Basel II Pillar III Disclosures

As of December 31, 2011

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Basel II Pillar III Disclosures
As of December 31, 2011

1. Introduction

The purpose of this report is to disclose the information in regards to capital maintenance on Basel II Pillar III of the Solo Basis and Full Consolidation Basis that required by the Bank of Thailand. 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, qualitative and quantitative, specifically related to capital supervisory such as capital, level of risk, risk assessment process, capital adequacy and etc. It's beneficial to 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 of application

The Bank has disclosure information under Basel II Pillar III on a solo basis and full consolidation basis in accordance to BOT's Notification No. SorNorSor. 25/2552 Re: Information disclosure and Level Financial Group and No. SorNorSor. 6/2553 Re: Consolidated Supervision.

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

The companies under financial business group totaled 21 companies are as following:

Companies	Business Type
1. Ayudhya Development Leasing Company Limited	Leasing and hire-purchase
2. Ayudhya Capital Auto Lease Public Company Limited	Auto leasing
3. Ayudhya Total Solutions Public Company Limited	Auto leasing
4. CFG Services Company Limited	Retail loan in form of hire purchase and loan pledged by car registration
5. Ayudhya Card Services Company Limited	Credit cards and personal loans
6. Ayudhya Capital Services Company Limited	Credit cards and personal loans
7. General Card Services Limited	Credit cards and personal loans
8. Krungsriayudhya Card Company Limited	Credit cards and personal loans
9. Siam Realty and Services Company Limited	Car leasing and personnel services
10. Total Service Solutions Public Company Limited	Collection services
11. Krungsri Asset Management Company Limited. (Formerly known as ".Ayudhya Fund Management Company Limited")	Fund management
12. Ayudhya Asset Management Company Limited	Asset management
13. Krungsri Securities Public Company Limited (Formerly known as "Ayudhya Securities Public Company Limited")	Securities
14. Sri Ayudhya Capital Public Company Limited. (Formerly known as "The Ayudhya Insurance Public Company Limited")	Holding company[1/]

Companies	Business Type
15. Sri Ayudhya General Insurance Company Limited	Insurance
16. Ayudhya Factoring Company Limited	Factoring
17. Krungsri Life Assurance Broker Company Limited (Formerly known as "Quality Life Assurance Broker Company Limited")	Life assurance broker
18. Krungsri General Insurance Broker Company Limited (Formerly known as "Quality General Insurance Broker Company Limited")	General insurance broker
19. Tesco Card Services Company Limited	Credit cards and personal loans
20. Tesco Life Assurance Broker Company Limited	Life assurance broker
21. Tesco General Insurance Broker Company Limited	General insurance broker

1/ On 20 December 2011, the company has transformed its business to a holding company for invest in other companies.

4. Capital Information

4.1 Capital Structure

<u>Tier 1 Capital are composed of the followings</u>:-

- Issued and fully paid up share capital and net premium
- Statutory reserve
- Cumulative profit after appropriation, already approved by annual shareholders meeting
- Deferred tax asset (reduction item)
- Goodwill (reduction item)
- Minority interest
- Investment deduction item : 50% from tier 1 capital and 50% from tier 2 capital (reduction item)

<u>Tier 2 Capital are composed of the followings:-</u>

- 70% of land revaluation
- 50% of building revaluation
- 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
- Investment deduction item : 50% from tier 1 capital and 50% from tier 2 capital (reduction item)
- Long-term subordinate debt instrument

  Long-term 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.

Table 1 Capital structure

Unit: Million Baht

Item	CONSOLIDATED		THE BANK	
	December 31 2011	June 30 2011	December 31 2011	June 20 2011
1. Tier 1 capital	79,451	74,028	80,843	79,557
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	1,014	1,014	1,014
1.4 Net profit after appropriations	17,839	14,955	7,641	7,519
1.5 Minority interest	854	840	-	-
1.6 Deduction items	(14,799)	(17,324)	(2,355)	(3,519)
1.6.1 Goodwill	(7,521)	(7,521)	-	-
1.6.2 Deferred tax assets	(5,782)	(8,297)	(2,355)	(3,519)
1.6.3 Investment Deduction item : 50% from tier 1 capital and 50% from tier 2 capital	(1,496)	(1,506)	-	-
2. Tier 2 capital	32,303	32,050	30,279	30,721
2.1 Tier 2 capital fund before deduction items	33,799	33,556	30,279	30,721
2.2 Deduction item : 50% from tier 1 capital and 50% from tier 2 capital	(1,496)	(1,506)	-	-
3. Total regulatory capital	111,754	106,078	111,122	110,278
3.1 Total regulatory capital before deduction items	111,754	106,078	111,122	110,278
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, Krungsri maintains, as a policy, a minimum capital adequacy ratio higher than the minimum official requirement.

Moreover, the Bank closely 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 to be 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 for the Bank and the financial business group continues to be adequate at all times.

