters.

#### **Risks from technological changes**

Technological changes may cause some businesses, such as publishing, automobile, oil businesses, to be replaced by new technologies. The Bank has therefore incorporated this type of risks into all analyses



of industries that are susceptible to being replaced which can then be used to inform the Bank's strategic planning and advise customers in these industries to adapt to the changes.

### **Risks from local and global economic volatility**

One source of economic volatility and uncertainty are policies of Thailand's major trading partners, such as the People's Republic of China, the United States, and European countries, which may affect Thai exports. In addition, economic conditions in Thailand are still volatile from political uncertainty. Fragile economic conditions may affect customers' debt servicing abilities, especially for the household sector which is the Bank's core customers. The Bank conducts stress testing to monitor the sensitivity of the Bank's loan portfolio to changes in economic data as well as specifying additional indicators, such as share of non-performing loans and gross domestic product, to be used in determining an appropriate level of lending.

### **Capital Adequacy**

In response to the global financial crisis in 2008, the Basel Committee on Banking Supervision announced a new set of regulatory guidelines, known as Basel III, for assessing capital adequacy and liquidity risk in December 2010. The new guidelines aim to strengthen bank capital position and set a new standard for liquidity risk management. The Bank of Thailand (BOT) has adopted this framework with minor modifications to raise the standards of Thai commercial banks to the global level.

Effective from January 1, 2016, the BOT requires Thai commercial banks to hold a capital conservation buffer according to Basel III guidelines. This additional capital requirement is being phased in gradually which effectively increases the Common Equity Tier 1 capital requirement by 0.625% p.a. until reaching the 2.5% target in 2019.

Furthermore, the Bank has recently been designated by the BOT, along with 4 other major Thai commercial banks, as Domestic Systemically Important Banks (D-SIBs). To ensure stability and resilience of D-SIBs, the BOT requires D-SIBs to maintain additional minimum Common Equity Tier 1 capital as a capital buffer (so called Higher Loss Absorbency), starting at 0.5% in 2019 and increasing to 1.0% in 2020.

The minimum regulatory capital requirements which include capital conservation buffer and D-SIBs buffer (Higher Loss Absorbency) are shown in the table below.

| <b>Minimum regulatory capital requirement</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| Capital Conservation Buffer                   | 0.625%      | 1.25%       | 1.875%      | 2.50%       | 2.50%       |
| D-SIB Buffer                                  | -           | -           | -           | 0.50%       | 1.00%       |
| Common Equity Tier 1                          | 5.125%      | 5.75%       | 6.375%      | 7.50%       | 8.00%       |
| Tier 1 Capital                                | 6.625%      | 7.25%       | 7.875%      | 9.00%       | 9.50%       |
| Total Capital                                 | 9.125%      | 9.75%       | 10.375%     | 11.50%      | 12.00%      |

Banks that cannot meet this minimum requirement may be subject to earnings-distribution restrictions, e.g., dividend payouts, discretionary bonus payments, share buybacks, etc.

Since January 1, 2013, SCB has adopted the Basel III guidelines on a bank-only basis, as well as the guidelines on a consolidated basis, ahead of the corresponding BOT deadline. The Bank continues to apply the standardized approach to assess 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 sets 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 2017, under the Basel III framework, the Bank had total capital of Baht 342 billion (17.2% of risk-weighted assets), of which Baht 300 billion was classified as CET1/Tier 1 capital (15.1% of risk-weighted assets) and Baht 42 billion (2.1% of risk-weighted assets) was classified as Tier 2 capital. For SCB Group, the total capital stood at Baht 365 billion (17.7% of risk-weighted assets), of which Baht 322 billion was classified as CET1/Tier 1 capital (15.6% of risk-weighted assets), and Baht 43 billion (2.1% of risk-weighted assets) was classified as Tier 2 capital.

Note that if the Bank's 2H17 net profit is included in the capital adequacy calculation, CET1/Tier 1 capital will be 16.0% on a bank-only basis and 16.5% on a consolidated basis.

