

**Part 1**

**Company's Business**

**1. Policy and Business Overview**

*Our Vision:*

**THE MOST ADMIRABLE BANK**

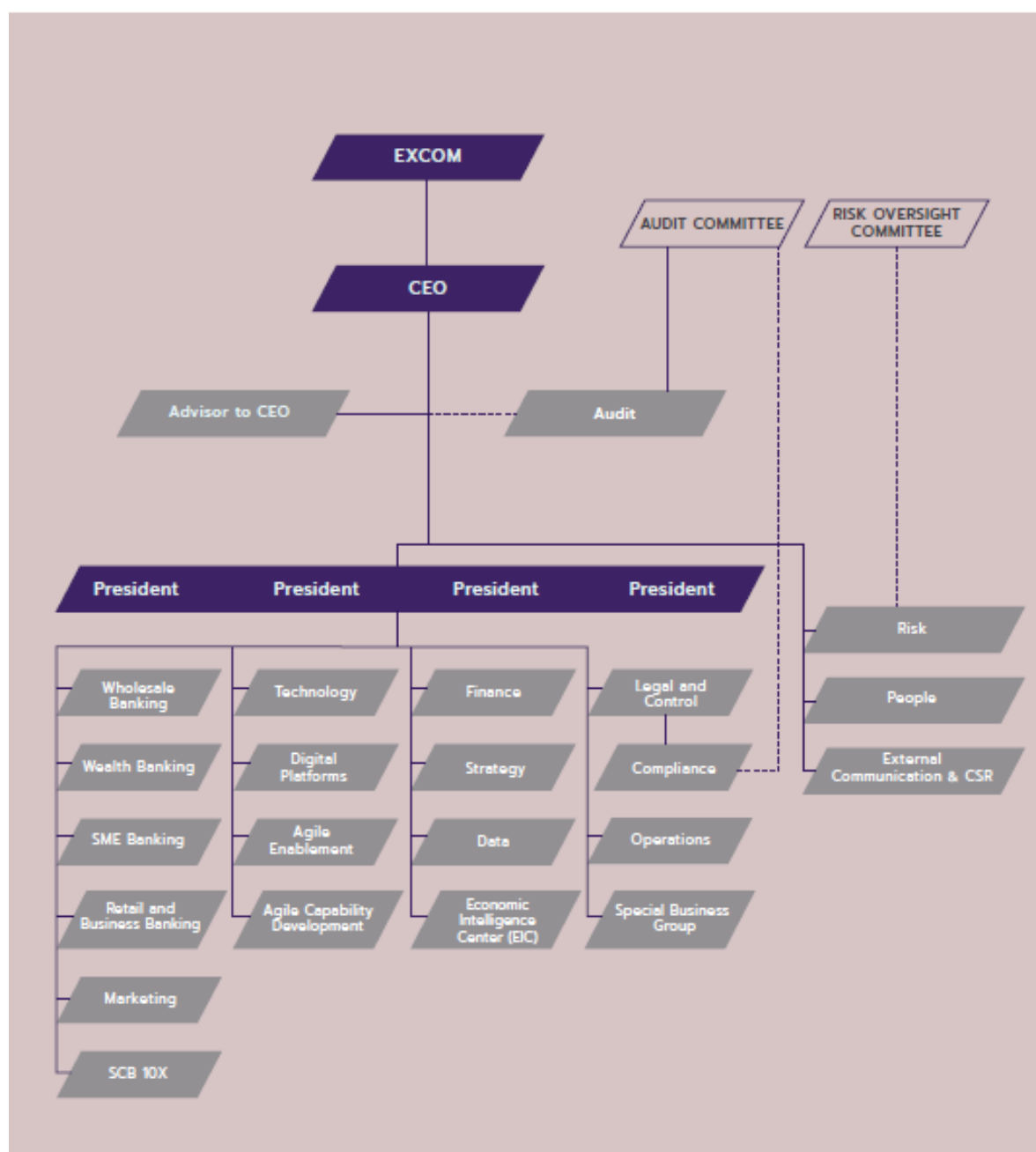
**Background**

Siam Commercial Bank (SCB) was established by Royal Charter as Thailand's first indigenous bank on January 30, 1906. Over the past 113 years, SCB has played a pivotal role in shaping the country's financial services landscape throughout many economic cycles and times of political change. Backed by the strong support of its major shareholder, the Bank has managed to emerge from these periods as a bigger, better and stronger bank.

Following Asia's financial crisis in 1997, the Bank 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 became one of the two largest shareholders of the Bank in May 1999, along with the Crown Property Bureau. 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 December 28, 2018 were His Majesty King Maha Vajiralongkorn Bodindradebayavarangkun (23.35%) and Vayupak Fund 1 (23.10%).

## Management structure

As of February 5, 2019



## 2. Nature of Business Performance

### 2.1 Products and Services Features

#### Business Overview

As one of the leading universal banking groups 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 role as a universal bank, SCB has a large presence throughout the financial services landscape in Thailand.

Complementing its core transaction 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, debit cards, currency exchange facilities and overseas remittances as well as investment and bancassurance products. For corporate and SME customers, the Bank offers business cash management services, lending products, trade finance, treasury products, bond and equity products, investment banking & corporate advisory 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. In addition, the Bank has set up fintech and analytics subsidiaries namely Digital Ventures Co., Ltd. and SCB Abacus Co., Ltd. whose mandates are to develop new capabilities and leverage leading technologies to facilitate the Bank's business. Also, the Bank has established a joint venture with Julius Baer, the leading global private banking group based in Switzerland to provide world-class wealth management services to ultra-high-net-worth customers.

#### Share of revenue by customer segment

(Consolidated, %)	2018	2017	2016
Multi Corporate & Corporate Segment <sup>*</sup>	20	20	21
SME Segment <sup>*,**</sup>	13	14	16
Retail & Wealth Segment <sup>*</sup>	55	54	59
Others <sup>***</sup>	12	12	4

<sup>\*</sup> Including revenue from major subsidiaries allocated to each segment accordingly.

<sup>\*\*</sup> Including Small SME segment.

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

**Performance in 2018**

Rapid technological advancement has significantly changed the way banks operate and has caused constant disruption, which is now a new normal. To adapt to these changes, SCB continued its transformation journey in 2018 to create distinctive value propositions by providing a digital lifestyle solution for retail customers through our new mobile banking platform and supporting corporate and SME clients to grow their businesses in the digital era. The year 2018 also marked a departure from the traditional revenue structure of the banking industry as big banks, led by SCB, eliminated fees for digital transactions. The digital fee waiver led to accelerated growth in SCB's number of digital users, which almost doubled to 9 million at the end of 2018. This rapid migration to digital channels paves the way for SCB to create better customer experiences and lower its cost to serve.

In 2018, the Bank's consolidated net profit was Baht 40.1 billion, a 7.1% decrease from 2017, primarily due to higher operating expenses from new technology investments and customer acquisition initiatives under the SCB Transformation Program, and lower non-interest income from a decline in both net fee income (largely from the digital transaction fee waiver) and net insurance premiums. Nonetheless, the Bank's total operating income increased by 1.5%, mainly due to net interest income growth of 4.4% driven by higher loan volume and relatively stable net interest margin.

Total loans grew by 5.2%, which was slightly below the Bank's target of 6-8%. Loan growth was driven by the corporate and retail segments. The non-performing loan ratio marginally increased to 2.85% in 2018, from 2.83% the year before, while the NPL coverage ratio improved to 146.7% from 137.3% in 2017. Moreover, the total capital adequacy ratio under Basel III remained strong, at 17.1% of total risk-weighted assets and 15.1% of common equity Tier 1.

The Bank has maintained its leadership in a broad range of products and services across customer segments with the largest network coverage in the country. At the end of 2018, the Bank had 1,019 traditional branches, 14 investment centers, 6 business centers, 1 service center, 9,621 ATMs and 72 foreign exchange kiosks.

As a service provider, the Bank believes in putting employees at the heart of our business to drive customer engagement and satisfaction. To constantly understand customer satisfaction and employee engagement, the Bank uses well-established methodologies like the net promoter score (NPS) to survey customer satisfaction and organizational health index (OHI) to evaluate employee engagement level. The survey results show high levels of customer and employee engagement relative to industry benchmarks, which gives the Bank a unique competitive edge today and the best assurance of sustainable profitability for the future.

