



Basel II Pillar III Disclosures
As at December 2010

Basel II Pillar III Disclosures

Krung Thai Bank Public Company Limited and the Financial Business Group have applied the Basel II Pillar I with the Standardized Approach (SA) for computing its regulatory capital requirements for credit risk, market risk and operational risk. Information concerning the Bank's capital risk exposures, risk management practices and the capital adequacy as required by the Bank of Thailand (Basel II Pillar III - Market Discipline) has been disclosed since September 2009 to date, and for the Financial Business Group, information was disclosed for the first time on April 2011.

The information related to Basel II - Pillar III which was required to be disclosed includes Scope of Application, Capital Structure, Risk Exposure and Assessment is as follows:

SCOPE OF APPLICATION

The Financial Business Group is composed of the Bank and 11 companies. Note that the disclosed information on the Bank's and the Financial Business Group's capital refer to the disclosure of the Bank and the first 8 companies listed in the following table below. The last 3 companies on the list are not included in Group's capital and are not included in disclosed information.

List of the Financial Business Group's name and business type are:

Name and Business Type of Financial Business Group		
No.	Company Name	Type of Business
1	Krung Thai Legal Services Co., Ltd.	o Legal Services
2	Krung Thai General Business services Co., Ltd.	o General Services
3	Krung Thai Asset Management Pcl.	o Securities Business
4	Krung Thai Computer Services Co., Ltd.	o IT Services
5	KTB Leasing Co., Ltd.	o Hire Purchase
6	KTB Advisory Co., Ltd.	o Financial Counseling & Advisory Services
7	Krung Thai IBJ Leasing Co., Ltd	o Hire Purchase
8	KT ZMICO Securities Co., Ltd	o Securities Business
9	Krungthai-AXA Life Insurance Co., Ltd.	o Life Insurance
10	Krungthai Card Pcl.	o Credit Card Business
11	Krungthai Panich Insurance Co., Ltd.	o Non-Life Insurance

CAPITAL STRUCTURE

As at December 31, 2010 the Financial Business Group's statutory capital funds under Basel II amounted to THB 175,978 million or a Capital Adequacy Ratio (CAR) of 15.02% of risk weighted assets as required by the Bank of Thailand. Divided into tier 1 capital of THB 114,493 million or 9.77% of risk weighted assets and tier 2 capital of THB 61,486 million. Of this, the Bank's statutory capital funds was posted at THB 181,028 million or CAR of 15.49% of risk weighted assets, up from its previous June 2010 level by THB 9,717 million or 5.67%. The Bank's capital funds are divided into tier 1 capital posted at THB 115,311 million or 9.87% of risk weighted assets and tier 2 capital of THB 65,717 million. It can be seen that the level of CAR of the statutory capital funds of the Financial Business Group and the Bank exceeds the minimum level prescribed by the Bank of Thailand at 8.50% and 4.25% respectively. Thus, the Financial Business Group and the Bank has a strong capital funds base capability to expand business as planned.

Capital Structure						
Unit : Million Baht						
Period Ending	Group	Krung Thai Bank				
	31 Dec. 10	31 Dec. 10		30 Jun.10	Change	
	Amount	Amount	%	Amount	Amount	%
Tier 1 capital	114,494	115,311	9.87%	106,863	9,243	8.71%
o Paid up share capital	57,576	57,576		57,576		
o Net premium (discount)	1	1		1		
o Non-cumulative preferred share	28	28		28		
o Statutory reserves	4,684	3,981		3,981		
o Cumulative profit (loss) after appropriation	45,467	43,088		36,724		
o Hybrid Tier 1 that the BoT allows	10,637	10,637		8,553		
o Others	976					
Less Deduction	4,875					
o Goodwill	300					
o Deduction 50% from Tier 1, 2 capital	4,575					
Tier 2 capital	61,486	65,717		64,448		
Total regulatory capital	175,978	181,028	15.49%	171,311	9,717	5.67%
o Total regulatory capital before deductions	175,980	181,028		171,311		
o Total Deductions	2	-		-		
Risk weighted assets	1,171,392	1,168,632		1,108,108	60,524	5.46%