The Bank believes that its strong capital position, which is currently well above the minimum regulatory requirement, together with high 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.

### **Risks to Shareholders**

Shareholders are subject to the risk that expected returns from their investments, either in the form of dividend income or capital gains, may not materialize. Dividend income is directly linked to the Bank's profits. Shareholders should expect to receive dividend income between 30-50% of the Bank's consolidated net profit as stated in the Bank's dividend policy. Capital gains are determined solely by SCB share price which is influenced by a variety of factors, such as the Bank's performance, domestic and global economic trends, domestic political stability, and foreign fund inflows and outflows, most of which are beyond the Bank's control.

The Bank's performance, the only factor under the Bank's control, has been in line or exceeded market expectation in recent years. At the beginning of each year, the Bank provides broad guidance on its financial targets and shareholders face the risk that these financial targets may not be met in a particular year which would affect both dividend and share price. SCB mitigates this risk by having a clear business policy with appropriate short-term to medium-term strategies, along with clear annual financial targets. In addition, the Bank has delivered the highest net profit among Thai financial institutions in an environment with intense competition. Although past performance does not guarantee future results, it demonstrates the Bank's competitiveness, strategic effectiveness both in terms of direction and

implementation, and the quality of its management team, which help put the Bank in a better position than industry peers to face any adverse shocks.

In addition, since the proportion of shares held by the Bank's two largest shareholders is quite large, shareholders face the risk that major shareholders materially reduce their position which can significantly depress share price. Nevertheless, the Bank expects the effect to be short-term, given that the Bank's market capitalization is among one of the highest in the stock market, making the Bank's stocks highly liquid with high trading volume.

## 4. Business Assets

### 1. Main Fixed Assets for Business Operations

#### Premises and equipment, net

As at December 31, 2017 and 2016, the changes to the net premises and equipment were as follows:

|                                      | (in million Baht) |               |
|--------------------------------------|-------------------|---------------|
| (Consolidated)                       | 2017              | 2016          |
| Land                                 | 19,231            | 19,236        |
| Premises                             | 28,763            | 27,550        |
| Equipment                            | 23,417            | 21,310        |
| Others                               | 1,451             | 330           |
| Total                                | 72,862            | 68,426        |
| <u>Less</u> Accumulated depreciation | (28,359)          | (27,199)      |
| Allowance for Impairment             | (339)             | (339)         |
| <b>Premises and equipment, net</b>   | <b>44,164</b>     | <b>40,888</b> |

#### 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 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*

As at 31 December 2017 and 2016, the future minimum lease payments under non-cancellable leases were payable as follows.

|                      |               | (in million Baht) |              |
|----------------------|---------------|-------------------|--------------|
| (Consolidated)       | Period        | 2017              | 2016         |
| Land and/or premises | Within 1 year | 2,310             | 2,046        |
|                      | 1 - 5 years   | 1,839             | 1,668        |
|                      | Over 5 years  | 192               | 219          |
| Equipment            | Within 1 year | 143               | 163          |
| Vehicles             | Within 1 year | 287               | 214          |
|                      | 1 - 5 years   | 695               | 562          |
|                      | Over 5 years  | -                 | 80           |
| <b>Total</b>         |               | <b>5,466</b>      | <b>4,952</b> |

*(b) Amount recognised in profit or loss*

|                |  | (in million Baht) |       |
|----------------|--|-------------------|-------|
| (Consolidated) |  | 2017              | 2016  |
| Lease expense  |  | 2,952             | 2,658 |

**2. Loans to customers**

As of December 31, 2017, loans (excluding accrued interest receivable) were Baht 2,034,732 million, up Baht 95,684 million (4.9%) from the end of 2016.

