



KRUNG THAI BANK PUBLIC COMPANY LIMITED



Basel II Pillar III Disclosure



Basel II Pillar III Disclosures

Krung Thai Bank PCL has applied the Basel II Standardised Approach for computing its regulatory capital requirements for credit risk, market risk and operational risk since December 2008 to date. The following information concerning bank's capital risk exposures, risk management practices and capital adequacy is disclosed as required by the Bank of Thailand.

Scope of Basel II Application

Disclosure information on the Bank's capital refers to the disclosure of the Banks activities on a solo basis (excluding affiliates & member firms) in meeting the requirements prescribed by the Bank of Thailand.

Capital Structure and Adequacy

As at December 31, 2009, the Bank's total capital was posted at THB 168,374 million (or 168.374 billion Baht) divided into tier 1 capital of THB 106,068 million and tier 2 capital of THB 62,306 million. Key compositions of capital are shown below:

Capital Structure (Standardised Approach)		
Unit : million baht		
Period Ending	31 Dec 09	30 Jun 09
Tier 1 capital	106,068	101,358
o Paid up share capital	57,576	57,576
o Net premium (discount)	1	1
o Non-cumulative preferred share	28	28
o Statutory reserves	3,422	3,422
o Cumulative profit (loss) after appropriation	35,344	30,634
o Hybrid Tier 1 that the Bank of Thailand allows to count as Tier 1 capital	9,697	9,697
Tier 2 capital	62,306	58,795
Total regulatory capital	168,374	159,774
o Total regulatory capital before deductions	168,374	160,153
o Total Deductions	-	379

The minimum required capital for the Bank to maintain under the Basel II accord had total value of THB 90,157 million, equivalent to total risk-weighted assets value of THB 1,061,174 million. Its Capital Adequacy Ratio (CAR) stood at 15.87%, exceeding the minimum capital adequacy ratio

prescribed by the Bank of Thailand at 8.50% and the Bank's tier 1 capital to risk-weighted asset ratio posted at 10.00% also exceeded the minimum tier 1 capital to risk-weighted asset ratio prescribed by the Bank of Thailand at 4.25%.

It can be seen that the level of capital is adequate for future business growth and also reflects the effectiveness of the Banks capital management framework as well as complying with the requirements prescribed by the Bank of Thailand. The following are details of the minimum capital requirements under Basel II:

Basel II Minimum Capital Requirements (Standardised Approach)		
Unit : million baht		
Period Ending	31 Dec 09	30 Jun 09
For Credit Risk	82,639	80,442
Performing assets	76,461	73,210
o Claims on sovereigns, central banks, multilateral development banks (MDBs), provincial organizations, government entities, and state enterprises (PSEs)	98	36
o Claims on corporate, provincial organizations, government entities and state enterprises (PSEs) that are treated as claims on corporate	45,830	44,935
o Claims on financial institutions, provincial organizations, government entities and state enterprises (PSEs) that are treated as claims on financial institutions and securities companies	3,602	2,749
o Claims on retail portfolios	14,573	13,916
o Residential mortgage exposures	5,254	5,067
o Other assets	7,104	6,507
Non-Performing assets	6,178	7,232
For Market Risk	686	517
o Interest rate risk	517	329
o Equity position risk	3	1
o Foreign exchange rate risk	166	187
For Operational Risk	6,832	6,483
Total minimum capital requirements	90,157	87,442
Total risk-weighted assets	1,061,174	1,033,868

Capital Adequacy Ratio (Standardised Approach)		
	Unit : %	
Period Ending	31 Dec 09	30 Jun 09
Total capital to risk - weighted assets	15.87	15.45
Tier 1 capital to risk - weighted assets	10.00	9.80

Risk Exposure and Assessment

The Bank has been aware of the significance of risk management, which is a management process necessary for guiding the organization to efficiently achieve its set targets, especially in the fast changing and highly competitive business environment. In managing the Bank’s risk, apart from having in place respective committees namely the Board of Directors, the Board of Executive Directors, the Audit Committee, and the Risk Management Committee to oversee risk management



