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Basel II Pillar III Disclosures
As at December 31, 2012

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Basel II Pillar III Disclosures

As at December 31, 2012

1. Introduction

The purpose of this report is to disclose the information with regards to capital maintenance on Basel II Pillar III under the Solo Basis and Full Consolidation Basis as prescribed by the Bank of Thailand. The disclosure of capital reserve information, quantitatively and qualitatively, aims to promote market discipline. The disclosed information, among others, includes risk appetite, capital level and adequacy, risk identification, assessment, and mitigation, and effective processes.

On November 8, 2012, the Bank of Thailand has issued the new Notification regarding supervisory guideline on capital fund for the commercial bank to comply with global regulatory framework (Basel III) of Basel Committee on Banking Supervision (BCBS) which is effective by phase starting on January 1, 2013 up to January 1, 2019. The capital adequacy is the initial implementation with the objective to improve the quality of the bank's capital so as to be able to support the loss which may incur in the normal and crisis situation.

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: Disclosure of Information on Maintenance of Capital Fund of Commercial Banks and No. SorNorSor. 6/2553 Re: Consolidated Supervision.

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

The companies under financial business group totaled 20 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 financing
3. CFG Services Company Limited	Sale and lease-back via hire purchase and secured loan contracts by vehicle ownership registration
4. Ayudhya Card Services Company Limited	Credit cards and personal loans
5. Ayudhya Capital Services Company Limited	Credit cards and personal loans
6. General Card Services Limited	Credit cards and personal loans
7. Krungsriayudhya Card Company Limited	Credit cards and personal loans

Companies	Business Type
8. Siam Realty and Services Company Limited	Car rental and personnel services
9. Total Services Solutions Public Company Limited	Collection services
10. Krungsri Asset Management Company Limited.	Asset management
11. Krungsri AyudhyaAMC Limited	Manage non-performing assets and non-performing loans (NPL and NPA) through debt restructuring and/or purchasing their collateral. Also undertakes NPA maintenance to ensure they are in good condition and ready for sale.
12. Krungsri Securities Public Company Limited	Securities
13. Sri Ayudhya Capital Public Company Limited.	Holding company
14. Sri Ayudhya General Insurance Public Company Limited	Non life Insurance
15. Krungsri Factoring Company Limited	Factoring
16. Krungsri Life Assurance Broker Limited	Life insurance broker
17. Krungsri General Insurance Broker Limited	Non life insurance broker
18. Tesco Card Services Limited	Credit cards and personal loans
19. Tesco Life Assurance Broker Limited	Life insurance broker
20. Tesco General Insurance Broker Limited	Non life insurance broker

4. Capital Information

4.1 Capital Structure

Tier 1 Capital are composed of the followings:-

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

Tier 2 Capital are composed of the followings:-

- 70% of land revaluation
- 50% of building revaluation
- Reserve for assets classified as normal (calculation not over 1.25% of total risk weighted asset)
- 45% of investment revaluation surplus (net) of equity securities in available for sale port
- 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 No.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 No.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.

On November 7, 2012, the Bank issued subordinated debenture No.1/2012 in the amount of Baht 14,843.60 million with a maturity in November 7, 2022 at the fixed rate of 4.70% per annum, payable every 3 months in February, May, August and November of each year. The Bank has the right to redeem debenture No. 1/2012 on the fifth anniversary date or any coupon payment date thereafter.