Capital Adequacy Ratio			
Period Ending	Group	Krung Thai Bank	
	31 Dec. 10	31 Dec.10	30 Jun. 10
Total capital to risk - weighted assets	15.02%	15.49%	15.46%
Tier 1 capital to risk - weighted assets	9.77%	9.87%	9.64%

Basel II Minimum Capital Requirements			
Unit : Million Baht			
Period Ending	Group	Krung Thai Bank	
	31 Dec. 10	31 Dec.10	30 Jun. 10
For Credit Risk	91,562	91,517	86,509
Performing assets	86,594	86,554	80,845
○ Claims on sovereigns, central banks, multilateral development banks (MDB), provincial organizations, government entities, and state enterprises (PSE)	553	481	107
○ Claims on corporate, provincial organizations, government entities and state enterprises (PSE)	4,708	4,430	3,819
○ Claims on financial institutions, provincial organizations, government entities and state enterprises (PSE)	49,629	50,565	47,896
○ Claims on retail portfolios	18,354	17,783	16,249
○ Residential mortgage exposures	5,567	5,583	5,504
○ Other assets	7,782	7,712	7,270
Non-Performing assets	4,968	4,963	5,664
For Market Risk	818	827	809
○ Interest rate risk	570	570	700
○ Equity position risk	22	17	8
○ Foreign exchange rate risk	226	240	101
For Operational Risk	7,137	6,938	6,820
Total minimum capital requirements	99,517	99,282	94,138
Total risk-weighted assets	1,171,392	1,168,632	1,108,108

RISK EXPOSURE AND ASSESSMENT

Krung Thai Bank's Enterprise Risk Management (ERM) follows the framework of COSO (Committee of Sponsoring Organizations of the Treadway Commission) with linkage of risk management processes to business strategic planning and venture opportunities thus integrating administration and risk management across-the-board. A Risk Map for 2010 was done to help identify risk factors affecting the Bank with both negative and positive scenarios. Key Risk Indicators (KRI), Risk Appetite, Risk Tolerance were all set in accordance with the various risk factors and root causes taking into consideration the Bank's business plan. Moreover, the Bank reviewed all of the risk policies and risk management processes annually for appropriateness and conformity with regulators i.e. Enterprise Risk Management Policy, Strategic Risk Management Policy, Internal Capital Adequacy Assessment Process (ICAAP) Policy, and Capital Funds Disclosure Policy. The assessment of risk exposures and significant risks such as credit risk, credit concentration risk, market risk, interest rate risk in banking book, operational risk, liquidity risk and reputation risk were also assessed and reported to the Risk Management Committee monthly and to the Board of Directors quarterly, including the submission of a Control Self Assessment (CSA), as required by the Bank of Thailand, to the Risk Management Committee and to the Board of Directors annually.

As for the risk management of the Financial Business Group, the Bank treats the group with equal importance in order to ensure their sustainable growth which will in turn be beneficial to the Bank. In 2010, the Bank set forth a Capital Funds Disclosure Policy and ICAAP Policy for its Financial Business Group and reviewed their Risk Management Policies and process to be in line with the Bank of Thailand notification on consolidated supervision. Progress reports were submitted to the Risk Management Committee on a quarterly basis. Moreover, the Bank submitted the risk assessment of the Financial Business Group to the Risk Management Committee and the Board of Directors annually.