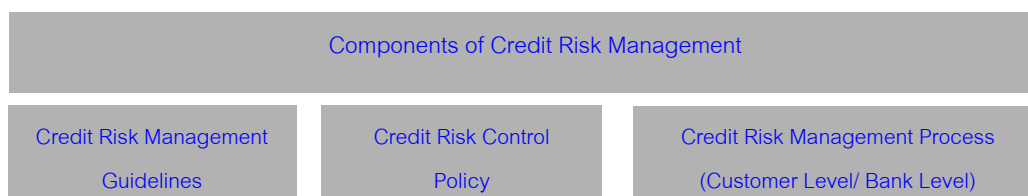
policies, there exist several other subcommittees (i.e. Executive Committee, Assets and Liabilities Management Committee, Investment Committee, Credit Scrutiny Committee, and Group Credit Committee) consisting of senior executives responsible for formulating risk management policy and strategy for various types of risk. The Bank’s risk management

comprises risk identification, risk assessment, risk control, risk monitoring and reporting with the objective of controlling risk to be at acceptable levels for two levels of risk control namely customer or debtor level and bank level.

Credit Risk

The Bank has formulated its credit risk management policy with the objective of managing credit risk to remain at acceptable and appropriate levels in line with the Bank’s target’s, strategies and business plan so that all the business units concerned can utilize such policy as guideline practice for risk management.

The key components of credit risk management policy include credit risk management guidelines, credit risk control policy, and credit risk management process (customer level and bank level).



Credit Risk Management Guidelines

The Bank is determined to develop its risk management and move forward to be an enterprise with standard credit risk management under the supervisory guidelines and risk examination of both, the Bank of Thailand and the global standard risk management guidelines under Basel II requirements. At the same time, the Bank attaches significance to risk management through its appointment of the Risk Management Committee as a subcommittee of the Bank’s Board of Directors.

Credit Risk Control Policy

The Bank requires that all its business units must conduct its risk control policy and assess the efficiency and adequacy of the risk control measures with impact or expected impact on the achievement of the Bank’s objective so that risk will remain at appropriate and acceptable levels. In measuring the risk at an overall level of credit risk, the Bank has set the risk tolerance level to be associated with the Enterprise Risk Management, which is the Bank’s overall risk management.

The Bank’s key policies on credit risk control comprise the large corporate credit risk management policy, major shareholders or related benefit business credit risk management policy, credit concentration risk management policy and counterparty credit risk management policy.

Credit Risk Management Process

The Banks Credit Risk Management Process consists of risk identification, risk assessment, risk control, risk monitoring and reporting to enable the Bank to manage risks to remain at acceptable levels that are appropriate with the return yield received. The Bank has required debtor levels and bank levels with the following guidelines for operation in accordance with the risk management process.

Identification and Assessment Risk

- Customer / Debtor Level

The Bank has identified its risks by considering respective factors concerning the customer, business of the customer, external factors with negative impact on revenue or income and

business operation of the customer under the principles specified in the Bank's credit policy and its investment policy.

The Bank conducts risk assessment through the use of different credit risk tools according to the types of customer and the complexity of the business. For instance, Credit Risk Rating tool is used in assessing large corporate customer risk and the Credit Scoring tool is used in assessing retail customer risk. Apart from this, the Bank has gathered business data or information¹ comprising economic conditions summary and trends of industry rating index, industry standard ratio and top exporters in supplement to credit analysis and approval.

- Bank Level

The Bank has identified and assessed risk in accordance with the key risk indicators (KRI) such as assessments made by comparing risk limits² (Large Borrower Limit, and Sector Limit) and the assessment of the new loan default rate.

The Bank has also set its risk appetite and risk tolerance for each risk indicator. If having assessed risk and found that risk was higher than the risk appetite level, the Bank will consider mitigating risk and enhancing its risk management so that such risk will remain at appropriate levels.

Monitoring and Reporting Risk

- Customer / Debtor Level

Monitor the customer / debtor on the usage of credit lines and on their business progress corresponding to the business plan.

- Bank Level

The Bank monitors its risks according to the key risk indicators and report to the Risk Management Committee at least once a month and also reports to the Board of Directors regularly on a quarterly basis.

¹ Business data / information comprises data on agriculture business, industrial business, service business, property / real estate business and financial business

² The Bank sets risk limit criteria for Large Borrower Limit as prescribed by the Bank of Thailand and the Bank sets Sector Limits by considering the use of capital through the risk and return of each type of business.

Structure and Responsibilities

The Bank manages its risk by dividing business units into three Lines of Defense comprising credit and investment unit, risk management unit, and internal audit unit.



Credit and Investment Unit

- The Credit Unit is responsible for lending or extending credit within the risk management policy framework at acceptable risk levels through risk analysis, credit / loan quality monitoring and debt restructuring.
- The Investment Unit is responsible for analyzing investment portfolios, formulating investment strategy and setting risk limits.