**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, 2017, non-performing loans in the consolidated financial statement were Baht 65,560 million, representing 2.8% of total loans, increase Baht 7,967 million from Baht 57,593 million (2.7%) in 2016.
- 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)  | 2017             | 2016             |
|-----------------|------------------|------------------|
| Normal          | 1,920,725        | 1,840,936        |
| Special Mention | 51,721           | 44,618           |
| Sub-Standard    | 17,161           | 20,698           |
| Doubtful        | 13,429           | 9,707            |
| Doubtful Loss   | 35,024           | 27,217           |
| <b>Total</b>    | <b>2,038,060</b> | <b>1,943,176</b> |

\* Net of deferred revenue

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

**Classified assets**

(in million Baht)

| (Consolidated)  | 2017             | 2016             |
|-----------------|------------------|------------------|
| Normal          | 2,202,413        | 2,058,514        |
| Special Mention | 51,725           | 44,620           |
| Sub-Standard    | 17,164           | 20,715           |
| Doubtful        | 13,435           | 9,712            |
| Doubtful Loss   | 38,615           | 35,084           |
| <b>Total</b>    | <b>2,323,352</b> | <b>2,168,645</b> |

**Allowance for doubtful accounts**

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

levels of provisioning based on percentages established by the BoT. The guidelines established the maximum collateral valuation limits for the purpose of calculating the allowance for doubtful accounts and also require that additional provisions for loans classified as doubtful loss be made in cases where the Bank had not undertaken debt restructuring or filed lawsuits against the debtors.

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

For corporate loans, the Bank considers a borrower's ability to repay the obligation on an individual case basis based on recent payment history and the estimated collateral value, if the expected source of repayment is from the liquidation of collateral. For SME and consumer loans, the Bank uses credit portfolio statistics to do the statistical analysis (Migration Analysis) for estimation of the deterioration in the portfolio and related allowance for loans under the doubtful category. For finance lease receivables, since 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)                 | 2017              | 2016          |
| As at 1 January                | 73,353            | 64,423        |
| Bad debt and doubtful accounts | 27,782            | 21,153        |
| Bad debts written off          | (15,075)          | (11,779)      |
| Others                         | (361)             | (444)         |
| <b>As at 31 December</b>       | <b>85,699</b>     | <b>73,353</b> |

#### Revaluation allowance for debt restructuring

|                          | (in million Baht) |              |
|--------------------------|-------------------|--------------|
| (Consolidated)           | 2017              | 2016         |
| As at 1 January          | 4,004             | 354          |
| Increase during the year | 287               | 3,650        |
| <b>As at 31 December</b> | <b>4,291</b>      | <b>4,004</b> |

## Loan classification and allowance as at December 31, 2017

| (in million Baht)                                  |  |  |                                       |  |   |  |       |        |
|--|--|--|---------------------------------------|--|---|--|-------|--------|
| (Consolidated)                                     | Individual approach<br>(All loans except for finance leases) |  |                                       |  | Collective approach<br>(Finance leases)         |  | Total |        |
|  | Loans and<br>accrued<br>interest<br>receivables              | Net amount<br>used to set<br>the allowance<br>for doubtful<br>accounts | %used for<br>setting the<br>allowance | Allowance<br>for doubtful<br>accounts*** | Loans and<br>accrued<br>interest<br>receivables | Allowance<br>for doubtful<br>accounts*** |       |        |
|  |  |  |                                       |  |   |  |       |        |
| Minimum allowance of BoT regulations               |  |  |                                       |  |   |  |       |        |
| Normal   | 1,754,409  | 1,727,479  | *                                     | 1  | 17,173  | 166,316                                  | 2,791 | 19,964 |
| Special Mention                                    | 41,422   | 40,650   | *                                     | 2  | 813   | 10,299                                   | 2,412 | 3,225  |
| Sub-Standard                                       | 16,222   | 7,488  | **                                    | 100                                      | 7,488   | 939                                      | 473   | 7,961  |
| Doubtful   | 12,807   | 3,855  | **                                    | 100                                      | 3,855   | 622                                      | 308   | 4,163  |
| Doubtful Loss                                      | 33,320   | 17,423   | **                                    | 100                                      | 17,423  | 1,704                                    | 783   | 18,206 |
| Total  | 1,858,180  | 1,796,895  |                                       |  | 46,752  | 179,880                                  | 6,767 | 53,519 |
| Allowance established in excess of BoT regulations |  |  |                                       |  |   |  |       | 32,180 |
| Total  |  |  |                                       |  |   |  |       | 85,699 |