Risk Management Structure

The Bank requires that all business units oversee and manage risks within their responsibilities as they are the Risk Owner and Risk Manager. For the overall risk management to be systematic and efficient, the Bank has entrusted respective committees namely the Board of Directors, the Board of Executive Directors, the Audit Committee and the Risk Management

Committee to oversee risk management policy of the Bank. Additional committees are also set up comprising senior executives to formulate the Bank’s policy, strategy and management of various risks namely Executive Committee, Assets and Liabilities Management Committee,

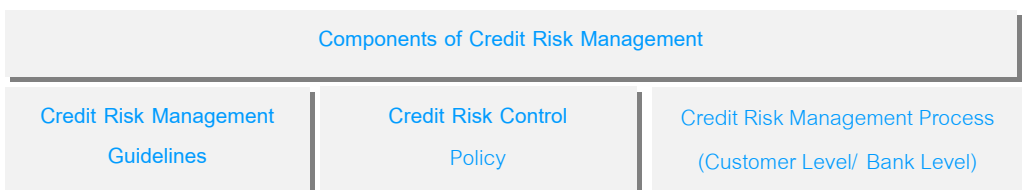


Investment Committee, Group Credit Committee, Credit Scrutiny Committee. The Bank’s risk management process is comprised of (1) Risk Identification, (2) Risk Assessment, (3) Risk Monitoring, (4) Risk Reporting, and (5.) Risk Control with the objective of controlling risk at acceptable levels for both the customer and the bank.

CREDIT RISK

Credit Risk refers to the risk arising from the counterparty’s failure to comply with conditions and covenants as stated in the agreement resulting in non-payment of due debt which could incur losses to the Bank.

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



Credit Risk Management Guidelines

In 2010, the Bank continued to give significant attention to credit risk management through the improvement of credit risk management process, revision of credit risk management policy and manual, monitoring and reporting of risk results. All of these improvements were aimed at controlling the credit risk of the Bank and its Financial Business

Group to comply with risk management guidelines of the Bank of Thailand and for the Banks improvement of credit risk management guidelines.

The Bank also continuously enhanced the efficiency of its risk management tools used in the credit process to help in analyzing, assessing, monitoring and reporting of credit risk. Such tools included credit rating, credit scoring and loan origination as well as delegating credit approval authority in accordance with credit line magnitude and credit type so that risk falls within acceptable levels.

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 objectives 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 acceptable level to be associated with the Enterprise Risk Management, which is the Bank's overall risk management tool.

The Bank's key policies on credit risk control is comprised of, 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 monitoring, risk reporting and risk control to enable the Bank to manage risks to remain at acceptable levels that are appropriate with the return yield received. The Bank has required customer and bank levels with the following guidelines for the operation in accordance with the risk management process.

Identification and Assessment Risk

- Customer/ Counterparty Level

The Bank has identified its risks by considering respective factors concerning the customer/ counterparty, business of the customer, external factors with negative impact on

revenue or income and business operation of the customer/ counterparty under the principles specified in the Bank's credit and investment policies.

The Bank conducts risk assessment through the use of different credit risk tools according to the types of customer/ counterparty 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 the 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 Level

Monitor the customer 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 reports to the Risk Management Committee at least once a month and 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 its 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 its default risk model and 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.

Credit Scrutiny Unit

- The Credit Scrutiny Unit is responsible for scrutinizing the application for credit/ loans submitted by the credit unit to ensure conformity to 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 to supplement credit analysis ascertain whether they are appropriate and adequately logical to be used in assessing business feasibility. The work includes lending risk assessment, preparation and reviewing reports, 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 reports 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 the 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

Default refers to the failure on the part of the Bank's customer/ counterparty 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.

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 is 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 be received from the sale of collateral (collateral PV) or using the method of taking the difference between the amount and the present value of cash flow expected to be received from the customer (cash flow PV).

Outstanding of on-balance sheet assets and off-balance sheet items before credit risk mitigation classified by residual maturity			
Unit : Million Baht			
Group			
Period Ending 31 Dec. 10	Total	Maturity < 1 year	Maturity > 1 year
On-balance sheet assets	1,559,922	662,773	897,149
○ Net loans ¹	1,411,215	583,035	828,180
○ Net investments in debt securities ²	127,167	72,162	55,005
○ Deposits (including accrued interests)	21,540	7,576	13,964
Off-balance sheet items ³	979,974	825,949	154,025
○ Aval of bills, guarantee, and letter of credits	126,298	101,007	25,291
○ OTC derivatives ⁴	779,436	685,252	94,184
○ Undrawn committed lines	74,240	39,690	34,550