Table 1 Capital structure

Unit: Million Baht

Item	CONSOLIDATED		THE BANK	
	December 31	June 30	December 31	June 30
	2012	2012	2012	2012
1. Tier 1 capital	84,578	79,828	81,754	81,373
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 Legal reserve	1,642	1,317	1,642	1,317
1.4 Retained earnings after appropriations	24,426	20,220	9,260	9,059
1.5 Minority interest	985	863	-	-
1.6 Deduction items	(17,018)	(17,115)	(3,691)	(3,546)
1.6.1 Goodwill	(9,947)	(9,981)	(1,054)	(878)
1.6.2 Deferred tax assets	(6,262)	(6,348)	(2,637)	(2,668)
1.6.3 Investment as deducted item : 50% from tier 1 capital and 50% from tier 2 capital	(809)	(786)	-	-
2. Tier 2 capital	49,067	33,522	44,799	31,749
2.1 Tier 2 capital fund before deducted items	49,876	34,308	44,799	31,749
2.2 Deduction item : 50% from tier 1 capital and 50% from tier 2 capital	(809)	(786)	-	-
3. Total regulatory capital	133,645	113,350	126,553	113,122
3.1 Total regulatory capital before deducted items	133,645	113,350	126,553	113,122
3.2 Deduction items from total regulatory capital	-	-	-	-

4.2 Capital Adequacy

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

The Bank strongly recognizes the importance of capital adequacy. Although the Bank of Thailand requires that banks and financial business group 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 adequacy assessment and projection. The Bank has put 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 below the Risk Appetite 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

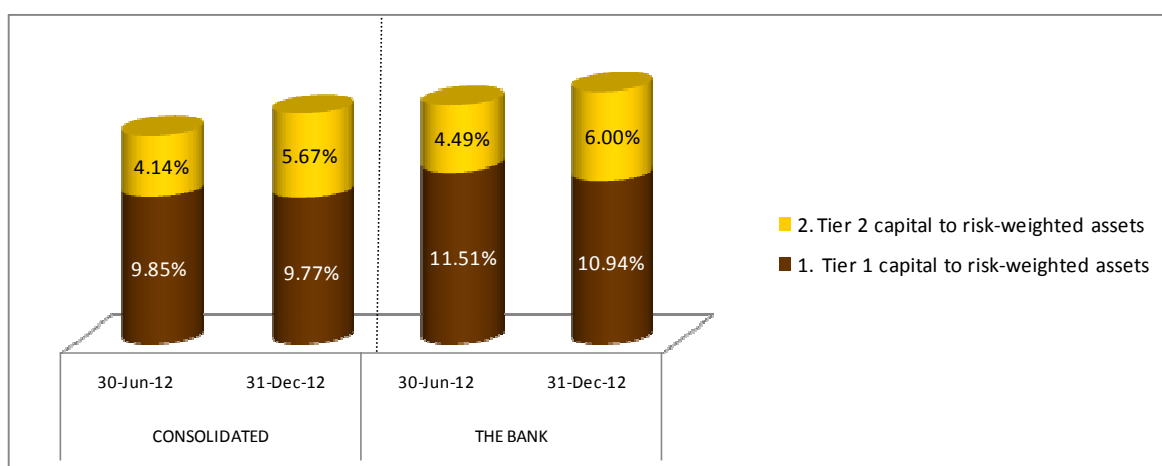
Unit: Million Baht

Minimum capital requirements for all risk	CONSOLIDATED		THE BANK	
	December 31	June 30	December 31	June 30
	2012	2012	2012	2012
Performing assets	64,260	59,482	57,766	54,119
1. Claims on sovereigns and central banks, multilateral development banks (MDBs) and public sector entities (PSEs) that are treated as claims on sovereigns	78	78	78	78
2. Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	797	885	777	936
3. Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate	27,318	26,587	37,654	34,772
4. Claims on retail portfolios	28,022	24,574	10,056	9,498
5. Residential mortgage exposures	3,527	3,362	3,527	3,362
6. Other assets	4,518	3,996	5,674	5,473
Non-performing assets	1,095	1,683	816	1,227
Minimum capital requirement for credit risk	65,355	61,165	58,582	55,346
1. Interest rate risk	199	245	199	245
2. Equity price risk	-	-	-	-
3. Foreign exchange rate risk	184	109	194	93
4. Commodity price risk	-	-	-	-
Minimum capital requirement for market risk	383	354	393	338
Minimum capital requirement for operational risk	7,850	7,373	4,521	4,408
Total minimum capital requirement	73,588	68,892	63,496	60,092