**SCB Transformation Update**

The Bank's transformation journey has been underway since mid-2016, backed by a total investment of approximately Baht 40 billion. SCB Transformation aims to create distinctive value propositions by providing a digital lifestyle solution for retail customers through our new mobile banking platform, "SCB EASY", and supporting corporate and SME clients to grow their business in the digital era. During the

first two years of the program, the Bank directed its efforts towards "fixing and building" the foundations in various areas with the following progress:

- **Digital platforms:** Since the launch of the SCB EASY App in August 2017, new features have been continuously added to deliver financial services that truly meet customer needs in every moment (the "Moment Banking" concept) with the goal of strengthening customer engagement. SCB EASY App serves as a transactional, sales and lifestyle platform to enhance customers' digital experience, which currently allows them to apply for loans and credit cards, make investment transactions and purchase travel insurance. Currently the SCB EASY App has approximately 9 million users. The Bank also launched "SCB EASY PAY – Mae Manee Money Solution," a QR code payment under the "Lifestyle Payment" concept with a merchant base surpassing the 1 million milestone in less than a year, totaling 1.3 million merchants at the end of 2018. The Bank has also developed "SCB Business Anywhere" as a new digital banking platform to deliver a superior financial management experience for corporate clients with an initial focus on cash management services. This highly secure platform not only simplifies cash management but also offers convenient account management along with transfer and payment functions across multiple channels.
- **Digitization:** The Bank leverages technology to improve customer service and optimize internal operations. Highlights of key initiatives are as follows:
  - **Onboarding journey:** Digital onboarding has been implemented to streamline the account opening process for both retail and corporate accounts. With advanced biometric technology for electronic know-your-customer (E-KYC) & electronic signature, retail customers can open accounts by themselves. For corporate and SME customers, an innovative onboarding platform, "StartBiz", has been recently launched to streamline the account opening process, which significantly cuts down both required documentation and servicing time.
  - **Advisory journey:** New technology has been adopted to enhance the Bank's advisory capabilities for wealth, insurance, and corporate customers. The Bank uses digital devices and advanced analytics to identify customer needs, conduct analysis and provide appropriate advice as well as to identify the right products and services.
  - **Lending journey:** The Bank's digital lending platform has been integrated into the SCB EASY App to give customers convenient, fast, and secure access to a wider range of loan products. Particularly, the Bank's data analytics capability gives insights into individual customers and makes personalized offerings possible. Currently, digital lending with straight-through processing is available for our Speedy Loan, Speedy Cash and credit card products.
- **Coverage:** SCB is committed to providing comprehensive nationwide coverage for the Thai society. The Bank offers products and services that address the needs of all customer segments through traditional branches, digital channels and other service touchpoints such as investment centers, business centers, etc. As digital channels become increasingly popular, the Bank has developed an omni-channel service network to deliver a seamless online and offline customer experience. The Bank analyzes customers' channel usage behavior, channel density, potential business growth, pace of digital adoption and other factors to continually optimize its channel mix.

- **Analytics:** After upgrading its data storage system and building a data lake to improve data accessibility across the organization, the Bank turned its focus to getting the most out of existing data. In 2018, this effort extended to areas such as behavior-based risk analytics and marketing analytics to identify target customers and next best action for the customer, network and fraud analytics.
- **Technology:** The Bank developed new technology platforms, such as cloud infrastructure and microservices/API architecture, while continually upgrading core technology platforms across the organization, such as accounting system, human resource management platform and payment hub.
- **People:** The Bank set up SCB Academy to enhance people capabilities and prepare them for changing roles. With an initial focus on executives, middle management and next generation talent, the Bank continues to provide training to develop new skills necessary for the digital age, such as design thinking, data analytics, digital-related skills and agile project management.
- **Innovation push:** SCB has consistently promoted innovation and disruptive capabilities both through subsidiaries as well as internal units. For example, Digital Ventures, a subsidiary of the Bank, has applied blockchain solutions to create a digital platform for procurement processes under the B2P (Blockchain solution for Procure-to-Pay) to be used by partners and supply chains of the Bank's corporate clients. Moreover, blockchain solutions will be used for retail customers to increase efficiency for cross-border remittance by reducing processing time from days to a few minutes. In addition, SCB Abacus, another subsidiary of the Bank, has recently developed an end-to-end digital lending platform on an e-marketplace to support SMEs using artificial intelligence and machine learning technology. Moreover, SCB Abacus together with SCB Asset Management recently launched "Perm Poon", the first mutual fund advisory chatbot in Thailand, to increase investment accessibility for customers.

In addition, SCB has formed strategic partnerships with business partners, such as leading universities in Thailand and global technology companies, to build ecosystems and platforms and deliver new customer experiences. The Bank also worked on building new foundations and an organizational culture to operate business in the digital world through both Digital Ventures and SCB Abacus, whose mandates are to develop new capabilities and leverage leading technologies to facilitate the Bank's business.

### SCB Strategic Roadmap

The financial services industry continues to face constant challenges which have intensified over time. Rapid technological advancement has significantly changed the way the banking business is run and caused constant disruption, which has become a new normal. The competitive landscape and revenue structure of the banking industry have also undergone a significant change. Revenue from the Bank's transaction fees has been in decline as a result of the digital transaction fee waiver announced in March 2018. Payments and transaction banking are being commoditized in exchange for customer engagement and data insights while unsecured retail and SSME/SME lending and wealth management have increasingly become core businesses for the Bank's future revenue streams. In addition, the ever-

growing popularity of digital channels makes cybersecurity and data privacy forefront issues for the Bank.

Toward our vision of becoming “the Most Admired Bank”, SCB is committed to creating balanced value propositions for all stakeholders including customers, employees, shareholders, regulators and society. The Bank aspires to be the most preferred partner for our customers, a caring employer for our staff, an attractive investment for our shareholders and investors, a prudent bank working closely with our regulators, and a responsible corporate citizen for our society and environment.

- To achieve this vision, SCB directs its efforts toward understanding and meeting customer needs with products and services that deliver distinctive customer experiences and differentiated value propositions. The Bank also strives to invest for the future and foster digital innovations by forming strategic partnerships and developing internal capabilities within the Bank and its subsidiaries.
- SCB sets its human resource management strategy to attract, develop and retain the best talent, promote career advancement as well as ensure fair and equal treatment of employees. Moreover, the Bank focuses on fostering a customer-centric culture and an agile and innovation mindset without compromising its risk management rigor.
- To create sustainable growth and profits for shareholders, the Bank places great emphasis on long-term stability, ensuring the build-up of sustainable competitive advantage while constantly balancing financial returns with acceptable risk-taking throughout the entire organization.
- In addition, SCB conducts business with strict adherence to good governance principles and transparency as well as full compliance with regulatory requirements for financial institutions both in market conduct and support for government policies.
- To fulfill its social responsibility, the Bank focuses on improving people's quality of life by increasing financial inclusion with a comprehensive range of products that address customer needs as well as promoting financial literacy for people of all ages to lay a foundation for long-term sustainable growth.

From 2019 onward, the Bank will focus on realizing value from the SCB Transformation Program and the “Going Upside Down” strategy by using newly built digital and data capabilities to deliver distinctive customer experiences and differentiated value propositions with an emphasis on customer centricity. At the same time, SCB will continue to invest for the future and continually drive innovation and disruptive capabilities for exponential growth, leading to a two-pronged operating model under the Bank's strategic direction as follows:

1. **Core business growth:** The Bank will continue to capitalize on the Transformation Program by connecting new capabilities, enhancing strategic partnership and building ecosystems/platforms to deliver a new digital customer experience. At the same time, this will enable the Bank to capture new revenue streams while lowering the cost base with the following key strategic priorities:
  - **Growth from lending business:** The Bank targets 5-7% loan growth in 2019 and will focus on optimizing the existing loan portfolio while expanding unsecured lending (including consumer and small business financing), such as credit card and personal loan. The Bank will leverage



digital and data capabilities to increase its lending services coverage and generate new revenue streams with appropriate risk level. To achieve this goal, the Bank will focus on building end-to-end digital lending infrastructure to make the credit approval process fast and convenient as well as strengthening customer engagement both pre and post-credit approval. We will capture relevant customer data to design products and services that better address customer needs and facilitate service. The Bank also plans to work with strategic partners across industries and geographies to expand its business and services into new dimensions.

- **Growth from wealth management business:** Although the wealth management business in Thailand has experienced consistent growth in the past few years, the market is still fraught with limitations in financial products and service capabilities. To capture this opportunity, the Bank has designed a segment-based strategy to comprehensively manage customer wealth with a seamless and personalized experience. The Bank has partnered with Julius Baer, a leading Swiss private banking group, to provide world-class services to ultra-high-net-worth customers. This long-term strategic partnership allows the Bank to leverage Julius Baer's global expertise, services and wealth management capabilities to create value for Thai ultra-high-net-worth customers, as well as in overseas markets. For the private and affluent segments, the Bank plans to use digital technology to enhance the customer experience with convenient services and personalized solutions. The Bank will also raise its internal capabilities in various aspects including wealth advisory capabilities, extensive service coverage, and personalized product and service offerings with a wide range of alternatives both from within SCB Group and the Bank's strategic partners through an open architecture solution and platform.

One of the Bank's technology-related agendas is to reduce servicing costs by migrating customers to digital and automated platforms with the goal of providing a comprehensive range of services that truly address customer needs. The Bank will continually reassess and improve its coverage and servicing channels in response to changing customer lifestyles by considering growth potential, business size, transaction volume and the number of branches or alternative service channels in the same area.

The Bank will continue to leverage digital technology to improve internal processes and streamline customer service procedures. Moreover, advanced technologies, such as artificial intelligence, machine learning, and chatbot, will be used to create new customer experiences. The Bank also collaborates with strategic business partners across multiple industries globally to build ecosystems and platforms to deliver new services and value propositions. The Bank aims to build a "Lifestyle Ecosystem" encompassing lifestyle, travel, retail and health & wellness to serve retail customers while creating a "Digital Commerce Ecosystem" to help SME customers grow their business in the digital age.