Krung Thai Bank						
Period Ending	31 Dec. 10			31 Dec. 09		
	Total	Maturity < 1 year	Maturity > 1 year	Total	Maturity < 1 year	Maturity > 1 year
On-balance sheet assets	1,556,702	668,153	888,549	1,364,891	603,121	761,770
○ Net loans ¹	1,408,148	588,568	819,580	1,275,930	549,635	726,295
○ Net investments in debt securities ²	127,167	72,162	55,005	67,595	47,413	20,182
○ Deposits (including accrued interests)	21,387	7,423	13,964	21,366	6,073	15,293
Off-balance sheet items ³	984,999	830,970	154,029	699,735	600,945	98,790
○ Aval of bills, guarantee, letter of credits	126,323	101,027	25,296	112,695	88,503	24,192
○ OTC derivatives ⁴	779,436	685,252	94,184	529,492	491,763	37,729
○ Undrawn committed lines	79,240	44,690	34,550	57,548	20,679	36,869

¹Including 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.

Outstanding of on-balance sheet assets and off-balance sheet items before credit risk mitigation classified by country of debtors						
Unit : Million Baht						
Group						
Period Ending 31 Dec. 10	Total	Thailand	Asia Pacific	North American Latin American	Europe	Africa
On-balance sheet assets	1,559,922	1,529,264	23,492	4,874	2,012	280
○ Net loans ¹	1,411,215	1,398,201	10,996	858	1,160	-
○ Net investments in debt securities ²	127,167	120,379	3,417	2,654	446	271
○ Deposits (including accrued interests)	21,540	10,684	9,079	1,362	406	9
Off-balance sheet items ³	979,974	941,382	24,401	5,425	8,292	474
○ Aval of bills, guarantee, and letter of credits	126,298	119,247	6,266	3	308	474
○ OTC derivatives ⁴	779,436	748,057	18,024	5,371	7,984	-
○ Undrawn committed lines	74,240	74,078	111	51	-	-

Krung Thai Bank						
Unit: Million Baht						
Period Ending	31 Dec. 10			31 Dec. 09		
	Total	Thailand	Others	Total	Thailand	Others
On-balance sheet assets	1,556,702	1,526,044	30,658	1,364,891	1,333,046	31,845
o Net loans ¹	1,408,148	1,395,134	13,014	1,275,930	1,265,962	9,968
o Net investments in debt securities ²	127,167	120,379	6,788	67,595	67,054	541
o Deposits (including accrued interests)	21,387	10,531	10,856	21,366	30	21,336
Off-balance sheet items ³	984,999	946,408	38,591	699,735	633,925	65,810
o Aval of bills, guarantee, letter of credits	126,323	119,273	7,050	112,695	109,720	2,975
o OTC derivatives ⁴	779,436	748,057	31,379	529,492	466,926	62,566
o Undrawn committed lines	79,240	79,078	162	57,548	57,279	269

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	Group			Krung Thai Bank					
	31 Dec. 10			31 Dec. 10			31 Dec. 09		
	Total	General	Specific	Total	General	Specific	Total	General	Specific
Beginning of the period	36,461	1,768	34,693	36,108	1,768	34,340	31,330	905	30,425
Charge-offs during the period	3,006	-	3,006	2,935	-	2,935	3,998	-	3,998
Increases / decreases	6,443	990	5,453	6,366	990	5,376	8,775	863	7,912
At the end of the period	39,898	2,758	37,140	39,539	2,758	36,781	36,107	1,768	34,339

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

² Loans and accrued interest 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							
Ending Period 31 Dec. 10	Group						
	Total	Agriculture and Mining	Manufacturing and Commerce	Property and Construction	Public utilities and Services	Housing	Others
Loans and accrued interests ¹	1,450,481	40,279	374,152	111,338	179,975	174,817	569,922
- Asset classification							
o Normal	1,347,304	38,240	323,566	88,678	159,088	169,853	567,880
o Special mentioned	26,518	308	11,752	2,851	9,410	1,262	935
o Substandard	5,026	195	1,530	760	1,645	687	209
o Doubtful	17,026	274	7,191	4,769	3,341	896	555
o Doubtful Loss	54,608	1,262	30,113	14,280	6,491	2,119	343
Provisions ²							
o General provision	2,758	-	-	-	-	-	-
o Specific provision	37,140	350	28,817	1,633	5,181	742	417
o Charge-off between period	3,006	25	2,657	44	86	106	88

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.