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

Unit: %

Ratio	CONSOLIDATED		THE BANK	
	December 31	June 30	December 31	June 30
	2012	2012	2012	2012
1. Total capital to risk-weighted assets	15.44	13.99	16.94	16.00
2. Tier 1 capital to risk-weighted assets	9.77	9.85	10.94	11.51



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, for example, ceiling limits, control mechanism, risk assessment and risk monitoring procedure, and reporting procedure. These common risk management practices are for the relevant parties to prompt manage and/or handle with the risk. The Bank also invests in risk assessment tools for each risk 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, reputation risk, and 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.

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

- Roles and responsibilities of risk management function;
- Process in 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, risk measurement and assessment, risk management, risk monitoring and reporting.

The audit of risk management process covers credit risk, market risk, liquidity risk and operational risk. 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 an independent Risk 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 segments 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, credit limit relative to 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 implemented the statistical-based probability of default model since 2011 which is currently running in parallel with the existing rating scale. The model is currently being validated and will be implemented in full by 2013 – 2014.

- **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, and 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 corporation. 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, strategy and action plan are developed in order to prevent or lessen the potential adverse impact.

The Bank also provides credit risk management guidelines to its companies in financial business group 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 on statement of financial position and off statement of financial position items before credit risk mitigation

Unit: Million Baht

Items	CONSOLIDATED		THE BANK	
	December 31		December 31	
	2012	2011	2012	2011
1. On-statement of financial position assets	951,836	841,709	863,699	771,942
1.1 Net loans ^{1/}	861,786	761,708	775,510	693,716
1.2 Net investments in debt securities ^{2/}	70,174	68,628	69,720	68,327
1.3 Deposits (including accrued interests)	19,876	11,373	18,469	9,899
2. Off-statement of financial position items ^{3/}	504,707	482,316	504,839	475,821
2.1 Aval of bills, guarantee and letter of credits	9,110	10,058	9,110	10,058
2.2 OTC derivatives ^{4/}	385,814	366,833	385,814	366,951
2.3 Undrawn committed lines	109,783	105,425	109,915	98,812

^{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 on statement of financial position and off statement of financial position items before credit risk mitigation classified by country or geographic area of debtors

Unit : Million Baht

CONSOLIDATED								
Country or geographic area of debtor	December 31, 2012							
	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	933,283	852,465	67,274	13,544	351,168	8,698	237,015	105,455
2.Asia Pacific (exclude Thailand)	13,431	8,902	2,132	2,397	54,231	329	49,718	4,184
3.North America and Latin America	3,855	391	-	3,464	63,082	-	63,032	50
4.Africa and Middle East	-	-	-	-	-	-	-	-
5.Europe	1,267	28	768	471	36,226	83	36,049	94
Total	951,836	861,786	70,174	19,876	504,707	9,110	385,814	109,783

Unit : Million Baht

CONSOLIDATED								
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.

THE BANK								
Country or geographic area of debtor	December 31, 2012							
	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	845,146	766,189	66,820	12,137	351,300	8,698	237,015	105,587
2.Asia Pacific (exclude Thailand)	13,431	8,902	2,132	2,397	54,231	329	49,718	4,184
3.North America and Latin America	3,855	391	-	3,464	63,082	-	63,032	50
4.Africa and Middle East	-	-	-	-	-	-	-	-
5.Europe	1,267	28	768	471	36,226	83	36,049	94
Total	863,699	775,510	69,720	18,469	504,839	9,110	385,814	109,915

Unit : Million Baht

THE BANK								
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.

