



Basel II Pillar III Disclosures

As of June 30, 2011

1. Principle

The purpose of this report is to disclose the information in regards to Capital Reserve in compliance with Basel II Pillar III of the Solo Basis and Full Consolidation Basis that required by the Bank of Thailand effective on December 31, 2008 and June 29, 2010 respectively. This report is compliance with the guidance of capital reserve information disclosure that promoted for market discipline. The information has disclosed for the Bank and Financial Business Group, both qualitative and quantitative, specifically related to capital supervisory such as capital, level of risk, assessment process, capital adequacy and etc. It's helpful for third parties and market participants for assessing the significant information disclosed, along with risks assessment of the financial institution and encouraging the financial institution to have better risk management process.

2. Scope and details of information to be disclosed

Information disclosures under Basel II Pillar III as specified by BOT on a solo basis, BOT's Notification No.SorNorSor. 25/2552 Re: information disclosure and Level Financial Group (Full Consolidation) Bank of Thailand First to disclose the information within 4 months by at the end of the period months in December 2010, BOT's Notification No.SorNorSor. 6/2553 Re: Consolidated Supervision, that effective on 29 June 2553.

3. Capital Information

3.1 Capital Structure

Tier 1 Capital are composed of the followings:-

- Paid up share capital: 6,074,143,747 ordinary shares of Baht 10 each and fully paid
- Net premium (discount)
- Statutory reserve
- Cumulative profit (loss) after appropriation
- Deferred Tax Asset

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit (tax base). Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for temporary differences to the extent that it is probable that taxable profits will be available against which those

temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date. Deferred tax assets shall be reduced to the extent that utilized taxable profits are decreased. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available to allow total or part of the asset to be recovered. The Bank and subsidiaries do not recognize deferred tax assets and liabilities for the initial goodwill.

- Goodwill

Goodwill in a business combination represents the fair value of the identifiable net assets acquired as at the date of acquisition. Other costs directly attributable to the business combination are recorded as acquisition costs. In the consolidated financial statements, the Bank recognizes goodwill in a business combination as an asset recorded as of the acquisition date. The Bank tested for impairment of goodwill using a fair value method of discounted cash flows on a semi-annual basis.

- Minority interest

At Full Consolidation basis, Minority Interest is other shareholders' equity that is not the bank's related person and no control on such subsidiaries. The minority interest represents the revaluation surplus (deficit) on (net) investments in available for sale. If the net shows the (net) deficit, it should be deducted from the total capital but if the net shows the (net) surplus, it should be included in Tier 2 Capital

- Investment deduction item : 50% from tier 1 capital and 50% from tier 2 capital
Investments in companies in business financial group, the business insurance and life insurance, both directly and indirectly.
Investments in companies in business financial group, the Bank holds direct and indirect total less than 50% of the total issued shares.
Investments in companies outside financial group, the Bank holds direct and indirect together more than 10% of the total issued shares.

Tier 2 Capital comprised of the followings:-

- 70% of land revaluation
- 50% of building revaluation
- Long-term subordinate debt instrument:
Subordinate Debt can be counted as Tier 2 for the paid amount but not over than 50% of Tier1 and reduce of 20% each year for the last 5 years.

On June 23, 2010, the Bank issued subordinated debenture #1/2010 in the amount of Baht 20,000 million with a maturity in June 23, 2020 at the fixed rates of 4.35% per annum for the years 1-3, 4.75% per annum for the years 4-6 and 5.50% per annum for the years 7-10, payable quarterly on the 23 of March, June, September and December of each year. The Bank has the right to redeem debenture #1/2010 before the maturity date subject to the approval of the Bank of Thailand. However, the Bank may redeem the debentures prior to the fifth anniversary of the issue date, if the bank is notified by Bank of Thailand that the debentures shall not be treated as tier 2 capital or the debentures shall be treated as tier 2 capital less than 50% of tier 1 capital of the Bank.