Krung Thai Bank							
Unit : Million Baht							
Ending Period 31 Dec. 10	Group						
	Total	Agriculture and Mining	Manufacturing and Commerce	Property and Construction	Public utilities and Services	Housing	Others
Loans and accrued interests ¹	1,445,263	39,814	367,618	110,103	181,466	174,817	571,445
- Asset classification							
o Normal	1,342,742	37,781	317,180	87,474	160,611	169,853	569,843
o Special mentioned	26,015	307	11,693	2,824	9,380	1,262	549
o Substandard	4,932	194	1,472	760	1,645	687	174
o Doubtful	16,991	269	7,172	4,770	3,340	896	544
o Doubtful Loss	54,583	1,263	30,101	14,275	6,490	2,119	335
Provisions ²							
o General provision	2,758	-	-	-	-	-	-
o Specific provision	36,781	349	28,521	1,629	5,179	742	361
o Charge-off between period	2,935	25	2,586	44	86	106	88

Period Ending 31 Dec. 09	Krung Thai Bank						
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
Provisions²							
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	1,405	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.

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 31 Dec. 10	Group				
	Total	Thailand	Asia Pacific	North America Latin America	Europe
Loans and accrued interests ¹	1,450,481	1,441,137	7,326	858	1,160
- Asset classification					
o Normal	1,347,304	1,338,156	7,130	858	1,160
o Special mentioned	26,518	26,426	92	-	-
o Substandard	5,026	5,026	-	-	-
o Doubtful	17,026	17,026	-	-	-
o Doubtful Loss	54,608	54,503	105	-	-
Provisions²					
o General provision	2,758	2,758	-	-	-
o Specific provision	37,140	37,034	106	-	-
o Charge-off between period	3,006	3,006	-	-	-
Investment in debt securities					
o Specific provision	195	193	2	-	-

Period Ending	Krung Thai Bank					
	31 Dec. 10			31 Dec. 09		
	Total	Thailand	Other	Total	Thailand	Other
Loans and accrued interests ¹	1,445,263	1,435,919	9,344	1,310,335	1,300,234	10,101
- Asset classification						
o Normal	1,342,742	1,333,595	9,147	1,206,599	1,196,631	9,968
o Special mentioned	26,015	25,923	92	18,538	18,538	-
o Substandard	4,932	4,932	-	2,785	2,785	-
o Doubtful	16,991	16,991	-	22,347	22,216	131
o Doubtful Loss	54,583	54,478	105	60,066	60,064	2
Provisions ²						
o General provision	2,758	-	-	1,768	-	-
o Specific provision	36,781	36,675	106	34,339	34,206	133
o Charge-off between period	2,935	2,935	-	3,998	3,998	-
Investment in debt securities						
o Specific provision	208	206	2	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.