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

Unit : Million Baht

Item	CONSOLIDATED					
	December 31, 2012			December 31, 2011		
	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	307,999	643,837	951,836	290,146	551,563	841,709
1.1 Net loans ^{1/}	258,020	603,766	861,786	252,123	509,585	761,708
1.2 Net investments in debt securities ^{2/}	30,736	39,438	70,174	27,149	41,479	68,628
1.3 Deposits (including accrued interests)	19,243	633	19,876	10,874	499	11,373
2. Off-statement of financial position items ^{3/}	340,076	164,631	504,707	355,924	126,392	482,316
2.1 Aval of bills, guarantee and letter of credits	8,835	275	9,110	9,852	206	10,058
2.2 OTC derivatives	329,556	56,258	385,814	336,751	30,082	366,833
2.3 Undrawn committed lines	1,685	108,098	109,783	9,321	96,104	105,425

^{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

Item	THE BANK					
	December 31, 2012			December 31, 2011		
	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	395,713	467,986	863,699	349,310	422,632	771,942
1.1 Net loans ^{1/}	346,962	428,548	775,510	312,563	381,153	693,716
1.2 Net investments in debt securities ^{2/}	30,282	39,438	69,720	26,848	41,479	68,327
1.3 Deposits (including accrued interests)	18,469	-	18,469	9,899	-	9,899
2. Off-statement of financial position items ^{3/}	340,075	164,764	504,839	349,309	126,512	475,821
2.1 Aval of bills, guarantee and letter of credits	8,835	275	9,110	9,852	206	10,058
2.2 OTC derivatives	329,556	56,258	385,814	336,869	30,082	366,951
2.3 Undrawn committed lines	1,684	108,231	109,915	2,588	96,224	98,812

^{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

Unit : Million Baht

CONSOLIDATED							
Country or geographic area of debtor	December 31, 2012 Loans and accrued interest receivables ^{1/}						Investment in debt securities Doubtful loss
	Normal	Special mentioned	Sub- standard	Doubtful	Doubtful loss	Total	
1. Thailand	838,186	24,540	7,191	5,207	9,042	884,166	397
2. Asia Pacific (excluding Thailand)	8,990	-	-	-	-	8,990	-
3. North America and Latin America	345	50	-	-	-	395	-
4. Africa and Middle East	-	-	-	-	-	-	-
5. Europe	14	14	-	-	-	28	-
Total	847,535	24,604	7,191	5,207	9,042	893,579	397

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

Unit : Million Baht

CONSOLIDATED							
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	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

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

THE BANK							
Country or geographic area of debtor	December 31, 2012 Loans and accrued interest receivables ^{1/}						Investment in debt securities Doubtful loss
	Normal	Special mentioned	Sub standard	Doubtful	Doubtful loss	Total	
1. Thailand	759,328	11,815	4,718	3,890	5,870	785,621	50
2. Asia Pacific (excluding Thailand)	8,990	-	-	-	-	8,990	-
3. North America and Latin America	345	50	-	-	-	395	-
4. Africa and Middle East	-	-	-	-	-	-	-
5. Europe	14	14	-	-	-	28	-
Total	768,677	11,879	4,718	3,890	5,870	795,034	50

^{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

^{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

Unit: Million Baht

CONSOLIDATED				
Country or geographic area of debtor	December 31, 2012			Investment in debt securities Specific Provision
	Loans and accrued interest receivables ^{1/}			
	General Provision	Specific Provision	Charge-off between the year	
1. Thailand	12,732	18,970	12,059	469
2. Asia Pacific (excluding Thailand)		88	-	-
3. North America and Latin America		3	-	-
4. Africa and Middle East		-	-	-
5. Europe		-	-	-
Total	12,732	19,061	12,059	469

Unit: Million Baht

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

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

Unit: Million Baht

THE BANK				
Country or geographic area of debtor	December 31, 2012			Investment in debt securities
	Loans and accrued interest receivables ^{1/}			
	General Provision	Specific Provision	Charge-off between the year	Specific Provision
1. Thailand	5,629	13,804	4,366	122
2. Asia Pacific (excluding Thailand)		88	-	-
3. North America and Latin America		3	-	-
4. Africa and Middle East		-	-	-
5. Europe		-	-	-
Total	5,629	13,895	4,366	122

