



Basel II Pillar III Disclosures

As of December 31, 2010

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Basel II Pillar III Disclosures
As of December 31, 2010

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. The list name and business type of companies in financial group of Full Consolidation Level

Subsidiaries in Financial Group in Full Consolidation of the Bank comprise of the subsidiaries that the Bank holds direct and/or indirect, included to the holding of the related party since 50% of the total issued shares, except the Insurance companies, Life Insurance companies and company in liquidation process.

The companies under financial group totaled 18 companies are as following:

Subsidiaries	Business Type	Percentage of Holdings As at December 31, 2010
1.Ayudhya Development Leasing Company Limited	Leasing and hire-purchase	99.99
2.Ayudhya Auto Lease Public Company Limited	Auto leasing	99.79
3.Ayudhya Capital Lease Company Limited	Auto leasing	99.99
4.Ayudhya Capital Auto Lease Public Company Limited	Hire-purchase and auto leasing	99.99
5.Ayudhya Total Solutions Public Company Limited	Hire-purchase	99.81
6.CFG Services Company Limited	Hire-purchase and motorcycle loans	99.99
7.Ayudhya Card Services Company Limited	Credit cards and personal loans	99.99
8.Ayudhya Capital Services Company Limited (formerly GE Capital (Thailand) Limited)	Credit cards and personal loans	99.99
9.General Card Services Limited	Credit cards and personal loans	99.99
10.Krungsiayudhya Card Company Limited	Credit cards and personal loans	99.99
11.Siam Realty and Services Company Limited	Car leasing and personnel services	99.99
12.Total Service Solutions Public Company Limited	Collection services	99.99
13.Ayudhya Fund Management Company Limited	Fund management	76.59
14.Ayudhya Asset Management Company Limited	Asset management	99.99
15.Ayudhya Securities Public Company Limited	Securities	86.33
16.Ayudhya Factoring Company Limited	Factoring	99.99
17.Quality Life Assurance Broker Company Limited ^{1/}	Life assurance broker	99.99
18.Quality General Insurance Broker Company Limited ^{1/}	General insurance broker	99.99

^{1/} Indirectly holding via Ayudhya Capital Services Company Limited of 99.99%

The companies under the financial group that are not used to preparation the consolidated financial statements, but the value of investments under the equity method to be deducted from Tier 1 and Tier 2 each 50% as following:

Subsidiaries	Business Type	Percentage of Holdings As at December 31, 2010
1.Tesco Card Services Company Limited	Credit cards and personal loans	48.99
2.Tesco Life Assurance Broker Company Limited ^{1/}	Life assurance broker	48.99
3.Tesco General Insurance Broker Company Limited ^{1/}	General insurance broker	48.99
4.Ayudhya Allianz C.P.Life Public Company Limited	Life assurance	29.84
5.The Ayudhya Insurance Public Company Limited	Insurance	34.06
6.Sri Ayudhya General Insurance Company Limited (formerly BT Insurance Company Limited) ^{2/}	Insurance	99.99

^{1/} Indirectly holding via Tesco Card Services Company Limited of 48.99%

^{2/} Indirectly holding via The Ayudhya Insurance Public Company Limited of 99.99%

4. Capital Information

4.1 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 November 5, 2003, the Bank issued subordinated debenture #5 in the amount of Baht 12,000 million with a maturity in November 5, 2013 at the fixed rates of 4% per annum for the years 1-5 and 4.75% per annum for the years 6-10, payable quarterly on the fifth of February, May, August and November of each year. The Bank early redeemed debenture #5 following the approval from the Bank of Thailand on May 24, 2010.
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

Item	CONSOLIDATED	SEPARATE	
	December 31	December 31	
	2010	2010	2009
1. Tier 1 capital	72,499	79,901	76,473
1.1 Issued and paid up share capital	60,741	60,741	60,741
1.2 Premium on share capital	13,802	13,802	13,802
1.3 Statutory reserve	711	711	583
1.4 Net profit after appropriations	14,523	7,837	4,139
1.5 Minority interest	70	-	-
1.6 Deduction items	(17,348)	(3,190)	(2,792)
1.6.1 Goodwill	(7,479)	-	-
1.6.2 Deferred tax assets	(7,989)	(3,190)	(2,792)
1.6.3 Deduction item : 50% from tier 1 capital and 50% from tier 2 capital	(1,880)	-	-
2. Tier 2 capital	31,486	29,776	17,272
2.1 Tier 2 capital fund before deduction items	33,366	29,776	17,272
2.2 Deduction item : 50% from tier 1 capital and 50% from tier 2 capital	(1,880)	-	-
3. Total regulatory capital	103,985	109,677	93,745
3.1 Total regulatory capital before Deduction items	103,985	109,677	93,745
3.2 Deductions from Total regulatory capital	-	-	-

4.2 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

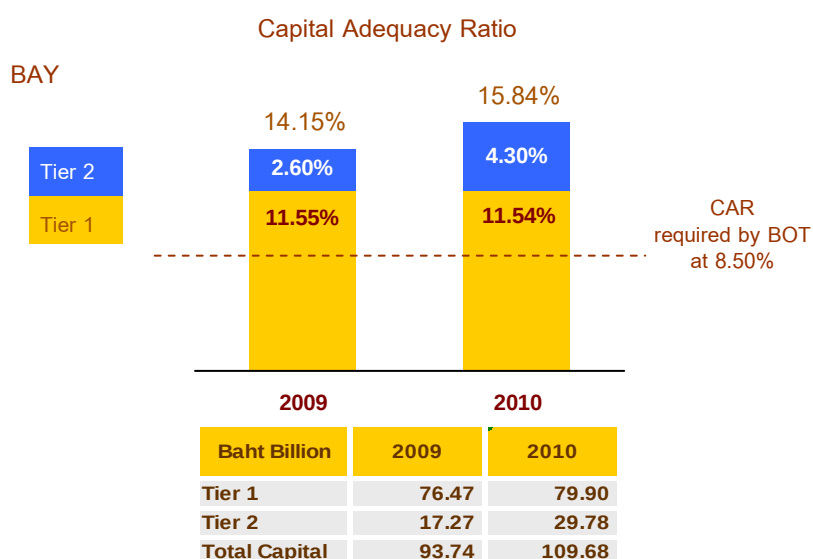
Unit: Million Baht

Minimum capital requirements for all risk	CONSOLIDATED	SEPARATE	
	December 31	December 31	
	2010	2010	2009
Performing assets	52,411	53,353	50,311
1. Claims on sovereigns and central banks, multilateral development banks (MDBs) and public sector entities (PSEs) that are treated as claims on sovereigns	12	12	9
2. Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	557	1,035	1,127
3. Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate	25,422	35,170	32,550
4. Claims on retail portfolios			
5. Residential mortgage exposures	19,772	8,517	8,139
6. Other assets	2,485	2,485	2,143
Non-performing assets	4,163	6,134	6,343
	2,605	1,597	2,508
Minimum capital requirement for credit risk	55,016	54,950	52,819
1. Interest rate risk	197	197	89
2. Equity position risk	1	1	69
3. Foreign exchange rate risk	55	72	78
4. Commodity risk	-	-	-
Minimum capital requirement for market risk	253	270	236
Minimum capital requirement for operational risk	5,821	3,642	3,239
Total minimum capital requirement	61,090	58,862	56,294

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

Unit: %

Ratio	CONSOLIDATED	SEPARATE	
	December 31	December 31	
	2010	2010	2009
1. Total capital to risk-weighted assets	14.47	15.84	14.15
2. Tier 1 capital to risk-weighted assets	10.09	11.54	11.55



5. General qualitative disclosure requirements

Risk Management Principles

The Bank's risk management covers 3 major risks, namely credit risk, market risk, and operational risk. The Bank has in place separate policies to manage these risks, since each has different characteristics. However, there are common risk management practices among these risks, for example, ceiling limits, control mechanism, risk assessment and risk monitoring procedure, and reporting procedure to ensure that the relevant parties are informed of the prevailing situation. The Bank also invests in risk assessment tools and good data governance in order to enhance the efficiency and effectiveness of risk control, risk measurement, and risk monitoring.