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 31 Dec. 10	Group				
	Outstanding			Collateral	
	Total	On balance sheet assets	Off balance sheet items ³	Eligible financial collateral ⁴	Guarantee & Credit derivative
Performing assets	1,943,708	1,658,050	285,658	144,369	59,360
o Claims on sovereigns, central banks, multilateral development banks (MDBs), provincial organizations, government entities, and PSE	411,060	358,387	52,673	-	-
o Claims on financial institutions, provincial organizations, government entities and state enterprises (PSE)	246,958	100,470	146,488	118,161	49,069
o Claims on corporate, provincial organizations, government entities and state enterprises (PSE)	627,415	567,945	59,470	19,192	7,956
o Claims on retail portfolios	296,096	269,168	26,910	6,973	1,885
o Residential mortgage exposures	172,489	172,372	117	16	450
o Other assets	189,690	189,690	-	27	-
Non-performing assets	43,852	43,852	-	409	760
Total	1,987,560	1,701,902	285,658	144,778	60,120
Period Ending 31 Dec. 10	Krung Thai Bank				
Performing assets	1,920,895	1,634,204	286,691	144,369	59,360
o Claims on sovereigns, central banks, multilateral development banks (MDBs), provincial organizations, government entities, and PSE	411,058	358,385	52,673	-	-
o Claims on financial institutions, provincial organizations, government entities and state enterprises (PSE)	247,523	101,047	146,476	118,161	49,069
o Claims on corporate, provincial organizations, government entities and state enterprises (PSE)	635,209	574,728	60,481	19,192	7,956
o Claims on retail portfolios	286,466	259,556	26,910	6,973	1,885
o Residential mortgage exposures	172,523	172,372	151	16	450
o Other assets	168,116	168,116	-	27	-
Non-performing assets	43,809	43,808	1	409	760
Total	1,964,704	1,678,012	286,692	144,778	60,120

Krung Thai Bank					
Period Ending 31 Dec. 09	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
○ Claims on sovereigns, central banks, multilateral development banks (MDBs), provincial organizations, government entities, and PSE	296,924	295,455	1,469	-	-
○ Claims on financial institutions, provincial organizations, government entities and state enterprises (PSE)	190,729	117,344	73,385	51,947	73,414
○ Claims on corporate, provincial organizations, government entities and state enterprises (PSE)	572,871	530,809	42,062	13,636	4,325
○ Claims on retail portfolios	234,134	210,014	24,120	5,174	445
○ Residential mortgage exposures	159,224	158,951	273	19	428
○ 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 provision
² Values after netting of on-balance sheets and off-balance sheets
³ Repo-style transaction including reverse repo
⁴ Eligible financial collateral that the Bank of Thailand allows to use for credit risk mitigation with comprehensive method and value after haircut.

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:

External Credit Assessment Institution	
Customer/ Counterparty Type	Name of Institution
Sovereign and Central Banks	○ Standard and Poor's
Financial Institutions and Securities companies	○ Moody's Investment Service
	○ Fitch Ratings
	○ TRIS Rating
Retails	○ Fitch Ratings (Thailand)
	○ TRIS Rating
	○ Other external credit assessment institutions approved by Foreign Regulators

For sovereign/ government and central bank customers, there are no ratings 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).

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 rating used are long-term debt instruments or ratings of the organization and ratings of short-term debt instruments.

Credit Risk Mitigation with Standardized 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:

Criteria for Using Collateral Appraisers	
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.

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												
Type of Asset / Risk-Weight (%)	Group											
	Dec. 10											
	Rated Outstanding					Unrated Outstanding						
	0	20	50	100	150	0	20	35	50	75	100	150
Performing assets												
o Claims on sovereigns, central banks, multilateral development banks (MDBs), provincial organizations, government entities, and state enterprises (PSE)	404,899		1,268	4,893								
o Claims on financial institutions, provincial organizations, government entities and state enterprises (PSE)		10,454	38,869	30,305	100							
o Claims on corporate, provincial organizations, government entities and state enterprises (PSE)		12,580	18,979	12,536	684						555,494	
o Claims on retail portfolios										285,230		2,008
o Residential mortgage exposures								158,934		13,011		111
o Other assets						57,982	31,620					84,407
Non-performing assets ²									1,879		9,412	31,383

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.