Unit: Million Baht

THE BANK				
Country or geographic area of debtor	December 31, 2011			Investment in debt securities
	Loans and accrued interest receivables ^{1/}			
	General Provision	Specific Provision	Charge-off between the year	Specific Provision
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

^{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

Unit : Million Baht

CONSOLIDATED						
Type of business	December 31, 2012					
	Normal	Special mentioned	Substandard	Doubtful	Doubtful loss	Total
1. Agriculture and Mining	6,834	187	42	102	249	7,414
2. Manufacturing and Commerce	199,280	2,979	1,979	1,064	5,001	210,303
3. Real estate and Construction	45,834	1,463	181	387	748	48,613
4. Public Utilities and Services	98,152	5,328	1,236	1,100	1,093	106,909
5. Housing	100,072	1,587	979	956	1,109	104,703
6. Others	397,363	13,060	2,774	1,598	842	415,637
Total	847,535	24,604	7,191	5,207	9,042	893,579

Unit : Million Baht

CONSOLIDATED						
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

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

THE BANK						
Type of business	December 31, 2012					
	Normal	Special mentioned	Substandard	Doubtful	Doubtful loss	Total
1. Agriculture and Mining	5,904	187	30	102	140	6,363
2. Manufacturing and Commerce	198,739	2,751	1,946	950	3,589	207,975
3. Real estate and Construction	45,046	1,417	177	348	315	47,303
4. Public Utilities and Services	97,873	5,277	1,188	1,009	820	106,167
5. Housing	100,835	1,587	979	956	833	105,190
6. Others	320,280	660	398	525	173	322,036
Total	768,677	11,879	4,718	3,890	5,870	795,034

Unit : Million Baht

THE BANK						
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	884	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

* 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, 2012			December 31, 2011		
	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	12,732	101	19	12,747	87	76
2. Manufacturing and Commerce		5,012	939		4,724	2,915
3. Real estate and Construction		433	1,626		1,510	3,331
4. Public Utilities and Services		4,181	2,370		4,200	2,978
5. Housing		1,136	276		1,000	338
6. Others		8,198	6,829		7,532	5,797
Total	12,732	19,061	12,059	12,747	19,053	15,435

Unit: Million Baht

Type of business	THE BANK					
	December 31, 2012			December 31, 2011		
	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	5,629	101	19	6,102	87	76
2. Manufacturing and Commerce		5,012	939		4,724	2,915
3. Real estate and Construction		433	1,626		1,510	3,331
4. Public Utilities and Services		3,678	973		3,186	411
5. Housing		1,136	276		1,000	338
6. Others		3,535	533		2,731	243
Total	5,629	13,895	4,366	6,102	13,238	7,314

* 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, 2012			December 31, 2011		
	General provision	Specific provision	Total	General provision	Specific provision	Total
Provisions at the beginning of the years	12,747	19,053	31,800	12,666	21,323	33,989
Bad debt charge-offs during the years	-	(12,059)	(12,059)	-	(15,435)	(15,435)
Increases or decreases of provisions during the years	(14)	12,067	12,053	79	13,165	13,244
Provisions for losses from foreign exchange	(1)	-	(1)	2	-	2
Provisions at the end of the years	12,732	19,061	31,793	12,747	19,053	31,800

Unit: Million Baht

Item	THE BANK					
	December 31, 2012			December 31, 2011		
	General provision	Specific provision	Total	General provision	Specific provision	Total
Provisions at the beginning of the years	6,102	13,238	19,340	5,392	14,832	20,224
Bad debt charge-offs during the years	-	(4,366)	(4,366)	-	(7,314)	(7,314)
Increases or decreases of provisions during the years	(472)	5,023	4,551	708	5,720	6,428
Provisions for losses from foreign exchange	(1)	-	(1)	2	-	2
Provisions at the end of the years	5,629	13,895	19,524	6,102	13,238	19,340