\* 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

Loan loss provisions in 2017 were set at Baht 25,067 million or 126 bps of total loans which included additional prudent provisions of Baht 5,000 million that the Bank set aside to align existing expected loss principles to those required under new accounting standard effective in 2019. As a result of higher provisions, the coverage ratio increased to 137.3% in 2017 from 134.3% in 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, 2017, 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                      | 11,696            | 1,094        | (1,900)             | 10,890            |
| Movable assets                        | <u>389</u>        | <u>6,451</u> | <u>(6,398)</u>      | <u>442</u>        |
| Total                                 | 12,085            | 7,545        | (8,298)             | 11,332            |
| Others                                | <u>154</u>        | <u>659</u>   | <u>(417)</u>        | <u>396</u>        |
| Total properties for sale             | 12,239            | 8,204        | (8,715)             | 11,728            |
| <u>Less</u> allowance for impairment  | (635)             | -            | 191                 | (444)             |
| <b>Total properties for sale, net</b> | <b>11,604</b>     | <b>8,204</b> | <b>(8,524)</b>      | <b>11,284</b>     |

### 4. Investments

The Bank classifies its investments in securities as trading securities, available-for-sale securities, held-to-maturity securities, general investments and investment in subsidiaries and 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, 2017, 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.

### **SCB Investment Policy**

As of December 31, 2017, the Bank's investments in subsidiaries, associated companies, and relevant companies fell into two categories as follows:

#### **Investment within SCB Group**

The Bank has established SCB Group to focus on long-term investments in financial service business and in other businesses that support the Bank's operations. The Bank encourages all companies within the Group to work collaboratively to maximize the overall performance and to facilitate the Bank's vision to become the "Most Admired Bank,".

### Investment in Other Businesses

The purposes of investments outside SCB Group are, first, to generate investment returns in the form of dividends or capital gains and, second, to build long-term relationships with its strategic business partners and customers. Furthermore, the Bank has a policy to invest in the financial technology business to enhance competitiveness and address customer needs.

### Investment Supervision and Risk Management

The Bank's investment oversight is an integral part of policy formulation, business operations, as well as risk management for the overall group and specific businesses with periodic performance monitoring and risk assessment.

Furthermore, the Bank nominates representative directors to serve on the boards of companies outside SCB Group in which it has invested to ensure that their business operations are in line with the Bank's expectations. In addition, there are SCB executives on the board of every company in SCB 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, 2017:

| Items    | Ownership | Value (Million Baht) |
|----------|-----------|----------------------|
| Land     | Owned     | 19,231               |
| Building | Owned     | 28,763               |

## 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, 2017.

## 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

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<br>93 Ratchadapisek Road, Dindaeng<br>Dindaeng, Bangkok 10400<br>Tel: 66 2009-9000<br>Fax: 66 2009-9991 |
|-------------------------------|--|

|  |  |
|--|--|
| Siam Commercial Bank Subordinated Debentures<br>No. 2/2012, due in 2024, where the issuer<br>has the right to redeem prior to maturity | Siam Commercial Bank Public Company Limited<br>9 Ratchadapisek Road, Jatujak<br>Bangkok 10900, Thailand<br>Tel: 66 2544-1000 |
|--|--|

|  |   |
|--|---|
| Senior Unsecured Notes<br>USD 750 million 3.50% due April 2019 | Deutsche Bank Trust Company Americas<br>60 Wall Street, 16 <sup>th</sup> Floor<br>New York, New York 10005<br>United States |
|--|---|

|   |   |
|---|---|
| Senior Unsecured Notes<br>USD 400 million 3.20% due July 2022 | Deutsche Bank Luxembourg S.A.<br>2 Boulevard Konrad Adenauer<br>L-1115 Luxembourg<br>Luxembourg |
|---|---|

|  |   |
|--|---|
| Senior Unsecured Notes<br>USD 500 million 2.75% due May 2023 | Deutsche Bank Luxembourg S.A.<br>2 Boulevard Konrad Adenauer<br>L-1115 Luxembourg<br>Luxembourg |
|--|---|