Risk Management Unit

- The Credit Risk Management Department is responsible for proposing the credit policy that suits the Bank's financial standing and economic condition. It analyzes the loan / credit portfolio to ensure that credit risk lies within the Bank's acceptable levels, assesses lending loss through default risk model develops application software and / or credit risk management models to be used by the credit units as tools in credit analysis and approval, and customer risk assessment as well as overall credit risk management of the Bank.
- The Credit Scrutiny Unit is responsible for scrutinizing the application for credit / loans submitted by the credit unit to ensure that they conform to the Bank policy. The tasks include scrutiny of risk ratings to be in accordance with the Bank's requirements, analysis of business and financial feasibility and assumptions / hypotheses, as well as supporting factors used in supplement to credit analysis whether they are appropriate and adequately logical to be used in assessing business feasibility. The work includes lending risk assessment, preparation and reviewing report, and opinions on the application for credit / loans approval.

Internal Audit Unit

- The Internal Audit Unit is responsible for auditing or examining the risk management process, checking the performance of various business units to ensure compliance with the operating manual, policies and strategies, the Bank's operating procedures and rules, regulations and requirements prescribed by external agencies / regulators such as the Bank of Thailand, Office of the Auditor General, Office of the Securities and Exchange Commission and the Anti-Money Laundering Office as well as the applicable laws concerned. The unit also examines the reliability of financial reports, financial risk, process of preparing credit report for submission to the Bank of Thailand, retention of loan agreements and collateral information, the Bank's asset management and appropriateness of asset insurance as well as assessment of internal control adequacy.
- The Credit Review Unit is responsible for reviews credit and contingencies of customer / debtor, quality of lending process, and on-going customer / debtor monitoring process.

Definition of "Default" and "Asset Impairment"

- Default refers to the failure on the part of the Bank's customer / debtor to comply with the loan agreement, inability to repay debt in accordance with the covenants or conditions specified in the agreement for a period of more than 90 days with such debt classified as substandard, doubtful and doubtful loss. This shall also refer to loans that are classified as substandard, doubtful and doubtful loss in accordance with the debt quality requirement prescribed by the Bank of Thailand. In case of investment, default shall be counted from the date on which the counterparty fails to repay the principal and / or interest upon payment due.
- Asset Impairment
Asset impairment refers to significant decreases in market price of an asset during a certain period of time whereby such a decrease is higher than the amount expected to decline with the lapse of time or from regular or normal use.

Outstanding of on-balance sheet assets and off-balance sheet items before credit risk mitigation classified by residual maturity			
Unit : million baht			
Period Ending Dec. 31, 2009			
Item	Total	Maturity not exceeding 1 year	Maturity exceeding 1 year
On-balance sheet assets	1,364,891	603,121	761,770
○ Net loans ¹	1,275,930	549,635	726,295
○ Net investments in debt securities ²	67,595	47,413	20,182
○ Deposits (including accrued interests)	21,366	6,073	15,293
Off-balance sheet items ³	699,735	600,945	98,790
○ Aval of bills, guarantee, and letter of credits	112,695	88,503	24,192
○ OTC derivatives ⁴	529,492	491,763	37,729
○ Undrawn committed lines	57,548	20,679	36,869
<p>¹ Including accrued interests and net-of-deferred revenues, allowances for doubtful accounts and revaluation allowances for debt restructuring including loans and accrued interests of inter-bank and money market item.</p> <p>² Excluding accrued interests and net of revaluation allowances for equities and impairment allowances for equities.</p> <p>³ Before multiplying CCF.</p> <p>⁴ Including OTC derivatives off balance sheet items.</p>			

Guidelines used for Calculation of General Provision and Specific Provision

The Bank has set aside provisions for its assets in accordance with the requirements prescribed by the Bank of Thailand and may consider an additional provision for its stability and to cover possible loss / damage that may occur in the future by using stringent provision requirements based on requirements prescribed by the Bank of Thailand.

The Bank's approach / method of provisioning for assets (credit / loan) in accordance with the asset classification as follows:

- Asset classified as Normal and Special Mentioned

The method used is the difference between the outstanding amount and the collateral appraisal amount as prescribed by the Bank of Thailand, then multiplied by 1% and 2%, respectively.