Table 2 Minimum capital requirements classified by types of risk

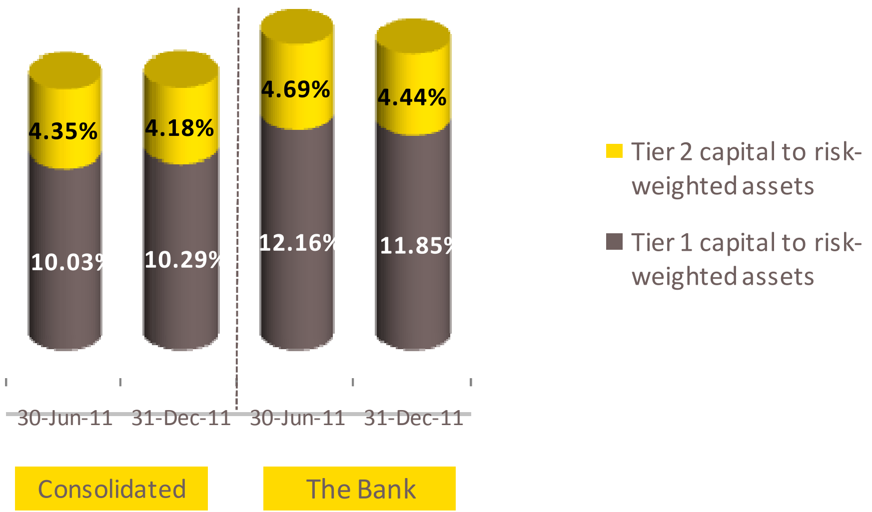
Unit: Million Baht

Minimum capital requirements for all risk	CONSOLIDATED		THE BANK	
	December 31 2011	June 30 2011	December 31 2011	June 30 2011
Performing assets	56,510	53,586	52,133	49,887
1. Claims on sovereigns and central banks, multilateral development banks (MDBs) and public sector entities (PSEs) that are treated as claims on sovereigns	71	35	71	35
2. Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	766	519	762	879
3. Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate	25,954	24,994	33,637	31,402
4. Claims on retail portfolios	22,766	21,140	8,932	8,793
5. Residential mortgage exposures	3,177	2,964	3,177	2,964
6. Other assets	3,776	3,934	5,554	5,814
Non-performing assets	2,010	2,592	1,377	1,623
Minimum capital requirement for credit risk	58,520	56,178	53,510	51,510
1. Interest rate risk	278	175	277	175
2. Equity position risk	-	26	-	26
3. Foreign exchange rate risk	60	63	41	76
4. Commodity risk	-	-	-	-
Minimum capital requirement for market risk	338	264	318	277
Minimum capital requirement for operational risk	6,771	6,270	4,171	3,831
Total minimum capital requirement	65,629	62,712	57,999	55,618

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

Unit: %

Ratio	CONSOLIDATED		THE BANK	
	December 31 2011	June 30 2011	December 31 2011	June 30 2011
1. Total capital to risk-weighted assets	14.47	14.38	16.29	16.85
2. Tier 1 capital to risk-weighted assets	10.29	10.03	11.85	12.16



5. Risk exposure and assessment

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 well-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.

Roles and duties of internal auditors in auditing risk management process

Internal auditors of the Bank have the duty to audit and assess the adequacy and effectiveness of the Bank's risk management process to ensure that it is adequately and appropriately commensurate with the complexity of the Bank's transactions. The audit of risk management process is undertaken to provide reasonable assurance that the Bank's operations, which shall be within the Bank's acceptable risk level, will meet established objectives and targets.

Internal audit adopts the systematic approach of assessment; supports the development and enhancement of risk management system, internal control system and good governance system; and is based on the International standards for the professional practice of internal auditing, the internal audit practice for financial institutions established by the Bank of Thailand and the guidelines determined by the Basel Committee on Banking Supervision in relation to internal audit function in banks.

The scope of work of the internal audit encompasses all activities of the Bank undertaken by its entities in Thailand, overseas branches and companies in its financial business group (full consolidation). Internal audit of risk management activities, among others, includes the following:

- Determination of policies, structure, roles and responsibilities of risk management function;
- Determination of risk tolerance levels;
- Operational processes of functions within the Bank and compliance with relevant risk management policies;
- Risk management process which includes risk identification, measurement and assessment, risk management, risk monitoring and reporting.

The audit of risk management process covers the credit risk, the market risk, the liquidity risk and the operational risk and the Bank's internal auditors also review the Internal Capital Adequacy Assessment Process (ICAAP).

6. Credit risk

6.1 General information of credit risk exposure

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, Measurement, 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 12 grades, each with different risk level. The Bank has also developed the PD-based rating models for both groups of customers which are currently used in parallel with the existing tool together with the model validation and the calculation of probability of default (PD).

- **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 identification of major corporate. Other reports prepared include debt classification, provisioning allowances, capital adequacy ratio, and 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 and Financial Business Group'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.

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 financial statement 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 and the 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.