**Fiscal Agent**

|                                     |   |
|-------------------------------------|---|
| 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                               |

|                                     |   |
|-------------------------------------|---|
| Senior Unsecured Notes              | Deutsche Bank AG, Hong Kong Branch      |
| USD 400 million 3.20% due July 2022 | Level 52, International Commerce Centre |
|                                     | 1 Austin Road West, Kowloon             |
|                                     | Hong Kong                               |

|                                    |   |
|------------------------------------|---|
| Senior Unsecured Notes             | Deutsche Bank AG, Hong Kong Branch      |
| USD 500 million 2.75% due May 2023 | Level 52, International Commerce Centre |
|                                    | 1 Austin Road West, Kowloon             |
|                                    | Hong Kong                               |

**Auditor**

|                                |  |
|--------------------------------|--|
| Mr. Winid Silamongkol          | Certified Public Accountant (Thailand) Registration No. 3378 |
| or Mr. Charoen Phosamritlert   | Certified Public Accountant (Thailand) Registration No. 4068 |
| or Ms. Pantip Gulsantithamrong | Certified Public Accountant (Thailand) Registration No. 4208 |

**KPMG Phoomchai Audit Ltd.**

Empire Tower, 50<sup>th</sup>-51<sup>st</sup> Floor, 1 South Sathorn Road Yannawa, Sathorn Bangkok 10120, Thailand  
Tel: 66 2677-2000

**Investments of Siam Commercial Bank PCL in Other Companies**

As of December 31, 2017 the Bank owned 10% or more of the issued shares of the following companies.