- Asset classified as Doubtful Loss, Doubtful, and Substandard

The method used is the difference between the outstanding amount and the present value of cash flow expected to receive from sale of collateral (collateral PV) or used the method of the difference

between the outstanding amount and the present value of cash flow expected to receive from debtor (cash flow PV)

Outstanding of on-balance sheet assets and off-balance sheet items before credit risk mitigation
classified by country of debtors

Unit : million baht

Period Ending Dec. 31, 2009					
Item	Total	Thailand	Asia Pacific (exclude Thailand)	North America and Latin America	Europe
On-balance sheet assets	1,364,891	1,333,046	26,828	3,050	1,967
o Net loans ¹	1,275,930	1,265,962	7,006	997	1,965
o Net investments in debt securities ²	67,595	67,054	541		
o Deposits (including accrued interests)	21,366	30	19,281	2,053	2
Off-balance sheet items ³	699,735	633,925	54,768	5,152	5,890
o Aval of bills, guarantee, and letter of credits	112,695	109,720	2,959	16	
o OTC derivatives ⁴	529,492	466,926	51,719	4,957	5,890
o Undrawn committed lines	57,548	57,279	90	179	

¹ Including accrued interests and net-of-deferred revenues, allowances for doubtful accounts and revaluation allowances for debt restructuring including loans and accrued interests of inter-bank and money market item.

² Excluding accrued interests and net of revaluation allowances for equities and impairment allowances for equities.

³ Before multiplying CCF.

⁴ Including OTC derivatives off balance sheet items.

Changes in provisions ¹ for loans including accrued interests ²

Unit : million baht

Period Ending Dec. 31, 2009			
Item	General provision	Specific provision	Total
Provisions at the beginning of the period	905	30,425	31,330
Charge-offs during the period	-	3,998	3,998
Increases or decreases of provisions during the period	863	7,912	8,775
Provisions at the end of the period	1,768	34,339	36,107

¹ Provisions (general provision, specific provision and charge-offs between period.

² Loans and accrued interest of inter-bank and money market item.

Loans ¹ and investments in debt securities before credit risk mitigation and provisions ²
classified by country and by asset classification

Unit : million baht

Period Ending Dec. 31, 2009					
Item	Total	Thailand	Asia Pacific (exclude Thailand)	North America and Latin America	Europe
Loans and accrued interests ¹	1,310,335	1,300,234	7,139	997	1,965
- Asset classification					
o Normal	1,206,599	1,196,631	7,006	997	1,965
o Special mentioned	18,538	18,538			
o Substandard	2,785	2,785			
o Doubtful	22,347	22,216	131		
o Doubtful Loss	60,066	60,064	2		
Provisions ²					
o General provision	1,768				
o Specific provision	34,339	34,206	133		
o Charge-off between period	3,998	3,998			
Investment in debt securities					
o Specific provision	192	190	2		

¹ Loans and accrued interests of inter-bank and money market item.

² Include provisions and charge-offs for loans and accrued interest receivables of inter-bank and money market item.

Loans and accrued interests ¹ before credit risk mitigation and provisions ²
classified by asset classification and by type of business

Unit : Million Baht

Period Ending Dec. 31, 2009							
Item	Total	Agriculture and Mining	Manufacturing and Commerce	Property and Construction	Public utilities and Services	Housing	Others
Loans and accrued interests ¹	1,310,335	22,912	363,681	114,717	179,340	161,000	468,685
- Asset classification							
o Normal	1,206,599	20,233	309,811	90,516	162,705	156,069	467,265
o Special mentioned	18,538	371	8,995	1,254	6,014	1,540	364
o Substandard	2,785	47	1,262	576	113	629	158
o Doubtful	22,347	696	11,345	4,760	3,937	1,049	560
o Doubtful Loss	60,066	1,565	32,268	17,611	6,571	1,713	338
Provisions ²							
o General provision	1,768						
o Specific provision	34,339	252	28,743	1,292	3,182	589	281
o Charge-off between period	3,998	335	1,602	335	1405	221	100

¹ Loans and accrued interests of inter-bank and money market item.

² Include provisions and charge-offs for loans and accrued interest receivables of inter-bank and money market item.

External Credit Assessment Institutions (ECAIs)

The Bank compares the ratings assigned by external credit assessment institutions (ECAIs) with the Rating Grade of the customer / debtor. The five external credit assessment institutions selected by the Bank are Standard and Poor's, Moody's Investment Service, Fitch Ratings, TRIS Rating Co., Ltd., and Fitch Rating (Thailand).