For the calculation of capital to risk weighted assets of the Banks and Financial Business Group by SA approach, reserves has been set aside for assets on the statement of financial position and off-statement of financial position items as follows:

- Specific Provision

  Refers to reserve a set aside for specific asset in the statement of financial position and off-statement of financial position,including the decline of the market price adjustment of debt and equity securities held to for trading and available for sale and impairment but excluding reserve for assets classified as normal counted to Tier 2.

- General Provision

  Refers to the reserve for assets classified as normal but exclude reserve for assets classified as normal counted in specific provision.

Table 4 Outstanding balance of assets in financial position and off financial position items before credit risk mitigation

Unit: Million Baht

Items	CONSOLIDATED		THE BANK	
	December 31		December 31	
	2011	2010	2011	2010
1. On-statement of financial position assets	841,709	760,805	771,942	709,954
1.1 Net loans [1/]	761,708	667,614	693,716	618,430
1.2 Net investments in debt securities [2/]	68,628	69,547	68,327	69,429
1.3 Deposits (including accrued interests)	11,373	23,644	9,899	22,095
2. Off-statement of financial position items [3/]	482,316	407,090	475,821	407,317
2.1 Aval of bills, guarantee and letter of credits	10,058	12,056	10,058	12,239
2.2 OTC derivatives [4/]	366,833	294,111	366,951	294,111
2.3 Undrawn committed lines	105,425	100,923	98,812	100,967

[1/] Including accrued interest receivable 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 interest receivables 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 balance of assets in financial position and off financial position items before CRM classified by country or geographic area of debtors

CONSOLIDATED

Unit : Million Baht

Country or geographic area of debtor	December 31, 2011							
	On-statement of financial position assets				Off-statement of financial position 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	827,964	751,637	68,628	7,699	339,010	9,726	225,353	103,931
2. Asia Pacific (exclude Thailand)	9,242	8,202	-	1,040	41,323	326	39,652	1,345
3. North America and Latin America	3,559	1,239	-	2,320	38,179	6	38,026	147
4. Africa and Middle East	-	-	-	-	-	-	-	-
5. Europe	944	630	-	314	63,804	-	63,802	2
Total	841,709	761,708	68,628	11,373	482,316	10,058	366,833	105,425

[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 interest receivables and net of revaluation allowances for equities and impairment allowances for equities.

[3/] Before multiplying by CCF.

CONSOLIDATED

Unit : Million Baht

Country or geographic area of debtor	December 31, 2010							
	On-statement of financial position assets				Off-statement of financial position 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 interest receivables and net of revaluation allowances for equities and impairment allowances for equities.

[3/] Before multiplying by CCF.

THE BANK

Unit : Million Baht

Country or geographic area of debtor	December 31, 2011							
	On-statement of financial position assets				Off-statement of financial position 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	758,197	683,645	68,327	6,225	332,515	9,726	225,471	97,318
2. Asia Pacific (exclude Thailand)	9,242	8,202	-	1,040	41,323	326	39,652	1,345
3. North America and Latin America	3,559	1,239	-	2,320	38,179	6	38,026	147
4. Africa and Middle East	-	-	-	-	-	-	-	-
5. Europe	944	630	-	314	63,804	-	63,802	2
Total	771,942	693,716	68,327	9,899	475,821	10,058	366,951	98,812

[1/] Including accrued interest receivables 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 interest receivables and net of revaluation allowances for equities and impairment allowances for equities.

[3/] Before multiplying by CCF

THE BANK

Unit : Million Baht

Country or geographic area of debtor	December 31, 2010							
	On-statement of financial position assets				Off-statement of financial position 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 interest receivables 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 interest receivables and net of revaluation allowances for equities and impairment allowances for equities.

[3/] Before multiplying by CCF.

Table 6 Outstanding balance of assets in financial position and off financial position items before credit risk mitigation classified by remaining term to maturity

Classified by remaining term to maturity

Unit : Million Baht

Item	CONSOLIDATED					
	December 31, 2011			December 31, 2010		
	Maturity not exceeding 1 year	Maturity exceeding 1 year	Total	Maturity not exceeding 1 year	Maturity exceeding 1 year	Total
1. On-statement of financial position assets	290,146	551,563	841,709	298,935	461,870	760,805
1.1 Net loans [1/]	252,123	509,585	761,708	250,285	417,329	667,614
1.2 Net investments in debt securities [2/]	27,149	41,479	68,628	26,454	43,093	69,547
1.3 Deposits (including accrued interests)	10,874	499	11,373	22,196	1,448	23,644
2. Off-statement of financial position items [3/]	355,924	126,392	482,316	292,373	114,717	407,090
2.1 Aval of bills, guarantee and letter of credits	9,852	206	10,058	11,886	170	12,056
2.2 OTC derivatives	336,751	30,082	366,833	276,681	17,430	294,111
2.3 Undrawn committed lines	9,321	96,104	105,425	3,806	97,117	100,923

[1/] Including accrued interest receivables and net of deferred revenues, allowances for doubtful accounts and revaluation allowances for debt restructuring

[2/] Excluding accrued interest receivables and net of revaluation allowances for equities and impairment allowances for equities.