2. **Disruptive business model for exponential growth:** Another priority of the Bank is to further invest for the future and foster digital innovations under a disruptive business model by partnering with leading companies and creating internal capabilities within the Bank or through its subsidiaries:

- **Digital Ventures**, a subsidiary within SCB Group, pursues a strategy of extending the boundary of key technologies, such as blockchain and artificial intelligence, which are playing an important role in the business world and financial services. Digital Ventures focuses on creating financial innovations through investment in the form of venture capital together with searching and

learning from global tech companies and local and global startups to integrate new technologies into the Bank's products and services to enhance customer experience.

- **SCB Abacus**, a subsidiary within SCB Group, is the first advanced data analytics spin-off in the Thai and Southeast Asian financial industry. SCB Abacus specializes in applying advanced technologies, including artificial intelligence, to business analytics which will help enhance the Bank's capabilities to better address business and customer needs, especially in the lending space.
- **SCB10X**, a newly set-up disruptive unit within the Bank, uses digital technology to create radically new customer experiences and value propositions through disruptive business models in strategically important business areas. SCB10X operates under a new organizational culture similar to a startup that offers intellectual autonomy and freedom to experiment to create new innovations.

The combined strength of Digital Ventures, SCB Abacus and SCB10X will help reshape the Bank into "the Future Bank" with a sustainable solution to the constant and rapid changes in customer needs.

In addition to the above strategies, SCB is committed to continuously strengthen its people and culture foundations while adhering to proper risk management practices which are critical to the success of the "Going Upside Down" strategy. For risk management, the Bank ensures that appropriate risk management is carried out at all levels for all types of risk, such as credit risk, operational risk, and increasingly technology risk like cyber security risk. The Bank also places high emphasis on supervision and corporate governance to ensure fair market conduct thereby guaranteeing consumers' basic rights. When it comes to people and culture, the Bank focuses on agility by creating work teams with diverse expertise, having a flat hierarchy so decisions can be made quickly, fostering a customer-centric mindset, embracing experimentation and learning from failure, which are the cornerstones for any innovative organization. Moreover, the Bank has set up its own SCB Academy to develop people capabilities and prepare them for shifting roles in the digital age.

Additionally, to drive its long-term strategies, SCB needs to adjust its work processes to become truly agile. This means transforming roles and responsibilities throughout the organization to fully leverage the Bank's digital capabilities to create the most value and benefits for customers. Against this backdrop, the Bank shifted the focus in February 2019 to build an Agile Organization culture resting on the four pillars of customer-centricity, speed, innovation and risk culture to create new capabilities to best meet customer needs. In addition, the Bank has undertaken a structural reorganization which puts the Chief Executive Officer in charge of the Bank's long-term strategic transformation to build a new workplace and organizational culture. Under the new business direction, the Bank has split current responsibilities of the President into multiple positions to drive the business while accomplishing the required tasks under SCB's Transformation Program by 2020. Thus, four new presidents have been appointed as part of the second phase of SCB Transformation to drive the Bank's "Going Upside Down" strategy. The four presidents will work together as an Agile Team to implement the Agile Organization concept and deliver the best services to become "the Most Admired Bank".

**Key Performance Targets for 2019**

The Bank expects to deliver competitive results, reflecting its sustainable performance and resilient strategies. Key performance targets for 2019 are:

- Loan growth of 5-7% (compared to 5.2% in 2018)
- Net interest margin (NIM) of 3.2-3.35% (compared to 3.21% in 2018)
- Non-interest income growth  $\leq 5\%$  (compared to -4.7% in 2018)
- Cost-to-income ratio in mid-40s% (compared to 46.8% in 2018)
- NPL ratio below 3.0% (compared to 2.85% in 2018)
- Coverage ratio above 130% (compared to 146.7% in 2018)
- Credit cost of 1.15-1.35% (compared to 1.15% in 2018)

**Corporate Segment**

In 2019, SCB will continue to focus on diversifying its corporate loan portfolio to reduce risk related to the concentration of revenue from large corporates. 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 financing deals for both government and private-sector projects.

Key strategic initiatives include:

1. Increase the number of main operating accounts by creating a new experience in transactional services through cutting-edge technology such as blockchain.
2. Grow trade business to support corporate customers to expand internationally through trade initiatives such as business matching.
3. Improve the Bank's internal processes and uplift staff capability to deliver excellent customer experience.

**SME Segment**

In line with the long-term plan to significantly grow its SME franchise, SCB will continue its commitment to support SME customers to achieve their business goals. In 2019, the Bank plans to transform its business model for the SME segment and grow this customer base with a focus on small SMEs (SSMEs) and self-employed customers, especially in the wholesale & retail industry and other service industries.

Key strategic initiatives include:

1. Build a "Digital Commerce Ecosystem" to support SME customers to grow their business through digital platforms more quickly and sustainably, e.g., digital payment through SCB Easy or SCB Business Anywhere, QR Payment and digital commerce consultancy.

2. Develop both secured and unsecured lending products to assist SSME customers to gain access to funding with a unique value proposition by leveraging new underwriting technology, enhanced collection and data capabilities.
3. Grow SSME customer base through bulk acquisition as well as leveraging data capabilities and digital platforms to allow for scale, lower costs and fast turnaround time.

### **Wealth Segment**

SCB will focus on increasing its wealth management capabilities for all customers. This means creating attractive value propositions and introducing a new platform to uplift investment product offering capabilities. The Bank aims to grow the wealth customer base, assets under management and profitability by adopting digital technology.

Key strategic initiatives include:

1. Provide wealth management services to ultra-high net worth customers through strategic partnership with Julius Baer, the leading Swiss private banking group.
2. Deliver personalized offerings with a wide range of alternatives both from SCB Group and the Bank's strategic partners through an open architecture solution and platform.
3. Redesign its coverage model with SCB Investment Center as a knowledge hub to offer new wealth management experience.
4. Uplift capabilities of wealth advisors through intensive training and coaching by SCB Wealth Academy and leveraging digital advisory tools to offer holistic wealth management advisory both in-branch and out-of-branch.

### **Retail Segment**

In response to SCB's long-term "Going Upside Down" strategy, the Bank's Retail Segment strategic priorities are to grow the customer base, especially main operating accounts, capture new revenue streams and lower cost to serve through applying cutting-edge technology.

Key strategic initiatives include:

1. Grow customer base and increase main operating accounts by improving digital and physical services and creating a "Lifestyle Ecosystem" through leveraged relationship with strategic partners.
2. Capture new revenue streams from high margin/ alternative lending through in-depth analysis with improved risk management, end-to-end digital lending infrastructure and delightful "before and after" loan experience.
3. Lower cost to serve by increasing digital acquisition and migration, optimizing service channels and revamping call service center while experimenting with chatbot technology to effectively serve customers.

## **Business Operation of Key Subsidiaries**

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

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

In 2018, the market's daily average trading value for equities (excluding proprietary trading) was at Baht 51 billion, increasing by 13% from Baht 45 billion in 2017. This rise mainly reflected a higher volume of trading by foreign and institutional investors, whereas retail investors contributed a lower trading volume than in 2017. The change in the trading mix led to a decline in average trade commissions for the entire industry, however, because the rates charged to foreign and institutional investors are generally lower than those charged to retail investors.

Amid fierce competition from new entrants, SCBS kept a market share of 3.68%, a slight decrease from 4.10% in 2017. Consequently, the rank of SCBS among the Thai market's 38 brokers dropped to No. 11, from No. 7 the preceding year.

SCBS is committed to continuing to improve customer service to become Thailand's "Most Admired Investment Broker." We will enhance and augment the customer experience in each of our channels in order to provide the utmost convenience, under the concept "Easy & Smart." In 2018, SCBS enhanced its standard brokerage account to become a multifunctional "SCBS Investment Account," with a broader menu of product and service options. The new iOnboarding platform improved service at every SCB branch nationwide for any customer wishing to open a new account. This platform uses a streamlined process that requires only a Thai national I.D. card and allows account opening in a couple of minutes. Alternatively, a customer can open an account online via the SCB EASY App and "SCBS Let's Invest" App, which is a paperless process that can be completed within 15 minutes.

SCBS launched a new digital investing capability with the introduction of "Easy Invest," a multi-trading platform that includes a discretionary automated mandate service, i.e., algorithmic trading of Thai stocks, as well as a basic robo advisor for local mutual funds called Goal Invest. In 2018, SCBS won Best Securities Company Award, Retail Investors in the SET Awards 2018 and the Best Prime Broker in Thailand Award from *The Asset* magazine (H.K.) for the third consecutive year. These laurels are a strong testament to the Company's commitment to service at the highest level of 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, 2018, SCBAM had sustained its No. 1 rank in Thailand in terms of assets under

management (AUM), with total AUM of Baht 1.49 trillion (including a mutual fund for resolving financial institution problems), up 8.1% from the prior year.

Solid investment performance and effective distribution through the Bank's 1,019 branches nationwide enabled SCBAM to gain an 18.8% market share in the mutual fund business, with AUM of Baht 952 billion, representing growth in AUM of 6.1% from the prior year.

In the Company's private fund business, AUM reached Baht 418 billion at the end of 2018, which amounted to 14.8% growth year-on-year. SCBAM also manages a portfolio of property funds (Type I) and infrastructure funds with total AUM of Baht 165 billion, and acts as a trustee of real estate investment trusts (REITs) with net asset value of Baht 46 billion.