For sovereign / government and central bank customer / debtor, there is no rating assigned by the external credit assessment institutions. In this regard, the Bank would compare the rating grades with the country risk classification of the Organization for Economic Co-operation and Development (OECD).

The list of external credit assessment institution used by the Bank for each type of debtor as follows:

Customer / Counterparty Type	List of External Credit Assessment Institution
Sovereigns and central banks Financial Institutions and Securities companies	<ul style="list-style-type: none"> ○ Standard and Poor's ○ Moody's Investment Service ○ Fitch Ratings ○ TRIS Rating
Retails	<ul style="list-style-type: none"> ○ Fitch Rating (Thailand) ○ TRIS Rating ○ Other external credit assessment institutions approved by Foreign Regulators

Risk – Weighted Asset Process

The Bank has compared ratings that the customer / debtor are assigned by external credit assessment institutions with rating grades of the customer / debtor assigned by the Bank of Thailand in the Bank of Thailand's notification on criteria for calculation of credit risk assets for commercial banks using the Standardised Approach (SA), in order to compare them with the risk weights according to the customer / debtor type prescribed by the Bank of Thailand. The ratings used are long-term debt instruments or rating of the organization and rating of short-term debt instruments.

Outstanding of on-balance sheet assets and off-balance sheet items ¹ and part of outstanding that is secured
by collateral ² classified by type of assets and collateral for credit risk

Unit : million baht

Period Ending Dec. 31, 2009

Item	Outstanding			Collateral	
	Total	On-balance sheet assets	Off-balance sheet items ³	Eligible financial collateral ⁴	Guarantee and credit derivative
Performing assets	1,606,818	1,465,509	141,309	70,809	78,612
o Claims on sovereigns, central banks, multilateral development banks (MDBs), provincial organizations, government entities, and state enterprises (PSEs)	296,924	295,455	1,469	-	-
o Claims on financial institutions, provincial organizations, government entities and state enterprises (PSEs) that are treated as claims on financial institutions and securities companies	190,729	117,344	73,385	51,947	73,414
o Claims on corporate, provincial organizations, government entities and state enterprises (PSEs) that are treated as claims on corporate	572,871	530,809	42,062	13,636	4,325
o Claims on retail portfolios	234,134	210,014	24,120	5,174	445
o Residential mortgage exposures	159,224	158,951	273	19	428
o Other assets	152,936	152,936	-	33	-
Non-performing assets	52,582	52,582	-	497	551
Total	1,659,400	1,518,091	141,309	71,306	79,163

¹ After multiple by CCF and specific provision² Values after netting of on-balance sheets and off-balance sheets³ Repo-style transactions including reverse repo⁴ Eligible financial collateral that the Bank of Thailand allows to use for credit risk mitigation with comprehensive method and value after haircut.

Credit Risk Mitigation with Standardised Approach (SA)

- Collateral Management and Appraisal Policy and Process

The Bank has formulated its policy on collateral inspection and appraisal to be of a uniform standard and to be able to control its collateral appraisal prices to be accurate and up-to-date. In conducting collateral inspection and appraisal, all cases including the estimation of construction cost as per blueprint, the criteria for using collateral appraisers shall be observed as follows:

Credit Limit / Book Value Outstanding	Appraiser
Lower than 50 Million Baht	Internal / External
From 50 Million Baht and over	External
Customer / Counterparty / Organization related to the Bank	External

The Bank has adopted the international collateral appraisal method, which is, mark-to-market, cost replacement and income approaches as the case may be by requiring reviews of collateral value at least every three years and preparation of collateral inspection and appraisal report in the designated format. Apart from this, in case of any changes in collateral conditions or environment which impact collateral value such as increased or decreased buildings/structures or roads/streets have been constructed, photographs of such collateral shall be taken as evidence along with preparation of a map showing collateral sites in addition to reports on collateral value review in the format specified by the Bank. At the same time, collateral inspection and collateral value appraisal reports must be prepared as well as collateral property grading reports for the specific part of changes.

- Collateral Type and Guarantor Type

Real Estate Collateral	Financial Collateral	Guarantor
Land, Land with building and machinery	Fixed deposit account, Saving deposit account, government bonds, ordinary shares, unit trust and debentures	Government sector, commercial bank, juristic entity, and ordinary person

- Type of Collateral used in Credit Risk Mitigation

There are two types of collateral that used in credit concentration risk and market risk for credit risk mitigation which are:

- Financial collateral, most of which are in the form of deposit accounts and government bonds.
- Guarantee, most of which are government guarantee, guarantees by juristic entity, state enterprise and commercial bank.