[3/] Before multiplying by CCF

Classified by remaining term to maturity

Unit : Million Baht

Item	THE BANK					
	December 31, 2011			December 31, 2010		
	Maturity not exceeding 1 year	Maturity exceeding 1 year	Total	Maturity not exceeding 1 year	Maturity exceeding 1 year	Total
1. On-statement of financial position assets	349,310	422,632	771,942	330,398	379,556	709,954
1.1 Net loans [1/]	312,563	381,153	693,716	281,967	336,463	618,430
1.2 Net investments in debt securities [2/]	26,848	41,479	68,327	26,336	43,093	69,429
1.3 Deposits (including accrued interests)	9,899	-	9,899	22,095	-	22,095
2. Off-statement of financial position items [3/]	349,309	126,512	475,821	292,552	114,765	407,317
2.1 Aval of bills, guarantee and letter of credits	9,852	206	10,058	12,069	170	12,239
2.2 OTC derivatives	336,869	30,082	366,951	276,681	17,430	294,111
2.3 Undrawn committed lines	2,588	96,224	98,812	3,802	97,165	100,967

[1/] Including accrued interest receivables and net of deferred revenues, allowances for doubtful accounts and revaluation allowances for debt restructuring

[2/] Excluding accrued interest receivables and net of revaluation allowances for equities and impairment allowances for equities.

[3/] Before multiplying by CCF

Table 7 Loans and accrued interest receivables 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's regulation

CONSOLIDATED

Unit : Million Baht

Country or geographic area of debtor	December 31, 2011 Loans and accrued interest receivables [1/]						Investment in debt securities
	Normal	Special mentioned	Sub-standard	Doubtful	Doubtful loss	Total	Doubtful loss
1. Thailand	721,870	31,744	6,570	7,532	14,807	782,523	397
2. Asia Pacific (excluding Thailand)	8,284	-	805	-	8	9,097	-
3. North America and Latin America	1,252	-	-	-	-	1,252	-
4. Africa and Middle East	-	-	-	-	-	-	
5. Europe	636	-	-	-	-	636	-
Total	732,042	31,744	7,375	7,532	14,815	793,508	397

Unit : Million Baht

Country or geographic area of debtor	December 31, 2010 Loans and accrued interest receivables [1/]						Investment in debt securities
	Normal	Special mentioned	Sub-standard	Doubtful	Doubtful loss	Total	Doubtful loss
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 interest receivables of interbank and money market item.

THE BANK

Unit: Million Baht

Country or geographic area of debtor	December 31, 2011 Loans and accrued interest receivables [1/]						Investment in debt securities Doubtful loss
	Normal	Special mentioned	Sub standard	Doubtful	Doubtful loss	Total	
1. Thailand	665,854	18,099	3,646	5,986	8,485	702,070	50
2. Asia Pacific (excluding Thailand)	8,284	-	805	-	8	9,097	-
3. North America and Latin America	1,252	-	-	-	-	1,252	-
4. Africa and Middle East	-	-	-	-	-	-	-
5. Europe	636	-	-	-	-	636	-
Total	676,026	18,099	4,451	5,986	8,493	713,055	50

Unit: Million Baht

Country or geographic area of debtor	December 31, 2010 Loans and accrued interest receivables [1/]						Investment in debt securities Doubtful loss
	Normal	Special mentioned	Sub standard	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 interest receivables of interbank and money market item.

Table 8 Provision (general provisions and specific provisions) and bad debt charge - offs for loans and accrued interest receivables receivable and investments in debt securities classified by country or geographic area

CONSOLIDATED

Unit: Million Baht

Country or geographic area of debtor	December 31, 2011 Loans and accrued interest receivables [1/]			Investment in debt securities Specific Provision
	General Provision	Specific Provision	Charge-off between the year	
1. Thailand		18,140	15,435	554
2. Asia Pacific (excluding Thailand)		895	-	-
3. North America and Latin America	12,747	12	-	-
4. Africa and Middle East		-	-	-
5. Europe		6	-	-
Total	12,747	19,053	15,435	554

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 the year	
1. Thailand		21,263	16,599	586
2. Asia Pacific (excluding Thailand)		55	-	-
3. North America and Latin America	12,666	-	-	-
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.

THE BANK

Unit: Million Baht

Country or geographic area of debtor	December 31, 2011 Loans and accrued interest receivables [1/]			Investment in debt securities Specific Provision
	General Provision	Specific Provision	Charge-off between the year	
1. Thailand	6,102	12,325	7,314	187
2. Asia Pacific (excluding Thailand)		895	-	-
3. North America and Latin America		12	-	-
4. Africa and Middle East		-	-	-
5. Europe		6	-	-
Total	6,102	13,238	7,314	187

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 the year	
1. Thailand	5,392	14,772	9,928	239
2. Asia Pacific (excluding 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.