In 2018, SCBAM won several awards from leading Thai and international publications and institutions, including Best Long Term Equity Fund (LTF) for the SCB Target Long Term Equity Fund (SCBLTT) from *Money & Banking* magazine; Best Onshore Fund House by *AsianInvestor* (H.K.), and Editors' Triple Star for SCB Machine Learning Thai Equity Fund (SCBMLT) from *The Asset* (H.K.).

### **SCB Life Assurance PCL (SCB Life)**

SCB Life Assurance is a 99%-owned subsidiary of the Bank. Its primary business is life insurance underwriting, focusing on individual life, credit life and health insurance products. Its main distribution channels are the Bank's extensive network of branches and its agency force.

At the end of 2018, SCB Life retained its position as the 5<sup>th</sup> largest of 22 life insurance companies in the Thai market, with total premiums of Baht 51 billion. SCB Life underwrote Baht 14 billion of new business premiums throughout 2018, an increase of 67% over the previous year.

In 2018, SCB Life embarked on its own transformative journey, in alignment with the Bank's overall Transformation Program, building up new and existing capacities that support the Bank's vision and ambitions. The main focus of this effort is to develop digital capabilities to provide convenience to our customers.

During the year, SCB Life launched two small alternative service and distribution channels: telesales and a financial advisors force. In addition, the Company started offering unit-linked insurance products to meet customers' needs.

## 2.2 Marketing and Competition

### Industry and Competition Review

In the past few years, Thai banks have had to face many rapid changes especially from disruptive technology. Most banks have started to adapt and transition to the digital era while maintaining strong overall performance.

**Comparison of SCB's Performance with Thai Commercial Banking Sector\***  
**as of December 31, 2018**

(Consolidated)	Thai Commercial Banking Sector*		Change % yoy	SCB 2018	SCB market share %
	2018	2017			
Assets	17,535	16,910	3.7	3,187	18.2
Gross loans	12,128	11,494	5.5	2,141	17.6
Deposits	12,077	11,634	3.8	2,160	17.9
Net profit	203	187	8.5	40	19.8

Unit: Baht billion

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

In 2018, aggregated net profit for the Thai banking industry increased by 8.5% yoy despite the industry-wide adoption of a digital transaction fee waiver. The net profit increase was mainly due to higher net interest income (NII) from loan growth, better NIM and lower provisions. Some banks also booked higher gain on investments and higher net gain on trading which helped offset foregone revenue from the digital transaction fee waiver.

Gross loans in the Thai commercial banking sector moved in lockstep with the domestic economy, recording 5.5% loan growth in 2018. Strong loan growth was most evident in retail and corporate segments. Deposits also increased by 3.8% yoy with the major source of growth coming from savings deposits.

The Thai commercial banking sector demonstrated a strong capital position with the total capital adequacy ratio (CAR) on a bank-only basis at 17.4% in 2018, which was higher than the minimum capital required under Basel III. The non-performing loan ratio of Thai commercial banks was stable at 3.2% in 2018, while the coverage ratio improved yoy to 151% in 2018.

Thai commercial banks are likely to maintain a high level of capital to accommodate future regulatory changes from both the new accounting standards (IFRS) and new Basel capital requirements as well as protecting themselves against heightened global economic uncertainty.

## 2.3 Product and Service Offering

### Sources and Uses of Funds

As of December 31, 2018, deposits accounted for 67.8% of SCB's funding base. Other major sources of funds were: 11.9% from shareholders' equity, 8.7% from liabilities under insurance contracts recorded by the Bank's insurance subsidiary (SCB Life Assurance PCL), 4.5% from interbank borrowings, and 3.4% from debt issuance. As of December 31, 2018, the funds were deployed as follows: 67.2% for loans, 17.8% for investments in securities, 11.9% for interbank and money market lending, and 1.5% held in cash.

### Debt issued and borrowings

As at 31 December 2018 and 2017, debt issued and borrowings were as follows:

(in million Baht)								
(Consolidated)	Interest rate (%)	Year of maturity	Domestic	2018 Foreign	Total	Domestic	2017 Foreign	Total
<b>Bonds</b>								
- US Dollar	2.75-3.50	2019-2023	726	52,753	53,479	715	53,070	53,785
- Baht	1.9	2019-2020	32,786	-	32,786	737	-	737
- Others	-	2019	429	-	429	20	-	20
<b>Subordinated bonds</b>								
- Baht	4.65	2024	20,000	-	20,000	20,000	-	20,000
<b>Structured notes</b>								
- Baht	1.36-1.84	2019	607	-	607	3,815	-	3,815
<b>Others</b>			260	-	260	181	-	181
<b>Total</b>			<b>54,808</b>	<b>52,753</b>	<b>107,561</b>	<b>25,468</b>	<b>53,070</b>	<b>78,538</b>

### Lending Activities

SCB has well-defined credit policies, strategies, and lending targets that emphasize both credit quality and market opportunities. These credit-related goals and strategies are set by a collaborative effort among the Head Office, business relationship centers, and branches and are subject to regular reviews. The Bank's lending policy takes into account relevant regulatory requirements, 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 specifying target groups, strategies for each target group, minimum underwriting standards, and other related criteria. In addition, there is also SCB Credit Manual which provides guidelines and detailed credit procedures to conform with the Credit Policy Guide.

The Bank attaches great importance to proper checks and balances in credit underwriting by establishing a clear separation between business origination and credit approval functions.



Business origination units are responsible for managing relationships to expand business, 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. Specifically, the Wholesale Banking Unit is responsible for corporate and commercial lending, whereas the SME Banking Unit is in charge of small and medium-sized enterprise (SME) lending.

Credit approval units under the Credit Risk Management Division provide independent advice and recommendations in accordance with the Credit Policy Guide to support authorized approvers in making credit decisions.

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 exceptions, have been clearly and explicitly specified.

### **Lending Policy**

The Bank's lending policy covers a wide range of business segments, including retail, SSMEs, SMEs, and corporate customers. For business lending, the Bank focuses on high-potential, high-growth businesses among both existing and new clients. The Bank makes credit decisions based primarily on clients' cash flows and repayment abilities while also considering collateral quality in terms of both valuation and liquidity to mitigate potential losses.

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

The Bank strives to achieve appropriate risk diversification and reasonable risk-adjusted returns in its credit underwriting process. Regardless of their levels of credit approval authority, all employees involved in the credit process are expected to use appropriate judgement, avoid any conflicts of interest, and 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 presidents, (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. An employee may or may not be granted credit approval authority, and different employees 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 SCB's rules 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 SCB's rules 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 a loan has been approved, the Bank will monitor the customer's account regularly as well as conducting 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 the customer's future financial status. 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.

Relationship manager/Special business officer is responsible for conducting routine customer reviews within a specified timeframe at least once a year as well as conducting additional reviews when warranted by events that have material impacts on customers. Reports on customer reviews shall be prepared according to a specified 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 system. The review is conducted at least once a year or more frequently if warranted by material changes in customers' risk rating.

For retail customers and SSMEs with overdue payments, the Bank will pursue different collection strategies depending on borrowers' risk rating which will enable the Collection Units and the Special Business Function to monitor and arrive at appropriate resolutions on a timely basis.

For business customers, initial debt collection is the responsibility of Business Relationship Management Units. To minimize new NPL, the Bank also assigns Special Business Function to assist with debt restructuring to prevent NPLs and improve the Bank's loan quality.

However, once classified as a non-performing loan (NPL) upon 90-day delinquency, collection responsibility shall be transferred to the Special Business Function within one month for further action by work-out specialists.

**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 prevention of 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 reviewed by the Bank's Board of Directors annually. 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 accordance with the Bank of Thailand's quantitative supervision guidelines.

In addition, this Policy requires that every transaction be conducted 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 comparable transactions, must 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 its assets and customer base. 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 raised 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 its risk appetite. It also mitigates risks in critical or uncontrollable situations. SCB is committed to continuously develop and strengthen its entire risk management system - including risk identification, risk assessment and measurement, risk control and mitigation, and risk monitoring - to be prepared for ongoing and future changes.

The backbone of SCB's risk management consists of the policy formulation process, implementation framework, and audit process, in parallel with building a strong risk management culture by empowering our people with knowledge and accountability so that they can all participate in this crucial discipline.

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 include transactions and activities involving customers and counterparties. These risks are strategic risk; credit risk; market risk; interest rate risk in the banking book; liquidity risk; and operational risk, which entails 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 assessment and measurement

To assess and 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 strategic risk**, the Bank relies on and develops an assessment using primarily qualitative risk factors and quantitative economic indicators.
- **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 coverage ratio (LCR), net stable funding ratio (NSFR), liquidity ratio and maximum cumulative outflow (MCO).
- **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 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 control and mitigation

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 and monitors and controls risk by establishing key risk indicators and risk limits for the exposure faced by the Bank at different levels: organization-wide, customer, product, transaction and others. The Bank has an internal control process to manage risks in accordance with the Bank's policies and procedures.

### 4. Risk monitoring

Risks in all categories are monitored and reported promptly and accurately to relevant functions and management on a regular basis to ensure effective risk management and control. Risk monitoring 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 five key components:

### **1. Policies**

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

In addition, the Board of Directors approves the other key related guidelines, i.e., Reputational Risk Management Guidelines, People Risk Management Guidelines and Technology Risk Management Policy.