In addition to credit risk, market risk, and operational risk, the Bank has put in place an Internal Capital Adequacy Assessment Process (ICAAP) under the Basel II Pillar 2 guideline. The ICAAP covers the additional risks – credit concentration risk, interest rate risk in the banking book, liquidity risk, strategic risk, and reputation risk, etc. The Bank ensures that appropriate procedures are in place to minimize each of these risks, and regularly conducts a stress test to assess the impact of a severe event on the Bank's capital.

Risk Management Audit

The Bank's internal audit is assigned the responsibility to assess whether the risk assessment and the risk management processes are sufficiently adequate for the level of the Bank's business. The objective of the audit is to be reasonably ensured that business operations can be carried out within the acceptable risk level.

The scope of internal audit covers all businesses – the Bank's domestic and overseas operations, the Full Consolidated Business Group, and operations that the Bank outsources. The internal audit approach adopted is to systematically assess, and to encourage the establishment of good risk management, internal control, and good governance. Emphasis is given to the risk management practices that comply with the Bank of Thailand's Basel II guideline. The areas covered by internal audit include:

1. Compliance with the operational regulations with regard to the timely identification and measurement of risk level.
 2. The appropriateness of ceiling limits and other risk controls.
 3. The appropriateness of reporting procedure that presents the overall risk characteristics and risk level, including exception report.
 4. The clarity of roles and responsibilities of the relevant parties in risk management.
 5. Compliance with the procedure related to capital calculation.
6. Disclosure on credit risk
- 6.1 General disclosure on credit risk

Credit Risk Management

Credit risk is the risk that the Bank's counterparty will not be able to fulfill its obligation with the Bank, resulting in a loss to the Bank's income and capital.

Credit risk management principle and guideline, credit analysis, and credit approval process, are detailed in the Bank's Credit Risk Management Policy and other relevant policies. The supervision of the requirements is conducted by a Risk Unit independent of the Business Unit. The Risk Management Group is responsible for establishing credit risk management policy, credit risk analysis, portfolio risk measurement, reporting of portfolio status, credit risk review, and the management of non-performing loan.

Credit Risk Management Structure

The Bank maintains an organizational structure that encourages good corporate governance and allows proper checks and balances between the Risk Management Group and the Business Units. An effective information management system is also put in place to enhance risk control, risk measurement, and risk monitoring.

The committees involved with the management of credit risk are:

- The Board of Directors has authority to approve credit applications greater than Baht 3,000 million as well as credit applications from the Bank's subsidiaries, and associated and related companies. The Board of Directors is also responsible for the appointments of the Credit Committee, the Risk Management Committee, and the Collateral Valuation Committee.
- The Credit Committee is comprised of high-level executives from the Risk Management Group and other relevant functions. The Credit Committee is authorized to approve credit applications of up to Baht 3,000 million.
- The Risk Management Committee has the following responsibilities :
 - 1) Identify and formulate the Bank's integrated risk management policies.
 - 2) Oversee, control, and review the Bank's business practices to ensure that they are in compliance with the integrated risk management and the good corporate governance principles.
- The Collateral Valuation Committee is in charge of the following activities:
 - 1) Establishing and reviewing policies/procedures regarding the valuation of collateral received in support of loan applications, the valuation of foreclosed or auctioned properties, and the appraisal reviews.
 - 2) Oversee and control the Bank's internal property appraisers to ensure integrity and compliance with the procedures set forth by the Bank and the Bank of Thailand.

Control, Assessment, Monitoring and Review of Credit Risk

- **Credit Risk Control**

In addition to ensuring integrity and independence of the credit risk management unit from the business functions, the Bank also maintains credit risk controls in the following areas:

- 1) **Credit limit and credit analysis**

Credit limit is set by analyzing the customer's operating performance, financial status, credit needs, debt-servicing ability, and the risk level.

2) Credit approval process

The Bank categorizes customers into three groups, namely, corporate, SME, and retail customers, in order to effectively manage the different risk characteristics while providing financial products and services appropriate to the specific needs of each customer group. The credit approval process for each customer group is summarized as followed:

- *Corporate and SME credit approval*

The approval is on the basis of the customer's need, the risk level, the debt-servicing ability, available collateral, economic and industry trends. Credit approval is made by the appropriate committee or the authorized persons.

- *Retail credit approval*

The approval is based on the customer's characteristics, past repayment record, size of loan relative to income, compared with their income, collateral, and repayment ability. For the personal and mortgage loans, credit scoring is also used as part of the approval process

● Credit Risk Measurement

The Bank measures the risk levels of the corporate and SME customers through internal rating tools, which use information from the customer's financial, comparative market information, and other customer's qualitative information, as factors in determining rating. The internal rating is used when considered credit application, and is required to be reviewed at least once a year.

The Bank currently has two internal risk rating tools, one for corporate customers, which has been used since 2001, and the other for SME customers, which has been used since 2006. Both rating tools divide risk into 10 grades, each with different risk level. The Bank also maintains a customer credit risk database, and is in the process of developing PD-based rating models for both groups of customers to be used for the calculation of probability of default (PD) in the future.

Credit Risk Monitoring and Review

Post-credit approval, the Bank maintains a procedure to regularly monitor and review customers and the credit portfolio risks as followed:

1) Annual credit risk review

In general, customer's credit risk is reviewed once a year. The review must cover the customer's current performance, credit quality, financial standing, etc.

2) Credit portfolio status report

The Bank's Board of Directors and senior management are regularly updated on the portfolio composition and portfolio credit quality. The report is used as a tool to manage the overall risk level. Credit portfolio report includes: a portfolio

composition classified by types of industry, levels of risk, geographical areas, as well as identify major corporate. Other reports prepared include debt classification, provisioning allowances, capital adequacy ratio, etc.

3) Stress testing

Stress testing is performed in order to gauge an extreme but plausible event that may arise and affect the Bank's capital, the credit portfolio, or the specific customers. When the stress test result indicates material impact on the Bank's capital, a strategy and action plan is developed in order to prevent or lessen the potential adverse impact.