- Reserve for assets classified as normal (calculation not over 1.25% of total risk asset)
- 45% of investment revaluation surplus (net) in securities available for sale

Table 1 Capital structure

Unit: Million Baht

Items	CONSOLIDATED		THE BANK	
	June 30	December 31	June 30	December 31
	2011	2010	2011	2010
1. Tier 1 capital	74,028	72,499	79,557	79,901
1.1 Issued and paid up share capital	60,741	60,741	60,741	60,741
1.2 Premium on share capital	13,802	13,802	13,802	13,802
1.3 Statutory reserve	1,014	711	1,014	711
1.4 Net profit after appropriations	14,955	14,523	7,519	7,837
1.5 Minority interest	840	70	-	-
1.6 Deduction items	(17,324)	(17,348)	(3,519)	(3,190)
1.6.1 Goodwill	(7,521)	(7,479)	-	-
1.6.2 Deferred tax assets	(8,297)	(7,989)	(3,519)	(3,190)
1.6.3 Deduction item : 50% from tier 1 capital and 50% from tier 2 capital	(1,506)	(1,880)	-	-
2. Tier 2 capital	32,050	31,486	30,721	29,776
2.1 Tier 2 capital fund before deduction items	33,556	33,366	30,721	29,776
2.2 Deduction item : 50% from tier 1 capital and 50% from tier 2 capital	(1,506)	(1,880)	-	-
3. Total regulatory capital	106,078	103,985	110,278	109,677
3.1 Total regulatory capital before deduction items	106,078	103,985	110,278	109,677
3.2 Deductions from Total regulatory capital	-	-	-	-

3.2 Capital Adequacy

The Bank has adopted the Basel Standardized Approach for the capital calculation for credit risk, market risk, and operational risk.

The Bank strongly recognizes the importance of capital. Although the Bank of Thailand requires that banks maintain minimum capital adequacy ratio of 8.5% for credit risk, market risk, and operational risk, BAY maintains, as a policy, a minimum capital adequacy ratio higher than the minimum official requirement.

Moreover, the Bank monitors economic and other internal and external factors that may affect the Bank's capital. Information from a 3-year strategic business plan, which is prepared every year, is used as the base for capital assessment. The Bank has in place an Internal Capital Adequacy Assessment

Process (ICAAP), which comply the Basel II Pillar II guideline, and which requires that a stress test is conducted on a regular basis. If the result of the stress test indicates a potential that the capital adequacy level may decline to an unacceptable level, the Bank's management will prepare an action plan in order to ensure that the capital level continues to be adequate at all times.

Table 2 Minimum capital requirements classified by types of risk

Unit: Million Baht

Minimum capital requirements for all risk	CONSOLIDATED		THE BANK	
	June 30	December 31	June 30	December 31
	2011	2010	2011	2010
Performing assets	53,586	52,411	49,887	53,353
1. Claims on sovereigns and central banks, multilateral development banks (MDBs) and public sector entities (PSEs) that are treated as claims on sovereigns	35	12	35	12
2. Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	519	557	879	1,035
3. Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate	24,994	25,422	31,402	35,170
4. Claims on retail portfolios	21,140	19,772	8,793	8,517
5. Residential mortgage exposures	2,964	2,485	2,964	2,485
6. Other assets	3,934	4,163	5,814	6,134
Non-performing assets	2,592	2,605	1,623	1,597
Minimum capital requirement for credit risk	56,178	55,016	51,510	54,950
Trading book for each type				
1. Interest rate risk	175	197	175	197
2. Equity position risk	26	1	26	1
3. Foreign exchange rate risk	63	55	76	72
4. Commodity risk	-	-	-	-
Minimum capital requirement for market risk	264	253	277	270
Minimum capital requirement for operational risk	6,270	5,821	3,831	3,642
Total minimum capital requirement	62,712	61,090	55,618	58,862

Table 3 Total risk-weighted capital ratio and Tier 1 risk-weighted capital ratio

Unit : %

Ratio	CONSOLIDATED		THE BANK	
	June 30	December 31	June 30	December 31
	2011	2010	2011	2010
1. Total capital to risk-weighted assets	14.38	14.47	16.85	15.84
2. Tier 1 capital to risk-weighted assets	10.03	10.09	12.16	11.54