### **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**

Committees with significant roles in risk management has been categorized into 2 levels as below:

#### **3.1 Sub-Board Committees**

The Board of Directors has delegated its risk management duties to the management and other committees. The following committees have been appointed to oversee the Bank's risk management implementation:

- 3.1.1 **The Executive Committee** is responsible for considering and approving matters related to the business of the Bank according to the Bank's regulations - such as for credit, debt restructuring and investments - and to administer related functions as assigned by the Board of Directors.
- 3.1.2 **The Risk Oversight Committee** is responsible for reviewing the adequacy and efficiency of overall risk management policy, strategies and risk tolerance to ensure that they are effective and efficient, as mandated by the Board of Directors.
- 3.1.3 **The Audit Committee** comprises independent directors who are responsible for reviewing the adequacy of the Bank's internal control, and the effectiveness of the Bank and SCB Group's risk management implementation.

- 3.1.4 **The Technology Committee** is responsible for providing support to the Board of Directors to forecast long-term technology trends and develop corresponding strategies, address the integrity of technology services and manage technology risk.

### 3.2 Management Committees relating to Risk Management of the Bank

In addition to the abovementioned sub-board committees, the following management committees have also been set up to oversee the Bank's risk management matters:

- 3.2.1 **The Risk Management Committee** is responsible for reviewing and making recommendations on risk management policies and frameworks for risk management and control to the Risk Oversight Committee and the Board of Directors for approval. The Committee also manages the overall risk of the Bank.
- 3.2.2 **The Assets and Liabilities Management Committee** is responsible for managing market risk, interest rate risk and liquidity risk.
- 3.2.3 **The Equity Investment Management Committee** is responsible for managing risk in the Bank's equity investment portfolio.
- 3.2.4 **The Credit Committee, Retail Credit Committee and Special Assets Committee** are responsible for approving loans within their approval authority. Any loan exceeding a committee's authority level requires 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 and having potential reputational risk may be referred to the Board for approval as deemed appropriate.
- 3.2.5 **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 in any case of a high-risk transaction or when an underwriting limit exceeds its approval authority.
- 3.2.6 **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 by means of the established Credit Policy Guide and approval authority as well as underwriting criteria approved by the Executive Committee or the Retail Credit Committee. In addition, the Bank assesses and measures credit risk by product and customer segment.

#### **4.2 Market risk governance**

The Bank sets a variety of market risk limits for its trading portfolios, and these limits 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 (MATs).

#### **4.3 Interest rate risk in the banking book (IRRBB) governance**

The Bank sets risk limits for IRRBB by measuring the impact of interest rate fluctuation on net interest income and economic value of equity (EVE) using interest rate volatility assumptions under stress scenarios. To monitor IRRBB, the Bank produces repricing gap reports for risk analysis and risk assessment. The analysis, assessment and risk management strategies are then reported to the Assets and Liabilities Management Committee (ALCO) for further action.

#### **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 flow reports or liquidity gap reports to monitor and control the Bank's overall liquidity risk. The Bank's policy is to maintain its liquidity coverage ratio (LCR), net stable funding ratio (NSFR) and liquidity ratio (liquid assets as a percentage of total deposits) at the 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" model 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 Function, 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 and provides 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” model to manage people risk in the same manner as for 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, support, alerts and testing for approaches adopted by the People Function to manage people risks. The shared service group comprises Operational Risk Management, Compliance & Operational Control, Technology Security & Risk, Fraud Control and others. Lastly, the third line of defense is carried out by independent units, which 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.

#### **Regarding 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 a level equivalent to that of 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 the subsidiary’s business.

For the Intra-SCB 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 a business unit of the Bank, 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 Chief Risk Officer (CRO) and the Chief Executive Officer, is responsible for setting the risk management framework, making risk policy recommendations, as well as reporting and monitoring major types of risk. The Chief Risk Office is responsible for bringing the Bank’s risk management policies and practices up to global standards and for ensuring 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; the Chief Strategy Office handles strategic risk; and Chief Marketing Office is responsible for reputational risk.

## **Key Risk Factors for the Banking Business**

### **Risks from economic uncertainties**

The Thai economy in 2018 grew by 4.1%, thanks primarily to expansion in the value of merchandise exports and revenue from foreign tourists, especially in the first half of the year. Private consumption also registered strong growth, particularly in consumption of durable goods, such as passenger cars. However, in the second half, growth of Thailand's GDP was affected by two negative factors, which were the contraction of Chinese tourists after the fatal capsizing of a passenger boat in Phuket and the U.S.-China trade war, which escalated during that time.

In 2019, SCB expects the Thai economy to grow by 3.8%, a rate lower than the preceding year, as both exports and the tourism sector are expected to grow at a slower rate, due to global economic slowdown. Nevertheless, private investment is forecasted to accelerate, consistent with public investment, which will increase significantly. Although the GDP growth rate in 2019 will be slower than the year before, it will still be higher than the average rate of growth of the past five years.

One of the key external risks to the Thai economy is the U.S.-China trade conflict. Even though negotiations are underway, they might result in a worsening of conditions, which would affect the growth of Thailand's exports more than previously expected. Moreover, a tightening of global financial conditions due to policy rate hikes in many countries could reduce capital flows to emerging markets while increasing the volatility of financial markets. Lastly, geopolitical risks in key regions, such as Brexit and the political situation in Italy, might also increase global financial volatility.

With respect to domestic risks, progress in disbursement of public investment will be a key factor. If the disbursement is slower than the plan, related private investment could be delayed as well. In addition concentrated spending pattern due to high household debts and a slow recovery of household income is still a risk factor for private consumption growth in 2019.

As for the Bank's management of risk in the face of uncertain economic conditions, SCB dutifully monitors the credit quality of its borrowers on a regular basis in order to ensure sufficient allowance for doubtful accounts. Similarly, the Bank closely monitors its portfolios in terms of the concentration of credit loans in order to react promptly in the face of an economic shock. In addition, SCB conducts a stress-testing process in order to appraise the adequacy of funds. This process is part of the ICAAP requirement that the Bank of Thailand demands of all commercial banks.

## **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 lending ratios under the following guidelines:

- 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 exceed 10% of the Bank's total capital, must not exceed three times the Bank's total capital.

Additionally, the Bank requires that lending not be concentrated in any one 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 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 in 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 for credit customers. To determine counterparty limits, the Bank takes into consideration the counterparty's credit ratings and 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 (CSAs) with its major counterparties, which require posting collateral in the form of cash or highly liquid securities when a contract's fair market value changes more than the threshold.

### 1.3. Country risk

When the Bank engages in international lending or a cross-border transaction it undertakes not only customary credit risk but also country risk arising from the economic, social and political conditions of a country. The Bank sets out a risk management framework to ensure that adequate policies and processes are in place to identify, measure, evaluate, monitor, report and control or mitigate country risk, both direct and indirect, on a timely basis.

The Bank manages country risk by setting a policy limit and a country limit for each country, based on a sovereign scorecard model and external credit ratings and the Bank's level of Tier 1 capital.

### 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 or all of the principal, with an impact on the Bank's profitability and capital adequacy.

At the end of 2018, Bank-only NPLs stood at Baht 69,383 million, or 2.8%, up in absolute terms from Baht 64,537 million, or 2.8%, in 2017. (Further explanation regarding NPLs is provided in the MD&A section of this Annual Report.) These NPLs can be classified into four categories: restructured debts 75.1%, debts pending completion of restructuring negotiations 2.9%, debts pending the outcome of legal proceedings 8.4%, and debts pending legal execution 13.6%.

The Bank manages its NPL risk by setting aside adequate loan loss provisions for expected losses. At the end of 2018, the Bank had total loan loss provisions of Baht 102,515 million, covering 147.8% 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 credit risk from the potential of failure to comply with contract terms.

At the end of 2018, the Bank's obligations from aval and guarantees, liabilities under unmatured import bills, and letters of credit amounted to Baht 81,157 million, up by 70.1% from the year before.

To manage off-balance-sheet exposure, the Bank treats such obligations as a form of loan and business units are required to follow the normal credit approval process. The Bank controls this risk by setting a counterparty risk limit for each customer along with country risk limit. Monitoring is also done by keeping abreast of the current situation and related information.

For the credit risk of a derivative transaction, unlike general credit risk in which losses are often one-sided, both sides of a contract can face losses as a result of change in the contract's value from market movements. To quantify the credit equivalent amount of a derivative transaction, the Bank uses the Monte Carlo simulation and Current Exposure method, depending on product type, to determine the credit exposure of a derivative transaction with a counterparty.

Derivative transactions introduce additional market risk arising from change in a contract's value. The Bank 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 estate 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 any decision needs to be made that depends on collateral value, such as restructuring of a problem loan. 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 action 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 the baht strengthens but a loss when the 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, 2018, the Bank's foreign currency position was long NOP \$29.92 million (USD equivalent), with VaR of Baht 12.55 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 are 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, 2018, VaR of interest rate risk exposure in the trading book was Baht 27.17 million. For the banking book, a 1% increase in interest rates for a period of one year would decrease net interest income by Baht 2.36 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 Bank's Asset and Liability Management Committee 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 that liquidity risk exposure be reported to management each day 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. This plan sets out appropriate guidelines under various circumstances and clearly specifies roles and responsibilities for liquidity management under critical situations.