The Bank also provides credit risk management guidelines to its subsidiaries and associated and related companies in line with those adopted by the Bank.

Non-Performing Loan Management (NPL)

The Bank's non-performing loans are managed by a dedicated team of specialists with experience and expertise in dealing with impaired loans in order to improve asset quality and minimize financial losses.

Roles and duties of internal auditors with regard to credit risk management procedures

Objective of the audit of credit risk management is to identify the severity and the direction of risk, the quality of risk management, the adequacy of reserve provision, the adequacy of policies and operational procedures, the compliance with laws and regulations as well as the follow-up and rectification. The scope of audit covers 2 aspects, namely the evaluation of risk level and the evaluation of risk management.

The evaluation of risk level addresses the management of credit portfolio and treasury management. The credit policies are considered as to assess the adequacy of the control to the risk volume such as the standards of credit granting, repayment period, collateral therein. Consideration is also made to the credit underwriting processes and the components of credit portfolios such as loan size, credit scoring, credit concentration, the quality of credit portfolio and allowance for doubtful accounts as well as the related internal control. As regards the treasury management, consideration is made to the sources of risk and methods of risk measurement for settlement credit exposure, determination of counterparties' limits and capability of control, the credit rating of counterparties. In terms of policies and operational procedures, determination of and approval for exceptions, guidelines for practices in cases where counterparty limit is exceeded, etc.

The evaluation of risk management addresses the management of credit portfolio and treasury management. Consideration is made to the supervision of the Board of Directors and the senior management as to whether there are any determination and review of strategies and policies regarding to

credit risk. The risk measurement system is considered as to whether there are any policies and risk measurement by assessing to the reliability of information used in the models; frequency of back testing, etc. In addition, consideration is also made to the monitoring and reporting of risk as well as the risk control and determination of risk limit as to whether there is any determination of risk limit, etc.

Definition of default and impairment of assets

1. Definition of default

Default means the debtor is not able to pay the debt within the specified time in the contracts or the due date under contract made with the bank.

2. Definition of impairment of assets

The carrying amounts of the Bank and subsidiaries' assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated by using discounted cash flows.

Guidelines/statistical methods used to calculate general provision and specific provision

Allowance for doubtful accounts is determined through methods in accordance with the Bank of Thailand's regulations. The Bank and its subsidiaries categorize their loan portfolio into six categories and determine allowance for doubtful accounts subject to different levels of provisioning. Allowance for doubtful accounts for loans classified as normal and special mention are calculated based on the minimum percentage in accordance with the BOT's guidelines by using the value of collateral for calculation of reserve. For loans classified as substandard, doubtful and doubtful of loss, the allowance rate is 100 percent of the difference between the outstanding loan value present value of expected cash flow from proceeds of the collateralized assets

Subsidiaries involved in hire-purchase businesses, with qualified portfolios under the BOT regulations, calculate allowance for doubtful accounts by using the collective approach which classifies a group of loans having similar credit risk characteristics based on the historical loss experience of each loan category.

Subsidiaries involved in the securities business provide an allowance for doubtful debts based on a review of the debtor's ability to make repayment, taking into consideration recovery risk and the value of the collateral. Such debt classifications and provisions are made in accordance with the guidelines of the Securities and Exchange Commission regarding.

For the calculation of capital to risk weighted assets of the Banks and financial group by SA approach, has set aside reserves for assets on the balance sheet and off-balance sheet items as follows:

- **Specific Provision**
Refers to reserve a set aside for asset in the balance sheet and Off balance sheet items total by specified a set aside reserve for assets or Off balance sheet items any. Including the decline of the market price adjustment of debt and equity securities held to for trading and available for sale and impairment but exclude reserve for assets classified as normal count to Tier 2.
- **General Provision**
Refers to the reserve for assets classified as normal but exclude reserve for assets classified as normal count in Specific Provision.

Table 4 Outstanding of on-balance sheet assets and off-balance sheet items before credit risk mitigation

Unit : Million Baht

Item	CONSOLIDATED	SEPARATE	
	December 31	December 31	
	2010	2010	2009
1. On-balance sheet assets	760,805	709,954	648,904
1.1 Net loans ^{1/}	667,614	618,430	581,686
1.2 Net investments in debt securities ^{2/}	69,547	69,429	58,603
1.3 Deposits (including accrued interests)	23,644	22,095	8,615
2. Off-balance sheet items ^{3/}	407,090	407,317	268,283
2.1 Aval of bills, guarantee and letter of credits	12,056	12,239	9,399
2.2 OTC derivatives ^{4/}	294,111	294,111	166,627
2.3 Undrawn committed lines	100,923	100,967	92,257

^{1/} Including accrued interests and net of deferred revenues, allowances for doubtful accounts and revaluation allowances for debt restructuring and include interbank and money market item.

^{2/} Excluding accrued interests and net of revaluation allowances for equities and impairment allowances for equities.

^{3/} Before multiplying by CCF.

^{4/} Including derivative in equity securities.

Table 5 Outstanding of on-balance sheet assets and off-balance sheet items before CRM classified by country or geographic area of debtors

CONSOLIDATED

Unit: Million Baht

Country or geographic area of debtor	December 31, 2010							
	On-balance sheet assets				Off-balance sheet items ^{3/}			
	Total	Net loan ^{1/}	Net investment in debt securities ^{2/}	Deposit include accrued interests	Total	Aval of bills, Guarantee, and letter of credits	OTC derivatives	Undrawn committed lines
1. Thailand	752,840	662,084	69,547	21,209	316,445	11,975	206,262	98,208
2. Asia Pacific (exclude Thailand)	5,780	5,063	-	717	6,290	81	3,516	2,693
3. North America and Latin America	1,326	-	-	1,326	31,946	-	31,926	20
4. Africa and Middle East	-	-	-	-	-	-	-	-
5. Europe	859	467	-	392	52,409	-	52,407	2
Total	760,805	667,614	69,547	23,644	407,090	12,056	294,111	100,923

^{1/} Including accrued interests and net of deferred revenues, allowances for doubtful accounts and revaluation allowances for debt restructuring and include interbank and money market item

^{2/} Excluding accrued interests and net of revaluation allowances for equities and impairment allowances for equities.

^{3/} Before multiplying by CCF.

SEPARATE

Unit: Million Baht

Country or geographic area of debtor	December 31, 2010							
	On-balance sheet assets				Off-balance sheet items ^{3/}			
	Total	Net loan ^{1/}	Net investment in debt securities ^{2/}	Deposit include accrued interests	Total	Aval of bills, Guarantee, and letter of credits	OTC derivatives	Undrawn committed lines
1. Thailand	701,989	612,900	69,429	19,660	316,672	12,158	206,262	98,252
2. Asia Pacific (exclude Thailand)	5,780	5,063	-	717	6,290	81	3,516	2,693
3. North America and Latin America	1,326	-	-	1,326	31,946	-	31,926	20
4. Africa and Middle East	-	-	-	-	-	-	-	-
5. Europe	859	467	-	392	52,409	-	52,407	2
Total	709,954	618,430	69,429	22,095	407,317	12,239	294,111	100,967

^{1/} Including accrued interests and net of deferred revenues, allowances for doubtful accounts and revaluation allowances for debt restructuring and include interbank and money market item

^{2/} Excluding accrued interests and net of revaluation allowances for equities and impairment allowances for equities.