Table 9 Loans and accrued interest receivables 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, 2011					
	Normal	Special mentioned	Substandard	Doubtful	Doubtful loss	Total
1. Agriculture and Mining	6,452	263	59	157	465	7,396
2. Manufacturing and Commerce	171,845	7,031	1,210	1,360	7,396	188,842
3. Real estate and Construction	40,535	2,132	1,139	358	2,558	46,722
4. Public Utilities and Services	95,230	7,091	1,082	3,289	1,517	108,209
5. Housing	88,500	1,794	880	949	1,920	94,043
6. Others	329,480	13,433	3,005	1,419	959	348,296
Total	732,042	31,744	7,375	7,532	14,815	793,508

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. Real estate 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 interest receivables of interbank and money market item.

THE BANK

Unit: Million Baht

Type of business	December 31, 2011					
	Normal	Special mentioned	Substandard	Doubtful	Doubtful loss	Total
1. Agriculture and Mining	5,612	263	49	82	210	6,216
2. Manufacturing and Commerce	168,599	6,578	1,175	1,055	4,874	182,281
3. Real estate and Construction	39,453	1,927	1,072	317	1,434	44,203
4. Public Utilities and Services	94,248	7,074	1,076	3,289	994	106,571
5. Housing	88,500	1,794	880	950	940	93,064
6. Others	279,614	463	199	293	151	280,720
Total	676,026	18,099	4,451	5,986	8,493	713,055

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. Real estate 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 interest receivables of interbank and money market item.

Table 10 Provisions (general provisions and specific provisions) and bad debt charge-offs for loans and accrued interest receivables* classified by type of business

Unit: Million Baht

Type of business	CONSOLIDATED					
	December 31, 2011			December 31, 2010		
	General provision	Specific provision	Bad debt charge-off between the year	General provision	Specific provision	Bad debt charge -off between the year
1. Agriculture and Mining	12,747	87	76	12,666	290	146
2. Manufacturing and Commerce		4,724	2,915		8,244	6,071
3. Real estate and Construction		1,510	3,331		2,238	978
4. Public Utilities and Services		4,200	2,978		2,850	2,174
5. Housing		1,000	338		1,476	357
6. Others		7,532	5,797		6,225	6,873
Total	12,747	19,053	15,435	12,666	21,323	16,599

Unit: Million Baht

Type of business	THE BANK					
	December 31, 2011			December 31, 2010		
	General provision	Specific provision	Bad debt charge -off between the year	General provision	Specific provision	Bad debt charge -off between the year
1. Agriculture and Mining	6,102	87	76	5,392	184	128
2. Manufacturing and Commerce		4,724	2,915		6,969	6,037
3. Real estate and Construction		1,510	3,331		1,819	883
4. Public Utilities and Services		3,186	411		2,701	2,160
5. Housing		1,000	338		972	279
6. Others		2,731	243		2,187	441
Total	6,102	13,238	7,314	5,392	14,832	9,928

* Including loans and accrued interest receivables of interbank and money market item

Table 11 Reconciliation of changes in provisions (general provisions and specific provisions) for loans including accrued interest receivables *

Unit: Million Baht

Item	CONSOLIDATED					
	December 31, 2011			December 31, 2010		
	General provision	Specific provision	Total	General provision	Specific provision	Total
Provisions at the beginning of the years	12,666	21,323	33,989	11,524	27,079	38,603
Bad debt charge-offs during the years	-	(15,435)	(15,435)	-	(16,599)	(16,599)
Increases or decreases of provisions during the years	79	13,165	13,244	1,143	10,843	11,986
Provisions for losses from foreign exchange	2	-	2	(1)	-	(1)
Provisions at the end of the years	12,747	19,053	31,800	12,666	21,323	33,989

Unit: Million Baht

Item	THE BANK					
	December 31, 2011			December 31, 2010		
	General provision	Specific provision	Total	General provision	Specific provision	Total
Provisions at the beginning of the years	5,392	14,832	20,224	5,693	18,895	24,588
Bad debt charge-offs during the years	-	(7,314)	(7,314)	-	(9,928)	(9,928)
Increases or decreases of provisions during the years	708	5,720	6,428	(300)	5,865	5,565
Provisions for losses from foreign exchange	2	-	2	(1)	-	(1)
Provisions at the end of the years	6,102	13,238	19,340	5,392	14,832	20,224

* Including loans and accrued interest receivables of interbank and money market item

Table 12 Outstanding balance of assets in financial position and off financial position items* for credit risk under the Standardized Approach classified by type of assets

CONSOLIDATED

Unit: Million Baht

Type of assets	December 31, 2011			December 31, 2010		
	On-statement of financial position asset	Off-statement of financial position items**	Total	On-statement of financial position asset	Off-statement of financial position items**	Total
1. Performing assets	**894,858**	**134,331**	**1,029,189**	**811,829**	**143,121**	**954,950**
1. Claims on sovereigns and central banks, multilateral development banks (MDBs) and public sector entities (PSEs) that are treated as claims on sovereigns	77,827	44,357	122,184	83,632	34,621	118,253
2. Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	13,560	13,184	26,744	11,400	33,276	44,676
3. Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate	284,461	50,650	335,111	257,337	48,275	305,612
4. Claims on retail portfolios	339,989	25,745	365,734	291,157	26,505	317,662
5. Residential mortgage exposures	81,354	395	81,749	71,669	444	72,113
6. Other assets	97,667	-	97,667	96,634	-	96,634
2. Non-performing assets	**17,370**	**294**	**17,664**	**22,631**	**368**	**22,999**
3. First-to-default credit derivative and Securitization	**-**	**-**	**-**	**-**	**-**	**-**
Total	**912,228**	**134,625**	**1,046,853**	**834,460**	**143,489**	**977,949**