The Bank's average of month-end liquidity coverage ratio (LCR) for the 4<sup>th</sup> quarter of 2018 was 149%, which illustrates that the Bank has ample liquidity. In addition, 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 2018, the Bank's liquid assets represented 25% of total deposits, which ensures that there will be adequate liquidity under both normal conditions and crisis scenarios.

#### 4. Strategic risk

Strategic risk refers to the risk of a current and/or prospective impact on the Bank and its Financial Group's earnings, capital, reputation or standing arising from factors such as changes in the environment the Bank operates in, adverse strategic decisions, improper implementation of major strategies, or lack of responsiveness to industry, economic and technological changes. The Board of Directors has adopted a **Strategic Risk Management Policy** as a framework to formalize and provide a structured approach in managing strategic risk. Strategic risk is managed throughout the strategy setting process itself and through the assessment of strategic risk. The strategy process – including strategic planning, alignment and change management, implementation and monitoring, and performance evaluation and feedback – is designed so as to ensure the sufficiency of information taken into consideration in formulating and implementing strategy. The risk assessment, which is a part of the Bank's risk materiality assessment framework, is performed to monitor potential strategic risk arising from both external and internal factors.

The Strategy Group is currently the strategy process owner responsible for supporting the Board and senior management to formulate and review strategy as well as recommend remedial action (if required). Also, the Strategy Group is responsible for conducting the strategic risk assessment on a regular basis.

#### 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 or systems or from external events, which also includes legal risk, and the impact on reputation from operational risk, but excluding strategic risk. (Details regarding reputational risk are discussed in item no. 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 limit them to 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 any case of loss, the Bank not only has a process to rectify the issue 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.

In 2018, it became apparent in many countries, including Thailand, that the security and privacy of customer data is a vitally important concern. The European Union, for example, launched its General Data Protection Regulation, a broad and strict law. Thailand's existing laws only provide protection for certain types of data/information in certain circumstances. To ensure that the Bank complies with regulations and addresses concerns regarding privacy and security, SCB relied on a variety of measures to protect customer data throughout its operations during 2018.

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

Besides 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 for providing 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 an organization's reputation is a critical part of running a business, especially for any financial business, and the Bank's reputation results from the confidence and trust that have been built up over many years. Reputation is not easy to build, but it is easy to lose.



Recognizing the importance of reputational risk, SCB has developed a Reputational Risk Management Guideline and Process, which is applied to the Bank and SCB Group companies. Each business is required to take necessary preventative measures against potential reputational risk from both internal operations and external factors, whether its operations are 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 that are highly exposed to reputational risk must implement a 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 that 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 Marketing Function is responsible for working closely with other internal functions and SCB Group companies to determine reputational risk factors as well as for 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 this risk. The Board of Directors has set an effective framework for people risk management as well as for conducting overall risk review. Senior management oversees people risk management and control within their functions and coordinate 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 for assessing, controlling, monitoring and reporting risks to the Bank's management, with periodic reviews and updates regarding 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 capabilities that are appropriate for job positions and responsibilities. The Bank expands the scope of employees' decision-making authority, increases their capabilities, and provides learning opportunities and a conducive working environment to enable them to reach their full potential.

**2. People conduct:** SCB's business approach is based on all employees adhering to the highest levels of integrity and promoting risk ownership, defining accountabilities and collaboration among business units for a positive working 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 due consideration 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, but 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 duly recognizes the importance of human resources, which have been subject to 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 increases the demands 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 its 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.

**The Board of Directors** of the Bank and SCB Group has established effective people risk management frameworks with overall risk exposure review. Senior management is responsible for managing people risk under their areas of responsibility and establishing effective control as well as working closely with the People Function and other relevant functions.

The People Function, business functions, and relevant support functions are responsible for identifying people risks using appropriate analysis given each function's inherent business complexity, backed by regular updates and reviews of potential risks.

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 comprehensive 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 emphasizes, 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 situation; IT outsourcing system management; and other factors, which help increase its competitiveness and profitability.

### **Emerging Risks**

The Bank analyses the emerging risks which may affect business operation in both short-term (within 1 year) and long-term (between 3-5 years). Measures are developed to respond, manage and control impacts of these risks accordingly. In 2018, the Bank identified three key emerging risks.

#### **▪ Digital Culture Risk**

Changes in the business model and internal operational process in order to prepare the organisation for changes and seek business opportunities may result in digital risk, such as data privacy and cyber security. The Bank, thus, specified a clear and appropriate business strategy rooted in a risk culture at corporate level. In addition, the Bank has set up SCB Academy with goals to uplift employee capabilities in the digital age while adopting the agile way of work to increase operational speed and create new innovation with a customer centric mindset; potentially expanding business opportunities and improving risk management process.

#### **▪ Digital Disruption Risk**

Digital disruption risk means impact from technology changes which may cause impacts on customer expectations and behavior, financial markets, and industry, thus directly affecting operational risk and the Bank's reputation. To prepare for digital disruption risk, the Bank has acknowledged and understood these changes such that both executives and employees are prepared for the challenges regarding innovation and development into digital transformation age. The Bank increased investment in

technology to support and encourage employees to experiment, challenge latest innovation, and be committed in providing excellent service such as responding to customer needs immediately. Nonetheless, development of digital products, services and processes to prevent cyber risk are also conducted.

#### ▪ **Model Risk**

The Bank has prepared to handle changes that may impact the business by developing models for analyzing data and making business decision. This poses risks pertaining to models such as inaccurate or faulty results, or misuse of the model. To manage and control potential model risk, the Bank has set and implement Model Risk Management Policy as a framework for business operation with regular model validation.

#### **Capital Adequacy**

In response to the global financial crisis in 2008, the Basel Committee on Banking Supervision announced in December 2010 a new set of regulatory guidelines, known as Basel III, for assessing capital adequacy and liquidity risk. The new guidelines aim to strengthen each bank's 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 it reaches the 2.5% target in 2019.

Furthermore, SCB was designated by the BOT as a Domestic Systemically Important Bank (D-SIB) in September 2017, along with four other major Thai commercial banks. To ensure the stability and resilience of the D-SIBs, the BOT requires them 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 a capital conservation buffer and the D-SIB 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%

In addition, the BOT is considering an implementation of the Countercyclical Buffer (CCyB), which would require Thai commercial banks to maintain additional minimum Common Equity Tier 1 capital of 0-2.5%. The CCyB will be part of the BOT's macroprudential instruments, designed to counter pro-cyclicality in the financial system by increasing capital buffer requirements when cyclical systemic risk is judged to be rising, so as to enhance the resilience of the banking sector during periods of stress when losses appear. This will help maintain the supply of credit, reducing the downswing of the financial cycle and also dampening excessive credit growth during the upswing of the financial cycle.

Banks that cannot meet this minimum requirement may be subject to earnings-distribution restrictions, e.g., limits on 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 SCB's website under "Pillar III Disclosure."

At the end of December 2018, under the Basel III framework, the Bank had total capital of Baht 348 billion (16.7% of risk-weighted assets), of which Baht 305 billion was classified as CET1/Tier 1 capital (14.6% of risk-weighted assets) and Baht 43 billion (2.1% of risk-weighted assets) was classified as Tier 2 capital. For SCB Group, the total capital stood at Baht 370 billion (17.1% of risk-weighted assets), of which Baht 327 billion was classified as CET1/Tier 1 capital (15.1% of risk-weighted assets), and Baht 44 billion (2.0% of risk-weighted assets) was classified as Tier 2 capital.

Note that if the Bank's 2H18 net profit is included in the capital adequacy calculation, CET1/Tier 1 capital will be 15.3% on a bank-only basis and 15.9% on a consolidated basis.

SCB believes that its strong capital position, which is currently well above the minimum regulatory requirement, under both current regulations and future requirements, 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, might 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's 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 with or exceeded market expectations 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 might 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 consistently 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, its strategic effectiveness in terms of both 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 might materially reduce their position, which could significantly depress the share price. In such an event, SCB would nevertheless expect the effect to be short-term, given that the Bank's market capitalization is one of the highest in the stock market, making the stock highly liquid, with a high trading volume.

## 4. Business Assets

### 1. Main Fixed Assets for Business Operations

#### Premises and equipment, net

As at 31 December 2018 and 2017, the changes to the premises and equipment, net were as follows:

	(in million Baht)	
(Consolidated)	2018	2017
Land	18,489	19,231
Premises and building improvements	29,369	28,763
Equipment	20,027	23,417
Others	443	1,451
Total	68,328	72,862
<u>Less</u> Accumulated depreciation	(24,809)	(28,359)
Allowance for impairment	(313)	(339)
<b>Premises and equipment, net</b>	<b>43,206</b>	<b>44,164</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 2018 and 2017, the future minimum lease payments under non-cancellable leases were payable as follows.