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

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

Unit: Million Baht

CONSOLIDATED						
Type of assets	December 31, 2012			December 31, 2011		
	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	1,034,183	127,547	1,161,730	894,858	134,331	1,029,189
1.1 Claims on sovereigns and central banks, multilateral development banks (MDBs) and public sector entities (PSEs) that are treated as claims on sovereigns	83,366	1,269	84,635	77,827	44,357	122,184
1.2 Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	14,601	51,603	66,204	13,560	13,184	26,744
1.3 Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate	304,349	45,693	350,042	284,461	50,650	335,111
1.4 Claims on retail portfolios	429,047	28,573	457,620	339,989	25,745	365,734
1.5 Residential mortgage exposures	92,344	409	92,753	81,354	395	81,749
1.6. Other assets	110,476	-	110,476	97,667	-	97,667
2. Non-performing assets	10,563	104	10,667	17,370	294	17,664
3. First-to-default credit derivative and Securitization	-	-	-	-	-	-
Total	1,044,746	127,651	1,172,397	912,228	134,625	1,046,853

* After multiplying by CCF and Specific provision

** Include Repo-style transaction and Reverse repo

THE BANK						
Type of assets	December 31, 2012			December 31, 2011		
	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	939,024	127,972	1,066,996	830,638	133,046	963,684
1.1 Claims on sovereigns and central banks, multilateral development banks (MDBs) and public sector entities (PSEs) that are treated as claims on sovereigns	83,365	1,269	84,634	77,827	44,357	122,184
1.2 Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	15,090	51,605	66,695	17,685	11,857	29,542
1.3 Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate	491,818	46,117	537,935	425,511	50,691	476,202
1.4 Claims on retail portfolios	147,852	28,573	176,425	123,404	25,746	149,150
1.5 Residential mortgage exposures	92,345	408	92,753	81,354	395	81,749
1.6. Other assets	108,554	-	108,554	104,857	-	104,857
2. Non-performing assets	8,128	105	8,233	11,801	294	12,095
3. First-to-default credit derivative and Securitization	-	-	-	-	-	-
Total	947,152	128,077	1,075,229	842,439	133,340	975,779

* 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. Currently, the Bank does not apply the netting for both on and off statement of financial positions as credit risk mitigation.

Table 13 Outstanding balance of assets in financial position and off financial position items^{1/} after credit risk mitigation for each type of assets classified by risk weight under the Standardized Approach

Unit: Million Baht

CONSOLIDATED												
Type of Asset	December 31, 2012											
	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	115,387	323	365		443							
2. Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies		10,964	7,006	3,626	40							
3. Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate		4,262	27,307	35,909							269,849	746
4. Claims on retail portfolios										436,737	2,118	
5. Residential mortgage exposures								70,443		21,841	462	
6. Other assets						98,736	2,508				52,658	
Non-performing assets^{2/}						54			1,166		3,754	5,693
Assets specified by the BOT as items to be deducted from capital fund	17,828											

^{1/} After multiplying by CCF

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

Unit: Million Baht

CONSOLIDATED												
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.

Unit: Million Baht

THE BANK												
Type of Asset	December 31, 2012											
	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	115,387	322	365		443							
2. Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies		11,237	7,341	3,164	40							
3. Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate		4,263	161,384	35,909	746						324,416	
4. Claims on retail portfolios										157,675	54	
5. Residential mortgage exposures								70,444		21,841	461	
6. Other assets						82,755	2,497				66,252	
Non-performing assets ^{2/}						54			1,082		3,180	3,917

^{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

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.