Market Risk

The Bank has pursued a market risk policy in the trading book, interest rate risk in the banking book policy approved by its Board of Directors covering market risk management process comprising risk identification, risk assessment, risk control, risk monitoring and risk reporting in line with the supervisory guidelines of the Bank of Thailand and the business operation strategy of the Bank. Reviews of such policies are conducted at least once a year or when changes occur.

The Market Risk Management Department is an independent business unit separate from the front office or business units. The Department performs its duty of assessing, controlling, monitoring and reporting of market risk both in trading book position and in the banking book position within the risk management framework and the risk limits specified by the Bank. Regarding guidelines for setting limits of risk control, the Board of Directors sets the threshold risk to control risk exposure and delegates appropriate authority to respective committees or business units. Specific risk limits include Value at Risk Limit, Stop Loss Limit, Position Limit, and Sensitivity Limit (PV01 and Greeks Limit).

The Bank assesses the trading book position every working day end and assesses the interest rate risk in the banking book position every month by comparing them with specified risk limits in order to inform the business units concerned and the Managing Director of the Risk Management & Compliance Group and the Risk Management Committee on a regular basis. In this regard, the Internal Audit Group performs the duty of auditing / examining the calculation of market risk capital and market risk processes.

The standardised approach has been used in calculating the capital requirements to cope with market risk that consists of interest rate risk, equity position risk, and the foreign exchange rate risk. In this connection, total value of minimum capital requirements for market risk as at Dec.31, 2009 stood at THB 686 million.

Trading Book Position Risk

Value at Risk (VaR) Model is the expected maximum losses of trading portfolio arising from the movements of market factors in normal condition at a specified confidence level and the holding period. Bank calculate VaR by Historical Simulation Approach based on statistical analysis on

market factor changes in one-year or 250 working day at 99% confidence level and holding period of one day.

The Bank conducts back testing on a daily basis to verify the accuracy of the VaR model by comparing daily VaR with the value of Hypothetical Profit / Loss and counting number of days that Hypothetical Profit / Loss exceeds VaR estimated by the model called “Exceptions”, and comparing it with percentage share of exceptions if it lies within the specified 99% confidence level or not, for instance, in 100 working days, Hypothetical Loss value must not exceed VaR more than once.

The Bank conducts market risk stress testing, which is an assessment of risk that may arise in a crisis situation or in a stress event, since VaR will be used in assessing risk in normal situations only, through the scenarios as prescribed by the Bank of Thailand as well as the Bank’s own scenarios that are suited to the structure and type of instruments. The results from stress testing effects will be submitted to the Risk Management Committee monthly.

[Interest Rate Risk in the Banking Book \(IRRBB\)](#)

Interest Rate Sensitivity Analysis measures the degree of change in the price of an asset and liability in response to the fluctuations in market interest rates. The risk assessment based on banking book position that is sensitive to interest rate changes since most of the interest rate risk arise from mismatches during the period of time when the interest rates of assets and liabilities sensitive to interest rates are adjusted. As for assets and liabilities based on floating interest rates, it will be able to instantly adjust interest rates but if they are based on fixed interest rates, interest rates can only be adjusted upon reaching maturities. In assessing risk, the banking book position at month-end will be used to gauge the effects of interest rate changes on bank’s revenue and economic value with consideration of an impact assessment on the effect of interest rate fluctuations of 100 bps (basis points) on net interest revenue.

The effect of changes in interest rates* to earnings (net)	
Unit : million baht	
Period Ending Dec. 31, 2009	
Currency	Effect of changes in earning interest (net)
o Baht	1,308
o USD	3
Total effect of changes in earning interest (net)	1,311
* The percentage changes in interest rates increase of 100 bps.	

The effect of an interest rate increase of 100 bps, on Thai Baht net interest revenue was an increase of THB 1,308 million and in US Dollar increased by 3 million. The total effect of change in interest rate to earning was THB 1,311 million.

The Bank conducts interest rate stress testing in banking book as an assessment of risk that may arise in stress events through the scenarios prescribed by the Bank of Thailand and/or bank's scenarios and reports the result to the Risk Management Committee quarterly.

Operational Risk

The Bank has entrusted the Operational Risk Management Department to be independently responsible for managing operational risk by reporting directly to the Risk Management & Compliance Group. The core responsibilities of the department includes overseeing the Bank's operational risk management ensuring the Banks operational risk policy is implemented in accordance to the plan formulated by the Bank and adhering to the Basel II framework.