^{3/} Before multiplying by CCF.

SEPARATE

Unit: Million Baht

Country or geographic area of debtor	December 31, 2009							
	On-balance sheet assets				Off-balance sheet items ^{3/}			
	Total	Net loan ^{1/}	Net investment in debt securities ^{2/}	Deposit include accrued interests	Total	Aval of bills, Guarantee, and letter of credits	OTC derivatives	Undrawn committed lines
1. Thailand	639,214	577,030	57,208	4,976	210,477	9,333	110,036	91,108
2. Asia Pacific (exclude Thailand)	5,741	4,345	891	505	15,148	66	13,956	1,126
3. North America and Latin America	2,089	277	-	1,812	15,924	-	15,904	20
4. Africa and Middle East	18	-	-	18	-	-	-	-
5. Europe	1,842	34	504	1,304	26,734	-	26,731	3
Total	648,904	581,686	58,603	8,615	268,283	9,399	166,627	92,257

^{1/} Including accrued interests and net of deferred revenues, allowances for doubtful accounts and revaluation allowances for debt restructuring and include interbank and money market item.

^{2/} Excluding accrued interests and net of revaluation allowances for equities and impairment allowances for equities.

^{3/} Before multiplying by CCF.

Table 6 Outstanding of on-balance sheet assets and off-balance sheet items before credit risk mitigation classified by residual maturity

Unit: Million Baht

Item	CONSOLIDATED			SEPARATE					
	December 31, 2010			December 31, 2010			December 31, 2009		
	Maturity not exceeding 1 year	Maturity exceeding 1 year	Total	Maturity not exceeding 1 year	Maturity exceeding 1 year	Total	Maturity not exceeding 1 year	Maturity exceeding 1 year	Total
1. On-balance sheet assets	298,935	461,870	760,805	330,398	379,556	709,954	298,719	350,185	648,904
1.1 Net loans ^{1/}	250,285	417,329	667,614	281,967	336,463	618,430	268,969	312,717	581,686
1.2 Net investments in debt securities ^{2/}	26,454	43,093	69,547	26,336	43,093	69,429	21,432	37,171	58,603
1.3 Deposits (including accrued interests)	22,196	1,448	23,644	22,095	-	22,095	8,318	297	8,615
2. Off-balance sheet items ^{3/}	292,373	114,717	407,090	292,552	114,765	407,317	156,562	111,721	268,283
2.1 Aval of bills, guarantee and letter of credits	11,886	170	12,056	12,069	170	12,239	9,286	113	9,399
2.2 OTC derivatives	276,681	17,430	294,111	276,681	17,430	294,111	144,322	22,305	166,627
2.3 Undrawn committed lines	3,806	97,117	100,923	3,802	97,165	100,967	2,954	89,303	92,257

^{1/} Including accrued interests and net of deferred revenues, allowances for doubtful accounts and revaluation allowances for debt restructuring

^{2/} Excluding accrued interests and net of revaluation allowances for equities and impairment allowances for equities.

^{3/} Before multiplying by CCF.

Table 7 Loans and accrued interests and investments in debt securities before credit risk mitigation classified by country or geographic area of debtors
and by asset classification specified by the Bank of Thailand

CONSOLIDATED

Unit : Million Baht

Country or geographic area of debtor	December 31, 2010 Loans and accrued interests ^{1/}						Investment in debt securities Doubtful loss
	Normal	Special mentioned	Substandard	Doubtful	Doubtful loss	Total	
1. Thailand	633,269	24,879	10,104	4,896	22,864	696,012	397
2. Asia Pacific (excluding Thailand)	5,110	-	-	-	8	5,118	-
3. North America and Latin America	-	-	-	-	-	-	-
4. Africa and Middle East	-	-	-	-	-	-	-
5. Europe	472	-	-	-	-	472	-
Total	638,851	24,879	10,104	4,896	22,872	701,602	397

^{1/} Including loans and accrued interests of interbank and money market item.

SEPARATE

Unit: Million Baht

Country or geographic area of debtor	December 31, 2010 Loans and accrued interests ^{1/}						Investment in debt securities Doubtful loss
	Normal	Special mentioned	Substandard	Doubtful	Doubtful loss	Total	
1. Thailand	594,950	14,947	7,726	4,121	11,320	633,064	50
2. Asia Pacific (excluding Thailand)	5,110	-	-	-	8	5,118	-
3. North America and Latin America	-	-	-	-	-	-	-
4. Africa and Middle East	-	-	-	-	-	-	-
5. Europe	472	-	-	-	-	472	-
Total	600,532	14,947	7,726	4,121	11,328	638,654	50

^{1/} Including loans and accrued interests of interbank and money market item.

SEPARATE

Unit: Million Baht

Country or geographic area of debtor	December 31, 2009 Loans and accrued interests ^{1/}						Investment in debt securities Doubtful loss
	Normal	Special mentioned	Substandard	Doubtful	Doubtful loss	Total	
1. Thailand	549,861	17,252	4,474	6,989	22,994	601,570	50
2. Asia Pacific (excluding Thailand)	4,382	-	-	-	8	4,390	-
3. North America and Latin America	280	-	-	-	-	280	-
4. Africa and Middle East	-	-	-	-	-	-	-
5. Europe	34	-	-	-	-	34	-
Total	554,557	17,252	4,474	6,989	23,002	606,274	50

^{1/} Including loans and accrued interests of interbank and money market item.

Table 8 Provision (dividend into general provisions and specific provisions) and charge-offs for loans and accrued interests and investments in debt securities classified by country or geographic area

CONSOLIDATED

Unit : Million Baht

Country or geographic area of debtor	December 31, 2010 Loans and accrued interest receivables ^{1/}			Investment in debt securities Specific Provision
	General Provision	Specific Provision	Charge-off between period	
1. Thailand	12,666	21,263	16,599	586
2. Asia Pacific (exclude Thailand)		55	-	-
3. North America and Latin America		-	-	-
4. Africa and Middle East		-	-	-
5. Europe		5	-	-
Total	12,666	21,323	16,599	586

^{1/} Include provisions and charge-offs for loans and accrued interest receivables of interbank and money market item.

SEPARATE

Unit: Million Baht

Country or geographic area of debtor	December 31, 2010 Loans and accrued interest receivables ^{1/}			Investment in debt securities Specific Provision
	General Provision	Specific Provision	Charge-off between period	
1. Thailand	5,392	14,772	9,928	239
2. Asia Pacific (exclude Thailand)		55	-	-
3. North America and Latin America		-	-	-
4. Africa and Middle East		-	-	-
5. Europe		5	-	-
Total	5,392	14,832	9,928	239

^{1/} Include provisions and charge-offs for loans and accrued interest receivables of interbank and money market item.