| No. | Company name and Address   | Type of business               | Type of shares | Paid-up shares | Number of shares | % of ownership* |
|-----|--|--------------------------------|----------------|----------------|------------------|-----------------|
| 1   | <b>CAMBODIAN COMMERCIAL BANK LTD.</b><br>26 Monivong Rd., Sangkat Phsar Thmei 2,<br>Khan Daun Penh, Phnom Penh,<br>Kingdom of Cambodia<br>Tel: 001-855 (23) 426-145, 213-601-2<br>Fax: 001-855 (23) 426-116  | Banking                        | Ordinary       | 750,000        | 750,000          | 100.00%         |
| 2   | <b>RATCHAYOTHIN ASSET MANAGEMENT CO. LTD.</b><br>9 Ratchadaphisek Rd., Jatujak, Jatujak,<br>Bangkok 10900<br>Tel: 0-2544-2477<br>Fax: 0-2544-2165  | Asset Management               | Ordinary       | 2,500,000      | 2,500,000        | 100.00%         |
| 3   | <b>SCB PLUS CO. LTD.</b><br>G Tower Grand Rama 9, 12th and 14th Floor, 9 Rama 9<br>Rd., Huai Khwang, Huai Khwang, Bangkok 10310<br>Tel: 0-2792-3800, 0-2792-3900<br>Fax: 0-2255-1565   | Collection company             | Ordinary       | 100,000        | 100,000          | 100.00%         |
| 4   | <b>SCB TRAINING CENTER CO. LTD.</b><br>SCB Head Office Bldg., 9 Ratchadaphisek Rd.,<br>Jatujak, Jatujak, Bangkok 10900<br>Tel: 0-2544-1702, 1704, 1707<br>Fax: 0-2544-1701   | Training Center                | Ordinary       | 5,490,000      | 5,490,000        | 100.00%         |
| 5   | <b>MAHISORN CO., LTD. <sup>(1)</sup></b><br>SCB Park Plaza Bldg., Tower East, 2 <sup>nd</sup> Floor,<br>18-19 Ratchadaphisek Rd., Jatujak, Jatujak,<br>Bangkok 10900<br>Tel: 0-2937-5400<br>Fax: 0-2937-5437   | Property (Building) management | Ordinary       | 669,490        | 669,490          | 100.00%         |
| 6   | <b>SCB SECURITIES CO. LTD.</b><br>SCB Park Plaza Bldg., Tower 3 East,<br>2 <sup>nd</sup> , 20 <sup>th</sup> -21 <sup>st</sup> Floor, 19 Ratchadaphisek Rd., Jatujak,<br>Jatujak, Bangkok 10900<br>Tel: 0-2949-1000<br>Fax: 0-2949-1001                               | Securities                     | Ordinary       | 240,000,000    | 240,000,000      | 100.00%         |
| 7   | <b>DIGITAL VENTURES CO., LTD. <sup>(2)</sup></b><br>96 Mahanakorn CUBE Tower, 2 <sup>nd</sup> floor (L2-02),<br>Narathiwat Ratchanakharin Rd., Silom,<br>Bang Rak, Bangkok 10500<br>Tel: 02-061-6166   | Venture capital                | Ordinary       | 4,000,000      | 4,000,000        | 100.00%         |
| 8   | <b>SCB ASSET MANAGEMENT CO. LTD.</b><br>SCB Park Plaza Bldg., Tower 1 West, 7 <sup>th</sup> -8 <sup>th</sup> Floor,<br>18 Ratchadaphisek Rd., Jatujak, Jatujak,<br>Bangkok 10900<br>Tel: 0-2949-1500<br>Fax: 0-2949-1501   | Asset Management               | Ordinary       | 20,000,000     | 20,000,000       | 100.00%         |
| 9   | <b>SCB LIFE ASSURANCE PCL</b><br>Siam Commercial Bank PCL (Chidlom),<br>Bldg. 1, 4 <sup>th</sup> -10 <sup>th</sup> Floor, 1060 New Petchaburi Rd.,<br>Makkasan, Ratchathewi, Bangkok 10400<br>Tel: 0-2655-4000<br>Fax: 0-2256-1666                                   | Life insurance                 | Ordinary       | 66,500,000     | 65,949,550       | 99.17%          |
| 10  | <b>SIAM PHITIWAT CO. LTD. <sup>(3)</sup></b><br>SCB Park Plaza Bldg., Tower A Zone A West, 3 <sup>rd</sup> Floor,<br>18 Ratchadaphisek Rd., Jatujak, Jatujak,<br>Bangkok 10900<br>Tel: 0-2795-1800   | Appraisal service              | Ordinary       | 1,000,000      | 1,000,000        | 100.00%         |
| 11  | <b>SOR.OR.KOR. PCL <sup>(3)</sup></b> (The Siam Industrial Credit PCL)<br>9 Siam Commercial Bank PCL, Head Office,<br>Ratchayothin, 19 <sup>th</sup> Floor, Zone C, Ratchadaphisek Rd.,<br>Jatujak, Jatujak, Bangkok 10900<br>Tel: 0-2544-2301-4<br>Fax: 0-2544-3317 | Commercial                     | Ordinary       | 597,423,062    | 595,883,972      | 99.74%          |