* After multiplying by CCF and Specific provision

** Include Repo-style transaction and Reverse repo

THE BANK

Unit: Million Baht

Type of assets	December 31, 2011			December 31, 2010		
	On-statement of financial position asset	Off-statement of financial position items **	Total	On-statement of financial position asset	Off-statement of financial position items **	Total
1. Performing assets	830,638	133,046	963,684	769,581	143,533	913,114
1. Claims on sovereigns and central banks, multilateral development banks (MDBs) and public sector entities (PSEs) that are treated as claims on sovereigns	77,827	44,357	122,184	83,513	34,621	118,134
2. Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	17,685	11,857	29,542	20,724	35,704	56,428
3. Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate	425,511	50,691	476,202	372,777	47,525	420,302
4. Claims on retail portfolios	123,404	25,746	149,150	115,872	25,239	141,111
5. Residential mortgage exposures	81,354	395	81,749	71,669	444	72,113
6. Other assets	104,857	-	104,857	105,026	-	105,026
2. Non-performing assets	11,801	294	12,095	13,937	336	14,273
3. First-to-default credit derivative and Securitization	-	-	-	-	-	-
Total	842,439	133,340	975,779	783,518	143,869	927,387

* After multiplying by CCF and Specific provision

** Include Repo-style transaction and Reverse repo

6.2 Credit risk exposures by the Standardized 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 by the Standardized 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-statement of financial position and off-statement of financial position nettings as credit risk mitigation.

Table 13 Outstanding balance of assets in financial position and off financial position items* after credit risk mitigation for each type of assets classified by risk weight by Standardized Approach

CONSOLIDATED

Unit: Million Baht

Type of Asset	December 31, 2011											
	Rated outstanding					Unrated outstanding						
Risk weight %	0	20	50	100	150	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	125,218	996	274		331							
2. Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	320	10,431	1,948	5,813	96							
3. Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate		3,661	27,201	25,522							265,480	
4. Claims on retail portfolios										354,421	2,025	
5. Residential mortgage exposures								60,115		21,173	453	
6. Other assets						77,175	2,646				43,890	
Non-performing assets [2/]						53			910		3,706	12,995
Assets specified by the BOT as items to be deducted from capital fund	14,309											

[1/] After multiplying by CCF

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

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, public sector entities (PSEs) that are treated as claims on banks and securities companies		9,354	2,301	3,528							
3. Claims on corporate and public sector entities (PSEs) that are treated as claims on 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

THE BANK

Unit: Million Baht

Type of Asset	December 31, 2011											
	Rated outstanding					Unrated outstanding						
Risk weight %	0	20	50	100	150	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	125,218	996	274		331							
2. Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	320	12,349	4,243	4,229	96							
3. Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate		3,345	129,488	25,522							304,796	
4. Claims on retail portfolios										140,068	28	
5. Residential mortgage exposures								60,115		21,173	453	
6. Other assets						63,190	2,630				64,820	
Non-performing assets [2/]						53			708		2,311	9,023

[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

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, public sector entities (PSEs) that are treated as claims on banks and securities companies		10,204	13,203	3,528							
3. Claims on corporate and public sector entities (PSEs) that are treated as claims on 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

Table 14 Outstanding balance of asset with collateral by Standardized Approach classified by type of assets and collateral

Unit: Million Baht

Type of asset	CONSOLIDATED				THE BANK			
	December 31, 2011		December 31, 2010		December 31, 2011		December 31, 2010	
	Eligible financial collateral	Guarantee and credit derivative	Eligible financial collateral	Guarantee and credit derivative	Eligible financial collateral	Guarantee and credit derivative	Eligible financial collateral	Guarantee and credit derivative
Performing assets	88,244	3,604	86,652	4,100	87,810	3,604	86,651	4,100
1. Claims on sovereigns and central banks, multilateral development banks (MDBs) and public sector entities (PSEs) that are treated as claims on sovereigns	60,541	-	45,816	-	60,541	-	45,816	-
2. Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	5,296	3,465	26,280	4,005	5,296	3,465	26,280	4,005
3. Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate	13,242	8	7,087	45	13,042	8	7,087	45
4. Claims on retail portfolios	9,157	131	7,462	50	8,923	131	7,461	50
5. Residential mortgage exposures	8	-	7	-	8	-	7	-
6. Other assets	-	-	-	-	-	-	-	-
Non-performing assets	53	-	67	-	53	-	67	-
Total	88,297	3,604	86,719	4,100	87,863	3,604	86,718	4,100

* Values after netting of on-statement of financial positions and off-statement of financial positions

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. These rates and price movements are external factors beyond the Bank's control. The Bank has therefore instituted a market risk management framework to use as a guideline for managing risk properly and effectively both at the Bank and at subsidiary level. The Bank also maintains adequate capital relative to risk exposure and ensures risk management practices of subsidiaries remain at a level that is compatible with the Bank and consistent with the consolidated supervision policy of the Bank of Thailand.