SEPARATE

Unit: Million Baht

Country or geographic area of debtor	December 31, 2009			Investment in debt securities Specific Provision
	Loans and accrued interest receivables ^{1/}			
	General Provision	Specific Provision	Charge-off between period	
1. Thailand	5,693	18,846	4,918	210
2. Asia Pacific (exclude Thailand)		46	-	-
3. North America and Latin America		3	-	667
4. Africa and Middle East		-	-	-
5. Europe		-	-	2,168
Total	5,693	18,895	4,918	3,045

^{1/} Include provisions and charge-offs for loans and accrued interest receivables of interbank and money market item.

Table 9 Loans and accrued interests * before credit risk mitigation classified by type of business and by asset classification specified by the Bank of Thailand

CONSOLIDATED

Unit : Million Baht

Type of business	December 31, 2010					
	Normal	Special mentioned	Substandard	Doubtful	Doubtful loss	Total
1. Agriculture and Mining	5,664	139	175	56	1,077	7,111
2. Manufacturing and Commerce	158,497	5,993	3,947	1,466	10,765	180,668
3. Property and Construction	40,309	939	660	1,056	4,760	47,724
4. Public Utilities and Services	81,353	6,183	2,189	712	2,523	92,960
5. Housing	78,113	1,429	597	701	2,731	83,571
6. Others	274,915	10,196	2,536	905	1,016	289,568
Total	638,851	24,879	10,104	4,896	22,872	701,602

* Including loans and accrued interests of interbank and money market item.

SEPARATE

Unit: Million Baht

Type of business	December 31, 2010					
	Normal	Special mentioned	Substandard	Doubtful	Doubtful loss	Total
1. Agriculture and Mining	5,664	139	175	56	329	6,363
2. Manufacturing and Commerce	158,497	5,993	3,947	1,466	5,713	175,616
3. Property and Construction	40,309	939	660	1,056	2,797	45,761
4. Public Utilities and Services	92,773	6,183	2,189	712	1,202	103,059
5. Housing	78,113	1,429	597	701	1,117	81,957
6. Others	225,176	264	158	130	170	225,898
Total	600,532	14,947	7,726	4,121	11,328	638,654

* Including loans and accrued interests of interbank and money market item.

SEPARATE

Unit: Million Baht

Type of business	December 31, 2009					
	Normal	Special mentioned	Substandard	Doubtful	Doubtful loss	Total
1. Agriculture and Mining	5,707	320	119	91	661	6,898
2. Manufacturing and Commerce	144,500	7,111	1,837	3,758	12,671	169,877
3. Property and Construction	36,438	1,707	636	762	3,749	43,292
4. Public Utilities and Services	85,912	5,936	892	973	2,913	96,626
5. Housing	65,910	1,245	782	1,017	2,200	71,154
6. Others	216,090	933	208	388	808	218,427
Total	554,557	17,252	4,474	6,989	23,002	606,274

* Including loans and accrued interests of interbank and money market item.

Table 10 Provisions (divided into general provisions and specific provisions) and charge-offs for loans and accrued interests* classified by type of business

Unit: Million Baht

Type of business	CONSOLIDATED			SEPARATE					
	December 31, 2010			December 31, 2010			December 31, 2009		
	General provision	Specific provision	Charge-off between period	General provision	Specific provision	Charge-off between period	General provision	Specific provision	Charge-off between period
1. Agriculture and Mining	12,666	290	146	5,392	184	128	5,693	243	193
2. Manufacturing and Commerce		8,244	6,071		6,969	6,037		10,841	2,431
3. Property and Construction		2,238	978		1,819	883		1,954	1,825
4. Public Utilities and Services		2,850	2,174		2,701	2,160		1,663	312
5. Housing		1,476	357		972	279		1,071	24
6. Others		6,225	6,873		2,187	441		3,123	133
Total	12,666	21,323	16,599	5,392	14,832	9,928	5,693	18,895	4,918

* Including loans and accrued interests of interbank and money market item.

Table 11 Reconciliation of changes in provisions for loans including accrued interests*

Unit: Million Baht

Item	CONSOLIDATED			SEPARATE					
	December 31, 2010			December 31, 2010			December 31, 2009		
	General provision	Specific provision	Total	General provision	Specific provision	Total	General provision	Specific provision	Total
Provisions at the beginning of the period	11,524	27,079	38,603	5,693	18,895	24,588	3,051	20,726	23,777
Charge-offs during the period	-	(16,599)	(16,599)	-	(9,928)	(9,928)	-	(4,918)	(4,918)
Increases or decreases of provisions during the period	1,143	10,843	11,986	(300)	5,865	5,565	2,643	3,087	5,730
Provisions for losses from foreign exchange	(1)	-	(1)	(1)	-	(1)	(1)	-	(1)
Provisions at the end of the period	12,666	21,323	33,989	5,392	14,832	20,224	5,693	18,895	24,588

* Including loans and accrued interests of interbank and money market item.

Table 12 Outstanding of on-balance sheet assets and off-balance sheet items* for credit risk under the SA approach classified by type of assets

CONSOLIDATED

Unit: Million Baht

Type of assets	December 31, 2010		
	On-balance sheet asset	Off-balance sheet item **	Total
1. Performing assets	811,829	143,121	954,950
1.1 Claims on sovereigns and central banks, multilateral development banks (MDBs) and public sector entities (PSEs) that are treated as claims on sovereigns	83,632	34,621	118,253
1.2 Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	11,400	33,276	44,676
1.3 Claim on corporate and public sector entities (PSEs) that are treated as claims on corporate	257,337	48,275	305,612
1.4 Claims on retail portfolios	291,157	26,505	317,662
1.5 Residential mortgage exposures	71,669	444	72,113
1.6 Other assets	96,634	-	96,634
2. Non-performing assets	22,631	368	22,999
3. First-to-default credit derivative and Securitization	-	-	-
Total	834,460	143,489	977,949

* After multiplying by CCF and Specific provision

** Include Repo-style transaction and Reverse repo

SEPARATE

Unit: Million Baht

Type of assets	December 31, 2010		
	On-balance sheet asset	Off-balance sheet item **	Total
1. Performing assets	769,581	143,533	913,114
1.1 Claims on sovereigns and central banks, multilateral development banks (MDBs) and public sector entities (PSEs) that are treated as claims on sovereigns	83,513	34,621	118,134
1.2 Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	20,724	35,704	56,428
1.3 Claim on corporate and public sector entities (PSEs) that are treated as claims on corporate	372,777	47,525	420,302
1.4 Claims on retail portfolios	115,872	25,239	141,111
1.5 Residential mortgage exposures	71,669	444	72,113
1.6 Other assets	105,026	-	105,026
2. Non-performing assets	13,937	336	14,273
3. First-to-default credit derivative and Securitization	-	-	-
Total	783,518	143,869	927,387

* After multiplying by CCF and Specific provision

** Include Repo-style transaction and Reverse repo

SEPARATE

Unit: Million Baht

Type of assets	December 31, 2009		
	On-balance sheet asset	Off-balance sheet item **	Total
1. Performing assets	709,188	124,521	833,709
1.1 Claims on sovereigns and central banks, multilateral development banks (MDBs) and public sector entities (PSEs) that are treated as claims on sovereigns	61,160	27,240	88,400
1.2 Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	29,112	28,864	57,976
1.3 Claim on corporate and public sector entities (PSEs) that are treated as claims on corporate	347,472	41,128	388,600
1.4 Claims on retail portfolios	107,827	26,991	134,818
1.5 Residential mortgage exposures	61,812	298	62,110
1.6 Other assets	101,805	-	101,805
2. Non-performing assets	21,633	514	22,147
3. First-to-default credit derivative and Securitization	-	-	-
Total	730,821	125,035	855,856

* After multiplying by CCF and Specific provision

** Include Repo-style transaction and Reverse repo

6.2 Credit risk exposures under the SA approach

The Bank calculates its capital adequacy ratio under the Standardized Approach. The Bank uses ratings assigned by Standard & Poor's, Moody's, Fitch International, Fitch (Thailand), TRIS Rating, and the information from the OECD Country Risk Classification, in identifying the risk weight of each customer.