Operational risk refers to the risk that will incur loss due to lack of good supervision and control or lack of good corporate governance with the main causes stemming from the operating process within the enterprise, staff, application system or incidents (events) caused by external factors including legal risk. The Bank has formulated its operational risk management policy to serve as a framework for all operational business units in a systematic manner so as to a better achieve their targets. This also builds confidence with the Bank's stakeholders in creating sustainable added value to the enterprise. Such policy will be reviewed at least once a year and required to be approved by the Bank's Board of Directors. Moreover, all of the Bank employees have been trained

to be fully aware of the significance of risk management while stressing that operational risk management is the duty of each and every bank employee.

The Bank has introduced an information technology (IT) system to be used widely in conducting the Banks business. Numerous new financial products using newly developed forms have been introduced to the customer through the use of electronic media for improved services and greater convenience to the customer. These new developments have resulted in rising trends of operational risk. To address the increase in operational risk the Bank has appointed additional Risk Managers and has encouraged all bank employees to take responsibility for operational risk management in addition to the existing requirement.

The Operational Risk Management Department manages the Banks operational risk in accordance with a specified process consisting of risk identification, risk assessment, risk control, risk monitoring and risk reporting. In this regard, all business units are required to conduct Risk Control Self Assessments (RCSA) once a year by identifying the risk involved in their own operating unit and to assess at what levels those risk are, both in respect to the chance of occurrence and the probable impact of these risks. If business units see that the risk is high they must find control measures to help mitigate risk or control such risk. In addition loss data has been systematically compiled through the Banks Operational Risk Monitoring system, requiring all business units to report on losses promptly when having found such loss.

Loss data are divided in accordance with the eight business groups and seven loss event types, whereby the Operational Risk Management Department will collect relevant data and analyze problems for submission to senior executives and the Risk Management Committee on a monthly basis so that the executives will be informed of the operating results and problems encountered.

Loss data reported by all business units will be reviewed with the Corporate Governance Welfare & Discipline Department, the Special Cases Department and the Internal Audit Group so as to ensure that the key loss events data of the Bank have been completely managed in terms of risk. The Bank has utilized all the losses incurred from operational risk in supplement to risk control self assessment in order to find a control measure to prevent the recurrence of those risks. Apart from this, the Operational Risk Management Department has also taken part in considering risk and risk control guideline practice in issuance of the Bank's new products and services.

Operational risk may be caused by deficiencies in the operating process within the enterprise, staff, application systems or events resulting from external factors as mentioned earlier. Internal risk factors that are the most difficult to control are bank staff or human resources. However, prevention can be found in several ways, starting from personnel recruitment and human resource development, so that they will be qualified for the task they are to perform. Emphasis will also be on staff development and promotion to obtain new knowledge with moral ethics in performing their jobs, segregation of responsibilities, data crosschecks and reduction of conflict of interest. In this connection, each business unit has been required to prepare an operating manual to be observed so that operation will be in compliance with relevant procedures, rules and regulations as well as specifying penalty and disciplinary action when fraud or irregularities occur.

Regarding external risk factors, the Bank has formulated the Business Continuity Plan (BCP) and Contingency Plan to ensure that in case of disaster or catastrophe, the Bank will still be able to provide services within the appropriate time while plans testing are conducted at least twice a year.

In maintaining the capital fund to cater for operational risk using standardised approach, business operation is divided in accordance with the nature of the Bank's products and services into eight business groups as per requirements prescribed by the Bank of Thailand. Meanwhile, the Bank has linked income and operating expenses for each business group and calculated capital fund to accommodate operational risk from average value for three years retroactively of the total capital fund already calculated for each business group.

Equity Position Risk

Equities in Trading Book

- Investment in equity securities for profit from the spread of prices through the trading portfolio with benefits from price changes or price differences in other markets.

Equities in Banking Book

- Investment in equity securities for long-term return from investments as well as for supporting the Bank's business strategy and accommodating its business operations.