Organization and Structure

The Board has delegated risk management to the Risk Management Committee and the Assets and Liabilities Management Committee, which have the authority to manage and control market risk in a manner consistent with the prescribed policy. The Assets and Liabilities Management Committee (ALCO) establishes guidelines for appropriate management of assets, liabilities, and Off-statement of financial position items. The organizational structure clearly segregates the duties and responsibilities of the units responsible for transaction execution, operations, and risk management 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

In 2011, the Bank's aggregate market risk is well within acceptable levels. 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. <u>Risks from transactions in the trading book</u>: We use Value-at-Risk (VaR) and conduct back-testing to assess the reliability of the models. We also conduct a stress testing to assess risk under crisis situations.

2. <u>Risks from transactions in the banking book:</u> We manage risks from mismatches of the interest rate structure and on- and off-statement of financial position positions. We assess the probable impact on net interest income (earning perspective) from assets, liabilities, and Off-statement of financial position items that are 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.

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 an integral and unavoidable part of the Bank's business as it is inherent in our endeavors to provide services to customer and to generate profits for shareholders. The Bank and the Bank's subsidiaries have implemented a sound operational risk management framework as per the Bank of Thailand's requirements, including Basel II. This ensures that our operational risks are effectively managed and controlled within the prescribed risk appetite.

Operational risk management structure, roles and responsibilities

The Bank recognizes that operational risk is a significant concern and provides sufficient resources to manage the risk within acceptable levels through the promotion of sound operational risk management governance and frameworks. Each employee is responsible for managing operational risk.

The Group Operational Risk Management Policies, approved by the Board of Directors, stipulate the minimum requirements of a framework that is implemented throughout the organizational structure along three lines of defense to ensure independent oversight of operational risk management throughout the Group. All business units, as primary operational risk owners and risk takers, have prime responsibility for day-to-day managing of operational risk in their operations according to the policies set out.

The Risk Management Committee, assigned by the Board of Directors, is responsible for formulating strategies, and conducting oversight of the adequacy of the risk and control processes. The Operational Risk Management Department, an independent function reporting to the Chief Risk Officer, is responsible for designing, implementing, and maintaining the operational risk framework and measurement system. In addition, the Internal Audit function provides independent assurance of the proper functioning of the design, adequacy, and effectiveness of our internal controls.

Operational risk management process, methodology and tool

Over the past year, we improved some of the key techniques which improve effectively managing and measuring operational risks across the Group:

- **Risk and control self-assessment (RCSA):**
  All units periodically identify and assess key operational risks and effectiveness of controls to ensure the risks are effectively managed within the business risk threshold. The decision to take action could be made to mitigate the risk promptly.
- **Key risk indicators (KRI):**
  KRIs are regularly collected and tracked both Bank-wide and at the business unit level. If risk levels exceed the acceptable threshold, immediate action is taken.
- **Operational risk losses data collection:**
  Losses beyond a certain threshold are systematically collected by the business units and reported to Operational Risk Management Department. The Bank extends the scope of loss definition covering any near-miss and incident. This standard criterion is used across the Group for reporting loss events. In addition, the new system includes a central loss database. The root causes are analyzed and corrective action is taken to mitigate losses. Referral of the escalation of individual events to senior management is determined by the seriousness of the event.
- **Outsourcing management:**
  The Bank establishes policies to set out the process for managing potential operational risks that might stem from sourcing arrangements. The risk assessing and monitoring process is in place. The Bank also ensures the continuity of business operations and service provision to customers, and has a suitable customer protection system with an emphasis on customer data security.
- **New product/process/system risk assessment program:**
  This ensures that all new products—or significant changes to existing process/systems—are subject to comprehensive risk evaluation and are approved by specialists prior to launch.
- **Business continuity management:**
  In order to ensure continuity throughout the Group, key risks and threats are periodically assessed, reviewed and monitored from a business continuity perspective, including political crises, pandemics, technology disruptions, flooding and other environmental impacts. Alternate site is regularly reviewed and improved. Business continuity plans are also regularly reviewed and improved to ensure that the Bank can continue to provide key products and services, and to carry out vital operations in time of crisis or un-anticipated event.
- **Operational risk reporting:**
  All units are required to report their operational risks such as RCSA, KRI and loss data to the Operational Risk Management Department for analysis. The group's operational risk

profile report is then prepared and delivered to the Risk Management Committee and Board of Directors regularly, to drive appropriate decision making.

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 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 purposes. In managing equity position risk in the banking book,, 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 The different of risk management policy for equity securities:

9.2.1 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 of at least once a year. Furthermore, an investment performance monitoring is reported to the Assets and Liabilities Management Committee on monthly basis.