6.3 Credit risk mitigation under the SA approach

1. The Bank manages and revalues collateral in accordance with the Bank of Thailand's guidelines.
2. The main credit risk mitigation is financial collateral, namely cash, equity instrument, and debt instrument that comply with the Bank of Thailand's guidelines.
3. The main eligible guarantors and credit derivative providers are government, state enterprises, and high-quality corporate, all of whom have characteristics that comply with the Bank of Thailand's guidelines.
4. At present, the Bank does not use on-balance sheet and off-balance sheet nettings as credit risk mitigation.

Table 13 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 under the SA approach

CONSOLIDATED

Unit : Million Baht

Type of Asset	December 31, 2010										
	Rated outstanding				Unrated outstanding						
Risk weight %	0	20	50	100	0	20	35	50	75	100	150
Performing assets											
1. Claims on sovereigns and central banks, multilateral development banks (MDBs) and public sector entities (PSEs) that are treated as claims on sovereigns	121,276		287								
2. Claims on banks and public sector entities(PSEs) that are treated as banks and securities companies		9,354	2,301	3,528							
3. Claims on corporate and public sector entities (PSEs) that are treated as corporate *				631				322		296,006	1,522
4. Claims on retail portfolios									310,141	8	
5. Residential mortgage exposures							62,260		9,610	235	
6. Other assets					86,486	2,500				48,482	
Non-performing assets ^{2/}					67			1,160		5,184	16,589
Assets specified by the BOT as items to be deducted from capital fund	16,656										

^{1/} After multiplying by CCF

^{2/} For the part with no CRM whose risk weights depend on the ratio of provisions to total exposures.

* The bank assigns the risk weight of 100% for all corporate debtors

SEPARATE

Unit : Million Baht

Type of Asset	December 31, 2010										
	Rated outstanding				Unrated outstanding						
Risk weight %	0	20	50	100	0	20	35	50	75	100	150
Performing assets											
1. Claims on sovereigns and central banks, multilateral development banks (MDBs) and public sector entities (PSEs) that are treated as claims on sovereigns	121,157		287								
2. Claims on banks and public sector entities(PSEs) that are treated as banks and securities companies		10,204	13,203	3,528							
3. Claims on corporate and public sector entities (PSEs) that are treated as corporate *				460				322		410,865	1,522
4. Claims on retail portfolios									133,594	6	
5. Residential mortgage exposures							62,260		9,610	235	
6. Other assets					71,702	2,495				71,664	
Non-performing assets ^{2/}					67			1,142		2,766	10,298

^{1/} After multiplying by CCF^{2/} For the part with no CRM whose risk weights depend on the ratio of provisions to total exposures.

* The bank assigns the risk weight of 100% for all corporate debtors

SEPARATE

Unit : Million Baht

Type of Asset	December 31, 2009										
	Rated outstanding				Unrated outstanding						
Risk weight %	0	20	50	100	0	20	35	50	75	100	150
Performing assets											
1. Claims on sovereigns and central banks, multilateral development banks (MDBs) and public sector entities (PSEs) that are treated as claims on sovereigns	94,850		215								
2. Claims on banks and public sector entities(PSEs) that are treated as banks and securities companies	100	5,534	20,859	1,480						242	
3. Claims on corporate and public sector entities (PSEs) that are treated as corporate *								469		382,705	
4. Claims on retail portfolios									127,654	9	
5. Residential mortgage exposures							53,560		8,307	234	
6. Other assets					61,232	2,040				74,219	
Non-performing assets ^{2/}					54			1,127		5,022	15,944

^{1/} After multiplying by CCF

^{2/} For the part with no CRM whose risk weights depend on the ratio of provisions to total exposures.

* The bank assigns the risk weight of 100% for all corporate debtors.

Table 14 Part of outstanding that is secured by collateral* under the SA approach classified by type of assets and collateral

Unit : Million Baht

Type of asset	CONSOLIDATED		SEPARATE			
	December 31, 2010		December 31, 2010		December 31, 2009	
	Eligible financial collateral	Guarantee and credit derivative	Eligible financial collateral	Guarantee and credit derivative	Eligible financial collateral	Guarantee and credit derivative
Performing assets	86,652	4,100	86,651	4,100	69,198	7,169
1. Claims on sovereigns and central banks, multilateral development banks (MDBs) and public sector entities (PSEs) that are treated as claims on sovereigns	45,816	-	45,816	-	33,513	-
2. Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	26,280	4,005	26,280	4,005	23,500	6,765
3. Claims on corporate and public sector entities (PSEs) that are treated as corporate	7,087	45	7,087	45	5,040	386
4. Claims on retail portfolios	7,462	50	7,461	50	7,136	18
5. Residential mortgage exposures	7	-	7	-	9	-
6. Other assets	-	-	-	-	-	-
Non-performing assets	67	-	67	-	120	-
Total	86,719	4,100	86,718	4,100	69,318	7,169

* Values after netting of on-balance sheets and off-balance sheets

7. Market risk

Market risk refers to the adverse impact on income and capital funds caused by price changes in the trading and banking books with regard to interest rates, exchange rates, equity instruments, and commodities. We recognize the importance of efficient market risk management both at the Bank and at subsidiary level. We have therefore instituted market risk management policies and conducts regular reviews to ensure their appropriateness for a rapidly-changing business world. These policies link into the Internal Capital Adequacy Assessment Process (ICAAP) which stipulates continual improvement to counter risks relating to interest rates in the banking book in accordance with the Supervisory Review Process (Pillar 2) as outlined by the Bank of Thailand.

Market Risk Management Structure

Market risk management is the responsibility of the Risk Management Committee which supervises the overall risk management process; it reports to the Board of Directors. The Assets and Liability Management Committee establishes guidelines for appropriate management of assets, liabilities, and off-balance sheet items. The organizational structure clearly segregates the duties and responsibilities of the units responsible for executing transactions, overseeing operations, and managing risk to avoid conflicts of interest. The Treasury Division executes transactions and manages positions under the risk limits approved by the Board of Directors. The Market Risk Management Department assesses, monitors, and reports the Bank's risk exposures.