		(in million Baht)	
(Consolidated)	Period	2018	2017
Land and/or premises	Within 1 year	2,510	2,310
	1 - 5 years	1,497	1,839
	Over 5 years	164	192
Equipment	Within 1 year	101	143
Vehicles	Within 1 year	298	287
	1 - 5 years	538	695
<b>Total</b>		<b>5,108</b>	<b>5,466</b>

(b) Amount recognised in profit or loss

		(in million Baht)	
(Consolidated)		2018	2017
Lease expense		5,456	4,715

## 2. Loans to customers

As of December 31, 2018, loans (net of deferred revenue) were Baht 2,140,561 million, up Baht 105,829 million (5.2%) from the end of 2017.

### 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 23/2561: Loan Classification and Provisioning Criteria of Financial Institutions, dated October 31, 2018.

### Classified Assets

- Gross 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, 2018, non-performing loans in the consolidated financial statement were Baht 70,389 million, representing 2.9% of total loans, increase Baht 4,829 million from Baht 65,560 million (2.8%) in 2017.
- 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)	2018	2017
Normal	2,019,500	1,920,725
Special Mention	53,968	51,721
Sub-Standard	23,034	17,161
Doubtful	13,246	13,429
Doubtful Loss	34,147	35,024
<b>Total</b>	<b>2,143,895</b>	<b>2,038,060</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)	2018	2017
Normal	2,347,064	2,202,413
Special Mention	53,973	51,725
Sub-Standard	23,037	17,164
Doubtful	13,251	13,435
Doubtful Loss	39,809	38,615
<b>Total</b>	<b>2,477,134</b>	<b>2,323,352</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.

In addition, the BoT requires banks 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 basis based on recent payment history, ability to generate future cash flows and other qualitative factors and

the net present value of proceeds from liquidating collateral, 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. 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 has sought collection but has no prospect of further recovery. These procedures comply with BoT's notification and guidelines.

#### Allowance for doubtful accounts

(in million Baht)

(Consolidated)	2018	2017
As at 1 January	85,699	73,353
Bad debt and doubtful accounts	27,051	27,782
Bad debts written off	(13,602)	(15,075)
Others	257	(361)
<b>As at 31 December</b>	<b>99,405</b>	<b>85,699</b>

#### Revaluation allowance for debt restructuring

(in million Baht)

(Consolidated)	2018	2017
As at 1 January	4,291	4,004
(Decrease) increase during the year	(423)	287
<b>As at 31 December</b>	<b>3,868</b>	<b>4,291</b>

## Loans classified by quality as at December 31, 2018 (inclusive of accrued interest receivables)

(in million Baht)								
(Consolidated)	Individual approach (All loans except for finance leases)					Collective approach (Finance leases)		Total
	Loans and accrued interest receivables	Net amount used to set the allowance for doubtful accounts	%used for setting the allowance	Allowance for doubtful accounts***	Loans and accrued interest receivables	Allowance for doubtful accounts***		
Minimum allowance of BoT regulations								
Normal	1,832,982	1,790,588 *	1	17,788	186,518	2,873	20,661	
Special Mention	41,113	40,176 *	2	803	12,855	2,697	3,500	
Sub-Standard	21,718	12,189 **	100	12,189	1,316	642	12,831	
Doubtful	12,682	4,057 **	100	4,057	564	261	4,318	
Doubtful Loss	32,371	17,077 **	100	17,077	1,776	825	17,902	
<b>Total</b>	<b>1,940,866</b>	<b>1,864,087</b>		<b>51,914</b>	<b>203,029</b>	<b>7,298</b>	<b>59,212</b>	
Allowance established in excess of BoT regulations								40,193
<b>Total</b>								<b>99,405</b>

\* 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

**Impairment loss on loans and debt securities**

In 2018, impairment loss on loans and debt securities was set at Baht 24,023 million or 115 bps of total loans. This included additional prudent provisions of around Baht 4 billion booked in 4Q18 to safeguard against external uncertainties, and at the same time the Bank is shifting its loan portfolio toward unsecured products and digital lending. With a higher level of provisions, coverage ratio improved to 146.7% in 2018 from 137.3% in 2017.

**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 expenses are 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, net

As at December 31, 2018, the changes to the properties for sale, net were as follows:

	(in million Baht)			
(Consolidated)	Beginning Balance	Additions/ Transfer in	Disposals/ Transfer out	Ending Balance
Foreclosed assets				
Immovable assets	10,890	2,382	(1,582)	11,690
Movable assets	<u>442</u>	<u>7,395</u>	<u>(7,207)</u>	<u>630</u>
Total	11,332	9,777	(8,789)	12,320
Others	<u>396</u>	<u>1,782</u>	<u>(489)</u>	<u>1,689</u>
Total properties for sale	11,728	11,559	(9,278)	14,009
<u>Less</u> allowance for impairment	(444)	(140)	25	(559)
<b>Total properties for sale, net</b>	<b>11,284</b>	<b>11,419</b>	<b>(9,253)</b>	<b>13,450</b>

### 4. Investments

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

Debt securities and marketable equity securities 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, are classified as trading securities are stated at fair value. Changes in fair value are recognised in profit or loss as gains on tradings. Interest income on trading securities is recognised using the accrual basis of accounting.

Debt securities and marketable equity securities, other than those securities held for trading or intended to be held to maturity, are classified as available-for-sale investments 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 investments. 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 cost, less impairment losses, if any.

The fair value of financial instruments classified as held-for-trading and available-for-sale is determined as the quoted bid price at the reporting date.

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.

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

#### *Assets held to cover linked liabilities*

Assets held to cover linked liabilities are the investments in unit trusts under unit-linked contracts as the policy benefits are directly linked to the value of the investments in securities. These investments in securities are stated at fair value.

For unit trusts securities which are listed, the fair value is calculated using the last bid price from the Stock Exchange of Thailand (SET) at reporting date. For unit trusts which are non-listed, the fair value is calculated using Net Asset Value at reporting date.

#### *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 investments. 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 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, 2018, the Bank set aside investment in debt and equity securities in a total amount of Baht 224 million (consolidated statement). The Bank believes that such provisioning is sufficient.

### Investment Policy

The Bank's investment in its subsidiaries, affiliates, and relevant companies as of December 31, 2018 can be classified as follows:

#### Investment in the SCB Financial Group

The Bank has founded SCB Financial Group to focus on long-term investments in financial services and support services for its banking business. Companies within the Financial Group work together to achieve the maximum synergy toward the goal of being 'the Most Admired Bank'.

#### Investment in Other Businesses

The Bank's objectives for investments outside the Financial Group are either to earn investment returns in the form of dividends and capital gains and/or to strengthen relationship with strategic business partners. Furthermore, the Bank has a policy to invest in FinTech businesses to enhance its long-term competitiveness and to better address customer needs.

#### Investment Supervision and Risk Management

The Bank's investment supervision is carried out through policy formulation, business operations, risk management for the overall group and specific businesses, and regular performance monitoring and risk assessment.

The Bank has nominated representative directors for some companies outside the Financial Group to ensure that their business operations continue to meet the Bank's expectations. Moreover, the Bank's executives serve on the boards of directors of all companies in the SCB Financial Group.

#### Obligation associated with assets

- Nil -

#### Land and Building

The Bank owns the following plots of land and buildings, used as its office and branches to conduct business, which are free from any mortgages or pledges as of December 31, 2018:

Items	Ownership	Value (Million Baht)
Land	Owned	18,489
Building	Owned	29,369

## 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, 2018.

## 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:	+66-2544-1000
SCB Call Center	+66-2777-7777
SCB Business Call Center	+66-2722-2222

### Registrar

Ordinary and Preferred Shares	The Thailand Securities Depository Company Limited 93 Ratchadapisek Road, Dindaeng Dindaeng, Bangkok 10400 Tel: +66-2009-9000 Fax: +66-2009-9991
Siam Commercial Bank Subordinated Debentures No. 2/2012, due in 2024, where the issuer has the right to redeem prior to maturity	Siam Commercial Bank Public Company Limited 9 Ratchadapisek Road, Jatujak Bangkok 10900, Thailand Tel: +66-2544-1000
Senior Unsecured Notes USD 750 million 3.50% due April 2019	Deutsche Bank Trust Company Americas 60 Wall Street, 16th Floor New York, New York 10005 United States
Senior Unsecured Notes USD 400 million 3.20% due July 2022	Deutsche Bank Luxembourg S.A. 2 Boulevard Konrad Adenauer L-1115 Luxembourg Luxembourg
Senior Unsecured Notes USD 500 million 2.75% due May 2023	Deutsche Bank Luxembourg S.A. 2 Boulevard Konrad Adenauer L-1115 Luxembourg Luxembourg

**Fiscal Agent**

Senior Unsecured Notes USD 750 million 3.5% due April 2019	Deutsche Bank AG, Hong Kong Branch Level 52, International Commerce Centre 1 Austin Road West, Kowloon Hong Kong
Senior Unsecured Notes USD 400 million 3.20% due July 2022	Deutsche Bank AG, Hong Kong Branch Level 52, International Commerce Centre 1 Austin Road West, Kowloon Hong Kong
Senior Unsecured Notes USD 500 million 2.75% due May 2023	Deutsche Bank AG, Hong Kong Branch 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, 2018 the Bank owned 10% or more of the issued shares of the following companies.