| No. | Company name and Address  | Type of business                | Type of shares | Paid-up shares | Number of shares held | % of ownership* |
|-----|---|---------------------------------|----------------|----------------|-----------------------|-----------------|
| 12  | <b>SCB ABACUS CO., LTD.</b><br>SCB Park Plaza Bldg., Tower 3 East, 22 <sup>nd</sup> Floor,<br>19 Rutchadaphisek Rd., Jatujak, Jatujak,<br>Bangkok 10900<br>Tel: 0-2544-6566   | Data Analytics                  | Ordinary       | 1,000,000      | 999,997               | 100.00%         |
| 13  | <b>SCB PROTECT CO., LTD.</b><br>SC Tower, 23 <sup>rd</sup> -25 <sup>th</sup> Floor, 418 Phahon Yothin Rd.<br>Sam Sen Nai, Phaya Thai, Bangkok 10400<br>Tel: 0-2037-7899   | Non-life insurance broker       | Ordinary       | 200,000        | 199,997               | 100.00%         |
| 14  | <b>SIAM COMMERCIAL LEASING PCL</b> <sup>(3)</sup><br>SCB Park Plaza Bldg., Tower 2 West,<br>22 <sup>nd</sup> Floor, 18 Ratchadaphisek Rd.,<br>Jatujak, Jatujak, Bangkok 10900<br>Tel: 0-2949-1800<br>Fax: 0-2949-1900 | Collection Company              | Ordinary       | 567,797,502    | 564,336,277           | 99.39%          |
| 15  | <b>SIAM SAT NETWORK CO., LTD.</b> <sup>(2) (3)</sup><br>SCB Park Plaza Bldg., Tower 2 West,<br>21 <sup>st</sup> Floor 18 Ratchadaphisek Rd.,<br>Jatujak, Jatujak, Bangkok 10900                                       | Satellite service               | Ordinary       | 11,250,000     | 9,182,012             | 81.62%          |
| 16  | <b>SIAM TECHNOLOGY SERVICE CO. LTD.</b> <sup>(1) (3)</sup><br>SCB Park Plaza Bldg., Tower 1 West,<br>18 Ratchadaphisek Rd., Jatujak, Jatujak,<br>Bangkok 10900  | Consultant                      | Ordinary       | 3,000,000      | 2,249,993             | 75.00%          |
| 17  | <b>SIAM MEDIA AND COMMUNICATION CO., LTD.</b> <sup>(3)</sup><br>SCB Park Plaza Bldg., Tower 2 West,<br>17 <sup>th</sup> -22 <sup>nd</sup> Floor, 18 Ratchadaphisek Rd.,<br>Jatujak, Jatujak, Bangkok 10900            | Holding company                 | Ordinary       | 7,000,000      | 2,333,800             | 33.34%          |
| 18  | <b>NATIONAL ITMX CO., LTD.</b><br>5/13 Moo 3, Chaengwattana Rd., Khlongkluea,<br>Pakkret, Nonthaburi 11120<br>Tel: 0-2558-7555<br>Fax: 0-2558-7566  | Payment system service provider | Ordinary       | 500,000        | 97,238                | 19.45%          |
| 19  | <b>SUPERNAP (THAILAND) CO., LTD.</b> <sup>(1)</sup><br>Sindhorn Tower 3 Bldg. 18 Floor, Wireless Rd. Lumpini,<br>Pathumwan, Bangkok 10330<br>Tel: 0-3312-5114<br>Fax: 0-2558-7566                                     | Data center                     | Ordinary       | 200,000,000    | 20,000,000            | 10.00%          |
| 20  | <b>THAI U.S. LEATHER CO., LTD.</b> <sup>(3)</sup><br>39/98 Rama II Road, Bangkrachao,<br>Muang, Samutsakhon 74000<br>Tel: (034) 490-082-7   | Industry                        | Ordinary       | 25,000,000     | 2,500,000             | 10.00%          |
| 21  | <b>NAVUTI CO., LTD.</b><br>920/4 Moo7, Mae Fah Luang,<br>Mae Fah Luang, Chiang Rai 57110<br>Tel: (053) 767-015<br>Fax: (053) 767-077  | Agribusiness                    | Ordinary       | 600,000        | 60,000                | 10.00%          |
| 22  | <b>THAI OBAYASHI CORP., LTD.</b><br>161 Nantawan Bldg., 11 <sup>th</sup> Floor,<br>Soi Mahadlek Luang 3 Ratchadamri Rd.<br>Lumpini, Pathum Wan, Bangkok 10330<br>Tel: 0-2252-5200<br>Fax 0-2252-5381                  | Construction                    | Ordinary       | 20,000         | 2,000                 | 10.00%          |
| 23  | <b>SIRI VENTURE CO., LTD.</b><br>Siri Pinyo Bldg. 17 Floor, 475 Sri Ayudhaya Rd.,<br>Payathai, Ratchathewi, Bangkok, 10400<br>Tel: 0-2201-3905-6<br>Fax: 0-2201-3477  | Venture capital                 | Ordinary       | 1,000,000      | 100,000               | 10.00%          |

**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.