Managing Market Risk in Trading Book and Banking Book

The assessment, control, and monitoring of market risk can be divided into two parts: transactions in the trading book and transactions in the banking book, as follows:

1. Risks from transactions in the trading book: We conduct risk assessments and maintain capital funds at Bank and subsidiary levels based on a standardized approach dictated by Bank of Thailand guidelines. We use risk assessment tools such as Value-at-Risk (VaR) and conduct back-testing to assess the reliability of the models. We also conduct stress testing to assess risk during crisis situations.
2. Risks from transactions in the banking book: We manage risks arising from mismatches of the interest rate structure and on and off-balance sheet positions. We assess the probable impact on net interest income (earning perspective) from assets, liabilities, and off-balance sheet items, sensitive to interest rates. We also conduct re-pricing gap analysis in terms of static simulation and dynamic simulation according to the projected interest rate trend. In addition, we analyze interest rate risk which reflects the sensitivity of the economic value of shareholder equity (Economic value perspective).

Information relating to market risk under the standardized approach

The assessment, control, and monitoring of market risk in the trading book, we conduct risk assessments and maintain capital funds at Bank and subsidiary levels based on a standardized approach

dictated by Bank of Thailand guidelines. We use risk assessment tools such as Value-at-Risk (VaR) and conduct back-testing to assess the reliability of the models. We also conduct stress testing to assess risk during crisis situations.

Roles and duties of internal auditors with regard to market risk management process

Objectives of the audit of market risk management are to identify the negative impact of market risk on revenue and capital fund of the bank, to evaluate the adequacy of market risk capital charge and the quality of risk management and the compliance with policies, laws and regulations. The scope of audit covers 2 aspects, namely the evaluation of risk level and the evaluation of risk management quality.

The evaluation of risk level covers the review and analysis of the Bank's financial statements structure, the evaluation of vulnerability to changes in interest rates, the evaluation of exchange rate risk and price risk.

The evaluation of risk management quality covers the supervision of the Board of Directors and the senior management; the risk evaluation system; the monitoring and reporting of risk, the risk control and risk limits.

8. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk but excludes strategic and reputation risk. Operational risk is inherent to every business organization and covers a wide spectrum of issues. The Bank recognizes operational risk as a significant risk category, and provides sufficient resource to manage the risk of the Bank and the subsidiaries to be within acceptable levels through the promotion of sound operational risk management governance and policy framework.

Operational risk management (ORM) framework

The Bank sets up a framework for the sound operational risk management, covering all dimensions. The operational risk management framework encompasses effective operational risk management structure, policies and procedures, processes for the governance of operational risks, and identification, assessment, monitoring, reporting and controlling. The embedding and use of the framework are assessed periodically.

Operational risk management structure, roles and responsibilities

An appropriate risk management structure is set up under the concept of three Lines of Defence to ensure the sufficient level of independent oversight for ORM across the Bank and the subsidiaries. The business has a prime responsibility for managing and mitigating operational risk on a day-to-day basis in

its operations as a primary operational risk owner and a risk taker. The second line of defence, the Board of Directors has assigned the Risk Management Committee, who is responsible for integrated risk management, to formulate strategies and develop tools to assess, follow up, and control operational risks to meet acceptable levels. The operational risk management department with support from partnership in specialized areas such as IT security, human resources, legal and compliance, accounting and fraud management departments, is responsible to report risk assessment and impact to the Risk Management Committee, and the Board of Directors so that the Bank can adjust its strategies as needed to respond to current situation. The third line of defence, internal audit provides assurance on the proper implementation of the risk structures and policies.

Operational risk management process, methodology and tool

For effective and efficient identification, assessment, monitoring, reporting and controlling of operational risks, the following key tools and methodology are used at the Bank and the subsidiaries:

- **Risk and control self-assessment (RCSA):**
Business and support units periodically identify and assess operational risks to ensure that they are effectively managed, prioritized, documented and aligned to risk appetite. When unacceptable control weakness is identified, action plans shall be justified, produced and tracked to completion.
- **Operational risk losses data collection:**
Losses above a certain threshold are systematically collected by the businesses and recorded in a central loss database. The root causes are analyzed where the corrective action will be taken to mitigate losses.
- **Key risk indicators (KRI):**
KRIs are collected and tracked both for organization-wide level and department level in order to identify and monitor changes in the operational risk profile of the Bank and subsidiaries. In addition, KRI is used as an early detection of potential control weakness.
- **Operational risk limit framework:**
Risk limit is set up to ensure that operational risk is mitigated through effective infrastructure and robust system. The limit of individual loss event for high impact and serious event is defined in order to escalate to appropriate senior management level.
- **New product/process/system risk assessment program:**
Proactively and forward looking approach to identify and assess potential risks and efficiency of controls prior to launch. This aims to prevent and reduce the impact of operational risks that might occur from new and changes in products or new working systems.
- **Operational risk reporting:**

The Bank and the subsidiaries have a systematical process for the reporting of risk and control self-assessment result, risk profile, operational risk loss event, action plan tracking, key risk indicators and BCP testing report to the relevant senior management, the Risk Management Committee, and the Board of Directors regularly.

- **Business continuity management:**

A business continuity management (BCM) Policy and a business continuity plan (BCP) are formulated, regularly reviewed and tested to ensure that in case of sudden disruption incidents including Influenza Pandemic, all critical services of the Bank and the subsidiaries can continue to serve the customers and related parties.

- **Management of outsourcing, insourcing and banking agent:**

The outsourcing policy, insourcing policy and appointment of banking agent policy are determined and approved by the Board of Directors. Risk assessment process is implemented to ensure that the potential risks are identified and managed prior to entering new arrangements.

Roles and duties of internal auditors with regard to operational risk management process

Objectives of the audit of operational risk management are to identify the level and quality of risk management, to evaluate the efficiency and appropriateness of the internal control system as well as the solutions to problems and mistakes as well as the compliance with policies, laws and regulations including the business continuity plans. The scope of audit covers 2 aspects, namely the evaluation of risk level and the evaluation of risk management.

The evaluation of risk level addresses strategic factors such as segregation of duties; factors relating to transactions and products such as development of products, system and practices of financial transactions; factors relating to information technology and reporting as well as factors relating to compliance with laws.

The evaluation of risk management addresses policies and strategies for risk management, structure and management, operational procedures, structure of risk management system and conducting the review on operational loss data in order to rectifications the errors from deficient control.

Approach for operational risk capital

The Bank adopts 'standardized approach' to maintain Basel II minimum capital requirement against operational risk of the Bank and the Bank's Financial Business Group. The internal audit function takes an important role to ensure that capital calculation and operational risk management framework are qualified and aligned with BOT minimum requirements.

9. Equity exposures in the banking book

9.1 Details of general information for equity position risk in the banking book

Equity price risk in the banking book

We assess the potential of securities issuer companies and has a policy to buy/sell equity securities mainly for medium-term and long-term investments. In managing equity position risk in the banking book which is held, according to initial intention, as long-term, we monitor and report the equity price risk in the banking book and ensure that the level of capital fund is appropriate and sufficient to absorb losses arising from positions in the banking book.