Equity Exposure Position in the Banking Book	
	Unit : million baht
Period Ending Dec. 31, 2009	
Equities listed and publicly traded in the Stock Exchange	
o cost value	30,987
o market value	31,936
Other equity	8,546
Net revaluation surplus (deficit) from valuation of equity deducted from total capital	950
Total minimum capital requirement	1,385

Risk Management Process

Assessment and Control Risk

- Equities in Trading Book

The Capital Markets Department analyzes risk that may arise before each investment is made with due consideration of market conditions and the sensitivity of equity securities to be invested in. As for equity securities for trading, the Bank will invest in listed equity securities with good fundamental factors and liquidity, as well as being in good demand in the market and within the framework of the Bank's investment policy and will control risk by setting risk limits on investments both in respect of equity securities positions and the magnitude of the risk exposure.

- Equities in Banking Book

The Capital Markets Department analyze risk that may arise before each investment by means of preparing estimates based on the value of the investments with factors concerned in various aspects being incorporated in supplement to such analysis and submit it for approval of investment to various relevant committees of the Bank in order of levels of approval authority. Decisions to invest will be made under the requirements and terms and conditions prescribed by the Bank of Thailand and control risk by conducting stress tests and will report the test results to the Risk Management Committee on a monthly basis.

Monitoring and Reporting Risk

- The Capital Markets Department monitors and analyzes market conditions and assess the value of investments and returns / yields from investments on a regular basis as well as regularly reporting on investment risk and will report on equity securities trading every day-end to the Market Risk

Management Department as well as reporting on investments in equity securities to the various relevant committees of the Bank for information / acknowledgement on weekly and monthly basis.

Equity Position Risk Policy

The Bank has its risk management for investment in equity securities for profit from price spreads which is classified as trading book by mainly considering the negative impact on equity securities price movement / fluctuation. To prevent any large amount of loss, the Bank has set risk limits of investment in securities of this group both in position and magnitude of risk exposure including values at risk (VaR) limit and stop loss limits to be used for controlling the risk which is different from investment in equity securities for other purpose which is classified as the banking book, the Bank will comprehensively consider the negative impact on market and concentration of investment portfolio by reporting on the portfolio movement / fluctuation to the Investment Committee on a regular basis while controlling risk of such equity securities through stress tests and reporting on the test results to the Risk Management Committee on monthly basis.

Assessment of Fair Value According to Accounting Standards

The Bank has specified guidelines for assessing fair value for equity securities in the banking book by referring to accounting standard No.40: Accounting for Investments in Debt Securities and Equity Securities with the following significant issues:

- Investments in Equity on Market Demand

Regarding investments in equity securities with trading exchange or market such as investments in equity securities of listed companies, the Bank will measure value of investments in equity securities being held by the present offered price. In case the present offered price is not available, the Bank will measure the value by adopting the latest trading price when the economic situation does not change significantly during the day of the latest trading and the day on which value is measured. In case where it is unable to find the latest prices from the main board as reference or estimate of fair value through use of the cash flow expected to be received in future discounts or deducted by the rate appropriate with risks involved. Assessment of fair value of equity securities held is conducted regularly at each month-end.

- Investments in Equity Privately Traded

The Bank estimates the fair value of investment in equity securities privately traded by using the trading prices of similar investments on the exchange. If it is unable to find market price of similar investments, the Bank will estimate the fair value of such equity securities held by using the future cash flow discounted by the rate that is appropriate for the risk involved. In case where it is unable to find the reliable fair value, the Bank will adopt the latest book value as representative of the fair value by regularly assessing the fair value of such equity securities held at least once a year.

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Outstanding of on-balance sheet assets and off-balance sheet items ¹ after credit risk mitigation for each type of assets classified by risk weight

Unit : Million Baht												
Period Ending Dec. 31, 2009												
Type of Asset / Risk-Weight (%)	Rated Outstanding					Unrated Outstanding						
	0	20	50	100	150	0	20	35	50	75	100	150
Performing assets												
○ Claims on sovereigns, central banks, multilateral development banks (MDBs), provincial organizations, government entities, and state enterprises (PSEs)	295,837		1,087									
○ Claims on financial institutions, provincial organizations, government entities and state enterprises (PSEs) that are treated as claims on financial institutions and securities companies		5,248	39,408	20,597	116							
○ Claims on corporate, provincial organizations, government entities and state enterprises (PSEs) that are treated as claims on corporate		14,647	13,398	13,682							513,183	
○ Claims on retail portfolios										228,252	263	
○ Residential mortgage exposures								143,422		14,971	383	
○ Other assets						45,379	29,939				77,585	
Non-performing assets ²									1,514		8,088	41,933

¹ After multiplying by CCF.

² For the part with no credit risk mitigation whose risk weights depend on the ratio of provisions to total exposures.