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										
Type of Asset / Risk-Weight (%)	Krung Thai Bank									
	Rated Outstanding									
	31 Dec. 10					31 Dec. 09				
	0	20	50	100	150	0	20	50	100	150
Performing assets										
○ Claims on sovereigns, central banks, multilateral development banks (MDBs), provincial organizations, government entities, and state enterprises (PSE)	404,626		1,539	4,893		295,837		1,087		
○ Claims on financial institutions, provincial organizations, government entities and state enterprises (PSE)		10,925	38,962	30,305	100		5,248	39,408	20,597	116
○ Claims on corporate, provincial organizations, government entities and state enterprises (PSE)		12,580	20,128	11,386	684		14,647	13,398	13,682	
○ Claims on retail portfolios										
○ Residential mortgage exposures										
○ Other assets										
Non-performing assets ²										

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.

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

Type of Asset / Risk-Weight (%)	Krung Thai Bank													
	Unrated Outstanding													
	31 Dec. 10							31 Dec. 09						
	0	20	35	50	75	100	150	0	20	35	50	75	100	150
Performing assets														
o Claims on sovereigns, central banks, multilateral development banks (MDBs), provincial organizations, government entities, and state enterprises (PSE)														
o Claims on financial institutions, provincial organizations, government entities and state enterprises (PSE)														
o Claims on corporate, provincial organizations, government entities and state enterprises (PSE)						563,284							513,183	
o Claims on retail portfolios					277,581	27					228,252	263		
o Residential mortgage exposures			158,934	13,011	111					143,422	14,971	383		
o Other assets	52,067	31,620				83,432		45,379	29,939			77,585		
Non-performing assets ²				1,875		9,381	31,365				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.

MARKET RISK

Market risk stems from changes in positions on balance sheet and off balance sheet, caused by fluctuations of interest rate, exchange rate, prices of equity securities and commodities resulting in a negative impact on the Bank's income and capital funds.

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 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 standardized 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, 2010 stood at THB 818 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 conditions 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 a 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 is based on the 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

- (1) The effect of interest rate fluctuations of 100 bps (basis points) on net interest revenue.

(2) The effect of economic value fluctuations of 200 bps (basis points) on net interest revenue.

The Bank conducts interest rate stress testing in the 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.

The effect of changes in interest rates* to earnings (net)			
Unit : Million Baht			
Currency	Group	Krung Thai Bank	
	Effect of changes in earning interest (net)		
	30 Dec. 10	30 Dec. 10	30 Dec. 09
o Baht	930	988	1,308
o USD	(193)	(193)	3
Total Effected	737	795	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 988 million and in US Dollar decreased by THB 193 million. The total effect of change in interest rate to earning was THB 795 million and for the Financial Business Group was THB 737 million.

OPERATIONAL RISK

Operational risk arises from the lack of proper supervision and control or lack of good corporate governance. Major causes are internal operation process, personnel, work system or external incidents. Operational risk includes legal risk but exclude strategic risk and reputation risk.

The Operational Risk Management Department is responsible for managing operational risk according to the plan formulated by the Bank and adhering to the Basel II framework. The Basel II Standardized Approach (SA-OR) has been used in calculating the capital requirements to cope with the operational risk that consists of the Bank's products and services. In maintaining the capital fund to cater for operational risk using standardized 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 Basel II. Meanwhile, the Bank has linked income and operating expenses for each business group and calculated capital fund.

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 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 is 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 Bank's 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 Bank's 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 risks 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 Bank's 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.

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 continuously.

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.

Risk Management Process

Assessment and Control Risk

- Equities in Trading Book

The Equity Investment 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 Equity Investment 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. Results will be reported to the Risk Management Committee on a quarterly basis.

Equity Exposure Position in the Banking Book			
Unit : Million Baht			
Period Ending	Group	Krung Thai Bank	
	31 Dec. 10	31 Dec. 10	31 Dec. 09
Equities listed and publicly traded in the Stock Exchange			
o cost value	31,328	31,277	30,987
o market value	34,421	34,375	31,936
Other equity	8,981	8,973	8,546
Gains (losses) of sale of equities in the reporting period	14	10	-
Net revaluation surplus/ deficit from valuation of equity deducted from total capital	3,095	3,098	950
Total minimum capital requirement	862	1,527	1,385

Monitoring and Reporting Risk

- The Equity Investment 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 a 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.105: 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 the 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.