No.	Company name and Address	Type of business	Type of shares	Paid-up shares	Number of shares	% of ownership*
1	<b>CAMBODIAN COMMERCIAL BANK LTD.</b> 26 Monivong Rd., Sangkat Phsar Thmei 2, Khan Daun Penh, Phnom Penh, Kingdom of Cambodia Tel: 001-855 (23) 426-145, 213-601-2 Fax: 001-855 (23) 426-116	Banking	Ordinary	750,000	750,000	100.00%
2	<b>RUTCHAYOTHIN ASSETS MANAGEMENT CO., LTD.</b> 9 Rutchadaphisek Rd., Jatujak, Bangkok 10900 Tel: 0-2544-2477 Fax: 0-2544-2165	Asset Management	Ordinary	2,500,000	2,500,000	100.00%
3	<b>SCB SECURITIES CO., LTD.</b> SCB Park Plaza Bldg., Tower 3 East, 2 <sup>nd</sup> , 20 <sup>th</sup> -21 <sup>st</sup> Floor, 19 Rutchadaphisek Rd., Jatujak, Bangkok 10900 Tel: 0-2949-1000 Fax: 0-2949-1001	Securities Company	Ordinary	240,000,000	240,000,000	100.00%
4	<b>DIGITAL VENTURES CO., LTD.</b> <sup>(2)</sup> 2525 Unit 2/1001-1002, 10 <sup>th</sup> Floor, FYI Center Tower (Tower 2) Rama IV Rd., Khlong Toie, Bangkok 10110 Tel: 02-061-6166	Financial Technology and Venture Capital	Ordinary	4,000,000	4,000,000	100.00%
5	<b>SCB PROTECT CO., LTD.</b> SC Tower, 23 <sup>rd</sup> -25 <sup>th</sup> Floor, 418 23-25 Fl. Phahon Yothin Road., Sam Sen Nai, Phaya Thai, Bangkok 10400 Tel: 0-2037-7899	Non-life Insurance Broker	Ordinary	200,000	199,997	100.00%
6	<b>SCB ASSET MANAGEMENT CO., LTD.</b> SCB Park Plaza Bldg., Tower 1 West, 7 <sup>th</sup> -8 <sup>th</sup> Floor, 18 Rutchadaphisek Rd., Jatujak, Bangkok 10900 Tel: 0-2949-1500 Fax: 0-2949-1501	Asset Management	Ordinary	20,000,000	20,000,000	100.00%
7	<b>SCB-JULIUS BAER SECURITIES CO., LTD.</b> 108 Sukumvit Rd., North Klongton, Wattana, Bangkok	Securities Company	Ordinary	180,000,000	107,999,999	60.00%
8	<b>SCB-JULIUS BAER (SINGAPORE) PTE. LTD.</b> ** <sup>(2)</sup> 7 Straits View, #08-10A, Marina One East Tower, Singapore 018936	Securities Company	Ordinary	1	1	60.00%
9	<b>SCB PLUS CO., LTD.</b> G Tower Grand Rama 9, 12 <sup>th</sup> and 14 <sup>th</sup> Floor, 9 Rama 9 Rd., Huai Khwang, Bangkok 10310 Tel: 0-2792-3800, 0-2792-3900 Fax: 0-2255-1565	Collection Company	Ordinary	100,000	100,000	100.00%
10	<b>SCB TRAINING CENTRE CO., LTD.</b> 9 Rutchadaphisek Rd., Jatujak, Bangkok 10900 Tel: 0-2544-1702, 1704, 1707 Fax: 0-2544-1701	Training Center	Ordinary	5,490,000	5,490,000	100.00%
11	<b>MAHISORN CO., LTD.</b> <sup>(1)</sup> SCB Park Plaza, Tower East, 2 <sup>nd</sup> Floor, 18-19 Rutchadaphisek Rd., Jatujak, Bangkok 10900 Tel: 0-2937-5400 Fax: 0-2937-5438	Property (building) Management	Ordinary	669,490	669,490	100.00%
12	<b>SCB ABACUS CO., LTD.</b> SCB Park Plaza Bldg., 19, Tower 3 East, 22 <sup>nd</sup> Floor, 19 Rutchadaphisek Rd., Jatujak, Bangkok 10900 Tel: 0-2544-6566	Data Analytics	Ordinary	1,000,000	999,997	100.00%
13	<b>SCB LIFE ASSURANCE PCL.</b> Capital Tower, All Seasons Place, 3 <sup>rd</sup> -6 <sup>th</sup> , 8 <sup>th</sup> , 17 <sup>th</sup> Floor, 87/1 Wireless Road, Lumpini, Phatumwan, Bangkok 10330 Tel: 0-2257-9999	Life Insurance	Ordinary	66,500,000	65,949,620	99.17%

No.	Company name and Address	Type of business	Type of shares	Paid-up shares	Number of shares held	% of ownership*
14	<b>SIAM PHITIWAT CO., LTD.</b> <sup>(3)</sup> SCB Park Plaza, Tower A Zone A West, 18 Rutchadaphisek Rd., Jatujak, Bangkok 10900 Tel: 0-2795-1800	Appraisal Service	Ordinary	1,000,000	1,000,000	100.00%
15	<b>SOR.OR.KOR PCL</b> <sup>(3)</sup> 9 Siam Commercial Bank PCL, Head Office, Rutchayothin, 19 <sup>th</sup> Floor Zone C, Rutchadapisek Rd., Jatujak, Bangkok 10900 Tel: 0-2544-2301-4 Fax: 0-2544-3317	Commercial	Ordinary	597,423,062	595,883,972	99.74%
16	<b>SIAM COMMERCIAL LEASING PCL</b> <sup>(3)</sup> SCB Park Plaza Bldg., Tower 2 West, 22 <sup>nd</sup> Floor, 18 Rutchadaphisek Rd., Jatujak, Bangkok 10900 Tel: 0-2949-1800 Fax: 0-2949-1900	Collection Company	Ordinary	567,797,502	564,336,277	99.39%
17	<b>SIAM SAT NETWORK CO., LTD.</b> <sup>(2) (3)</sup> SCB Park Plaza Bldg., Tower 2 West, 21 <sup>st</sup> Floor 18 Rutchadaphisek Rd., Jatujak, Bangkok 10900	Sattelite Service	Ordinary	11,250,000	9,182,012	81.62%
18	<b>SIAM TECHNOLOGY SERVICE CO., LTD.</b> <sup>(1) (3)</sup> SCB Park Plaza Bldg., Tower 1 West, 18 Rutchadaphisek Rd., Jatujak, Bangkok 10900	Consultant	Ordinary	3,000,000	2,249,993	75.00%
19	<b>SAHAVIRIYA STEEL INDUSTRIES PCL</b> <sup>(4)</sup> Prapawit Bldg., 2 <sup>nd</sup> -3 <sup>rd</sup> Floor, 28/1 Surasak Rd., Silom, Bangrak, Bangkok 10500 Tel: 0-2238-3063-82 Fax: 0-2236-8890	Steel Industry	Ordinary	11,113,018,280	4,469,534,816	40.22%
20	<b>SIAM MEDIA AND COMMUNICATION CO., LTD.</b> <sup>(3)</sup> SCB Park Plaza Bldg., Tower 2 West, 17 <sup>th</sup> -22 <sup>nd</sup> Floor, 18 Rutchadaphisek Rd., Jatujak, Bangkok 10900	Holding Company	Ordinary	7,000,000	2,333,800	33.34%
21	<b>NATIONAL ITMX CO., LTD.</b> 5/13 Moo 3, Chaengwattana Rd., Khlongkluea, Pakkret, Nonthaburi 11120 Tel: 0-2558-7555 Fax: 0-2558-7566	Payment System Service Provider	Ordinary	500,000	97,238	19.45%
22	<b>SUPERNAP (THAILAND) CO., LTD.</b> Sindhorn Tower 3 Bldg. 18 Fl. 130-132 Wireless Rd. Lumpini, Pathumwan, Bangkok 10330 Tel: 0-3312-5114 Fax: 0-2558-7566	Data Center	Ordinary	200,000,000	20,000,000	10.00%
23	<b>THAI U.S. LEATHER CO., LTD.</b> <sup>(3)</sup> 39/98 Rama II Rd., Banghrachao, Muang, Samutsakhon 74000 Tel: (034) 490-082-7	Industry	Ordinary	25,000,000	2,500,000	10.00%
24	<b>NAVUTI CO., LTD.</b> 920/4 Moo7, Mae Fah Luang, Mae Fah Luang, Chiang Rai 57110 Tel: (053) 767-015 Fax: (053) 767-077	Agribusiness	Ordinary	600,000	60,000	10.00%
25	<b>THAI OBAYASHI CORP., LTD.</b> Nantawan Bldg., 11 <sup>st</sup> Floor, 161 Soi Mahadlek Luang 3 Ratchadamri Rd. Lumpini, Pathumwan, Bangkok 10330 Tel: 0-2252-5200 Fax: 0-2252-5200	Construction	Ordinary	20,000	2,000	10.00%

**Remarks**

\* In case of indirect investment by bank affiliates, in which the Bank hold more than 30% of theirs shares, the figures will depict the total percentage of shareholding and investment value of the Bank and its affiliates. (under Section 258 of Securities and Exchange Act.)

\*\* In the process of capital injection

(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.

(4) Debt restructuring investment.