Management of equity price risk in the banking book

The Bank's Board of Directors determines the total limit which shall be regularly reviewed at least once a year. Additionally, the Asset and Liability Management Committee is responsible for establishing policies and strategies as well as managing risks in relation to investment in order to ensure that the investments are effectively and appropriately undertaken and in alignment with economic situation and competition in the financial business. The Treasury Division is responsible for executing transactions under the risk limits approved by the Bank's Board of Directors as well as assessing the value of positions at least once a month. Furthermore, the Capital Market Department monitors and reports the equity positions to the Asset and Liability Management Committee on a monthly basis.

9.2 Differentiation with respect to risk management for:

9.2.1 Risk Management Policy on Equity investment for the purpose of Capital Gain

As the purpose of the investment is to earn capital gain and dividend via a medium to long term investment, equity of the Bank is then directly affected by the change in market price of a security. The Bank, therefore, places importance on market risk management and also regulates the investment to be in accordance with the investment policy which has been regularly reviewed at least once a year including constantly conduct a performance follow up and report the investment status to the Assets and Liabilities Management Committee on monthly basis.

9.2.2 Risk Management Policy on Equity Investment for Other Purposes

As for Strategic Investment, the Bank has policy to ensure that subsidiaries and associated companies in the financial business group under consolidated supervision rule of the Bank of Thailand operate their businesses under single framework and standards. This is in order to ensure that the Bank and the financial business group can operate their businesses in the same direction and effectively manage their risk as well as prevent any impact which

may incur from business operations of each company that may affect the confidence, stability and security of the Bank.

In this connection, subsidiaries and associated companies have responsibilities to prepare the business plan policy and the projected annual profit and loss submitted to the Bank for consideration and approval as well as monitoring, especially for intra-group transactions and related risk management.

Moreover, the Bank also invests in the company established to support and promote the government policy including invests in other companies providing a return on investment and in the companies obtained from debt restructuring process under which risk management scheme requires performance follow up to be conducted and report to the Financial Management Committee ("FMC") on monthly basis.

9.3 Key policies on measuring fair value in accordance with the accounting standards, assumptions and guidelines on measuring fair value, including significant changes in the guidelines

The Bank has formulated the Mark-to-Market Model Policy for measurement of fair value according to the accounting standards and measurement of value of positions in alignment with the academic principle. The Bank also requires that the used Validated Rate for Revaluation must be obtained from reliable sources such as the Securities Exchange of Thailand.

Table 15 Equity exposures in the banking book

Unit: Million Baht

Equity exposures	CONSOLIDATED	SEPARATE	
	December 31	December 31	
	2010	2010	2009
1. Equity exposures			
1.1 Equities listed and publicly traded in the Stock Exchange *			
- Equities price	3,008	3,422	3,109
- Market price	3,409	3,827	2,970
1.2 Other equities *	8,250	45,362	45,616
2. Gains (losses) of sale of equities in the reporting period	55	89	31
3. Net revaluation surplus from valuation AFS equity, 45% of which is counted as Tier 2 Capital	483	487	102
4. Minimum capital requirements for equity exposures by SA approach	735	3,628	3,630

* Included domestic and foreign items

10. Interest rate risk in the banking book

The assessment, control, and monitoring of market risk in the banking book, we manage risks arising from mismatches of the interest rate structure and on and off-balance sheet positions. We assess the probable impact on net interest income (earning perspective) from assets, liabilities, and off-balance sheet items, sensitive to interest rates. We also conduct re-pricing gap analysis in terms of static simulation and dynamic simulation according to the projected interest rate trend. In addition, we analyze interest rate risk which reflects the sensitivity of the economic value of shareholder equity (Economic value perspective).

Table 16: The effect of changes in interest rates* to earnings (net)

Unit: Million Baht

Currency **	CONSOLIDATED	SEPARATE	
	December 31	December 31	
	2010	2010	2009
Baht	295	59	32
USD	-	-	-
EURO	-	-	-
Others	-	-	-
Total	295	59	32

* use the percentage changes in increase interest rates of 100 bps.

** All currency converted into THB

11. Liquidity Risk Management

Liquidity risk is the risk arising from the Bank's failure to pay its debts and contingent liabilities by the due date because of its inability to convert assets into cash. It also relates to its failure to procure sufficient funds, or find that fund procurement comes at a higher cost, thereby adversely affecting our income and capital funds. To counter this, we have instituted risk management policies and daily liquidity management policies for the Bank and our subsidiaries. In addition, contingency plans are formulated to ensure readiness to deal with crisis situations and to set up a liquidity cushion (Contingency Funding Plans). Finally, other appropriate methods and measures are established to ensure timely prevention of liquidity shortages. These contingency plans are tested and incidents serving as early warning indicators are monitored before a crisis occurs. All of these are aimed at ensuring the efficiency of our liquidity risk management.

Diversification of liquidity Sources and Funding Structure

We maintain liquid assets in accordance with regulatory requirements, and maintain excess liquidity cushion at a level commensurate with the economic situation. We seek to ensure that there is adequate cash for our and our subsidiaries', business operations. Liquidity management utilizes qualitative and quantitative approaches to ensure appropriate risk diversification. The structure and behavior of customers' deposits/withdrawals are considered in order to ensure efficient alignment with the cash flow demand for each time period and at an appropriate cost level.

In addition, we establish liquidity readiness and adjust our strategies to deal with the probability that deposits may flow to other savings alternatives as a result of the Deposit Insurance Act. To that end, we have developed products and services for savings and investments which serve customers' needs in order to buttress liquidity management tools and to reduce concentration of funding sources. Meanwhile,

customer savings alternatives have been expanded by the continuous issuance of bills of exchange and debentures within the limits approved by the Bank's Board of Directors.

Liquidity Risk Management Structure

Liquidity risk management is undertaken by the Assets and Liability Management Committee which closely monitors our liquidity position. High-level Treasury Division executives are responsible for carrying out regular reviews to determine appropriate liquidity levels. They manage daily liquidity to meet the Bank's and subsidiaries' cash demands. They also undertake regular analyses of the contingency plans for liquidity in two types of crisis situations: (a) temporary liquidity problems arising from daily transaction executions, and (b) medium- to long-term liquidity problems. To this end, the Committee is responsible for implementing its liquidity crisis management plan via the Funding Crisis Management Team (FCMT).

Liquidity Risk Measurement and Reporting

We employ a variety of liquidity risk management tools such as cash flow/liquidity projection and liquidity gap analysis which classify assets, liabilities, and contingent liabilities according to the remaining contractual maturity. In this regard, consideration is given both to normal and crisis situations, and the results are adjusted in accordance with behavioral maturity to align with the actual behavior to ensure that the liquidity risk reporting and monitoring systems are efficient.

In addition, the Board of Directors monitors liquidity risk indicators which serve as early warning signs. These include early warning point and trigger points, decrease in the highest deposit level each day, and the top 20 depositors, in order to reduce the concentration of the Bank's funding sources, as well as its liquidity ratios. The Treasury Division proposes liquidity risk management guidelines and business strategies to the Assets & Liabilities Management Committee. The Market Risk Management Department assesses liquidity risk levels and reports them to the Assets & Liabilities Management Committee.