9.2.2 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 of the Bank of Thailand, operate their businesses under single framework and standards. This is to ensure that the Bank and the financial business group drive businesses in the same direction, and effectively manage their risks as well as prevent potential incidents that may incur from business operations and affect the confidence, soundness and stability of the Bank.

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

Moreover, the Bank also invests in 1) the company established to support and promote the government policy 2) other companies to generate a return on investment and, 3) the companies obtained from debt restructuring process, which risk management guideline requires performance monitoring to be conducted and report to the Financial Management Committee ("FMC") on a monthly basis.

9.3 Key policies on fair value measurement in accordance with the accounting standards, assumptions and guidelines on fair value measurement, 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 Thai Securities Exchange Commission.

Table 15 Equity exposures in the banking book

Unit: Million Baht

Equity exposures	CONSOLIDATED		THE BANK	
	December 31		December 31	
	2011	2010	2011	2010
1. Equity exposures				
1.1 Equities listed and publicly traded in the Stock Exchange *				
- Equities price	5,623	3,008	6,037	3,422
- Market price	5,849	3,409	6,320	3,827
1.2 Other equities *	2,510	8,250	37,265	45,362
2. Gains (losses) of sale of equities in the reporting periods	332	55	228	89
3. Net revaluation surplus from valuation AFS equity	245	483	309	487
4. Minimum capital requirements for equity exposures by SA approach	477	735	3,315	3,628

* Included domestic and foreign items

10. Interest rate risk in the banking book

Interest rate risk refers to the risk arising from change in interest rates to have an adverse effect on the net interest earnings and shareholders' equity. Interest rate risk arises from the structure and characteristics of the Bank's assets, liabilities and off-statement of financial position items, and in the mismatch in re-pricing rates of its assets, liabilities and off- statement of financial position items.

The assessment, control, and monitoring of interest rate risk in the banking book, we assess the probable impact on net interest income (Earning perspective) from assets, liabilities, and off-statement of financial position items, sensitive to interest rates or re-pricing gap 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) both at the Bank and at subsidiary level and and in compliance with Bank of Thailand's guidelines.

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

Unit: Million Baht

Currency **	CONSOLIDATED		THE BANK	
	December 31		December 31	
	2011	2010	2011	2010
	Net Interest Income Impacts			
Baht	(495)	295	872	59
USD	-	-	-	-
EURO	-	-	-	-
Others	-	-	-	-
Total	(495)	295	872	59

* 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 failure to pay debts and contingent liabilities by the due date because of an inability to convert assets into cash. It also relates to the failure to procure sufficient funds, or fund procurement at a higher cost, thereby adversely affecting incomes and capital funds.

Liquidity risk comes from internal and external factors. The liquidity risk management policy has been implemented both at Bank and at subsidiary level to control and manage cash flow to ensure it is sufficient to cover activities under normal and stressed conditions. Contingency plans are formulated to deal with crisis situations and to set up a liquidity cushion (Contingency Funding Plans), and tested on a regular basis. In addition, we identify events or circumstances that could lead to a liquidity crisis through the employment of early warning indicators. All of the above-mentioned practices and undertakings are aimed at ensuring the efficiency of our liquidity risk management.

Diversification of Liquidity Sources and Funding Structure

Under a highly competitive and sophisticated financial system, , the Bank maintains liquid assets in accordance with regulatory requirements, and maintains an excess liquidity cushion at a level commensurate with the economic situation. We are ensured of adequate cash for both the Bank's and subsidiaries' business operations. Liquidity management utilizes qualitative and quantitative approaches to ensure appropriate risk diversification. The structure and behavior of customers' deposits/withdrawals are analyzed and considered to optimize balance between the cash flow demand for each period and the appropriate cost level.

In addition, the Bank has prepared and adjusted our strategies to meet the implementayion under the Deposit Protection Agency Act through both an introduction of additional liquidity management tools together with alternative saving products offered to customers. In this regards, bills of exchange and debentures are continually issued within the limits approved by the Board of Directors.

Organization and Structure

The Board has delegated to the Risk Management Committee and the ALCO with the authority to manage and control liquidity risk as prescribed by the policy. The Asset and Liability Management Committee closely monitors the liquidity position and liquidity risk. The Treasury Division is responsible for carrying out regular reviews to determine appropriate liquidity levels, manage daily liquidity to meet the Bank's and subsidiaries' cash demands, and also undertakes 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 through the undertaking of the Funding Crisis Management Team (FCMT).

Liquidity Risk Measurement and Reporting

In 2011, Bank's aggregate liquidity risk was towards the lower end of acceptable levels. 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, due 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 the early warning point and trigger points, the daily decrease in total deposits, , and the top 20 depositors. These indicators are monitored and managed , to reduce the concentration of the Bank's funding sources, as well as maintain liquidity ratios. The Treasury Division proposes liquidity risk management guidelines and business strategies to the Assets & Liabilities Management Committee. Meanwhile, the Market Risk Management Department assesses liquidity risk levels and reports them to the Assets & Liabilities Management Committee.