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

Unit: Million Baht

Type of asset	CONSOLIDATED				THE BANK			
	December 31, 2012		December 31, 2011		December 31, 2012		December 31, 2011	
	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	89,186	8,841	88,244	3,604	88,363	8,841	87,810	3,604
1. Claims on sovereigns and central banks, multilateral development banks (MDBs) and public sector entities (PSEs) that are treated as claims on sovereigns	17,885	-	60,541	-	17,885	-	60,541	-
2. Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	45,269	4,128	5,296	3,465	45,269	4,128	5,296	3,465
3. Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate	10,761	1,211	13,242	8	10,007	1,211	13,042	8
4. Claims on retail portfolios	15,264	3,502	9,157	131	15,195	3,502	8,923	131
5. Residential mortgage exposures	7	-	8	-	7	-	8	-
6. Other assets	-	-	-	-	-	-	-	-
Non-performing assets	54	-	53	-	54	-	53	-
Total	89,240	8,841	88,297	3,604	88,417	8,841	87,863	3,604

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

7. Market risk

Market risk is the threat of an adverse impact on income and capital funds caused by price fluctuations in the trading and banking books with regard to interest rates, exchange rates, equity instruments and commodities.

While market risk factors are external factors beyond the Bank's control, we understand the importance of effective and aggressive market risk management as well as the need for timely responses to an ever changing business environment. We have continuously enhanced our policies, methodologies, measurement tools and processes to manage market risk and maintain adequate capital relative to our risk exposure. Furthermore, Krungsri is steadfast in our efforts to ensure that proper internal controls and practices for market risk management comply with Bank of Thailand policies.

Principles

Effective market risk management is dependent on having robust monitors and controls that are specifically set to our risk appetite. That is why we continually review risk limits to ensure they are suitable for the scope, volume and complexity of transactions and any changes in the business and market situations. In addition, Krungsri's continues to develop and fine-tune relevant policies, tools and risk management processes – including the Internal Capital Adequacy Assessment Process (ICAAP) – in order to develop comprehensive risk management guidelines that help us maintain appropriate levels of capital under all situations to deliver sustainable growth and returns for shareholders.

Organization and structure

Market risk management is carried out by the Risk Management Committee and the Assets and Liabilities Management Committee, which have been empowered by the Board of Directors with the authority to manage and control market risk in a manner consistent with Krungsri's policy.

The Committee establishes guidelines for the appropriate management of assets and liabilities as well as items off the statement of financial position. The organizational structure clearly delineates the duties and responsibilities of the units responsible for transaction execution, operations and risk management to avoid conflicts of interest.

High volatility in the money and capital markets, particularly which related to the European sovereign debt crisis and economic impacts from domestic flooding in late 2011, had a significant effect on domestic interest rate movement in 2012. The Committee has therefore decided to place greater importance on monitoring market risk exposure and has established a reporting process to mitigate any negative market risk factors, ensuring the effective and timely implementation of our risk management processes.

Enhancement of market risk management structure

Krungsri established an Assets and Liabilities Management Department under the Finance Group to provide the Assets and Liabilities Management Committee with sufficient analyses of the statement of financial position management of the Bank and our competitors, as well as Krungsri's interest rate risk in banking book strategic options. The Market Risk Management Department provides strategic risk management options and reports the Bank's market risk exposures to the Risk Management Committee for managing and controlling market risk in a manner consistent with policy. The Treasury Division executes transactions and manages positions under the risk limits approved by the Board of Directors.

Measurement system

Achievement of market risk management efficiency

We have continually developed our risk measurement tools and methodologies to ensure they are appropriate to the size and complexity of both on- and off-statement of financial position transactions. Krungsri's Assets and Liabilities Management Software for daily monitoring and managing of interest rate risk in banking book transactions was enhanced as a part of this process.

Throughout 2012, our aggregate market risk was well within acceptable levels. The assessment, control and monitoring of market risk can be divided into two parts: trading book transactions and banking book transactions, as follows:

1. Risks from transactions in the trading book

We use Value-at-Risk and conduct back-testing to assess the reliability of the models. We also conduct stress testing to assess risk under crisis situations.

2. Risks from transactions in the banking book

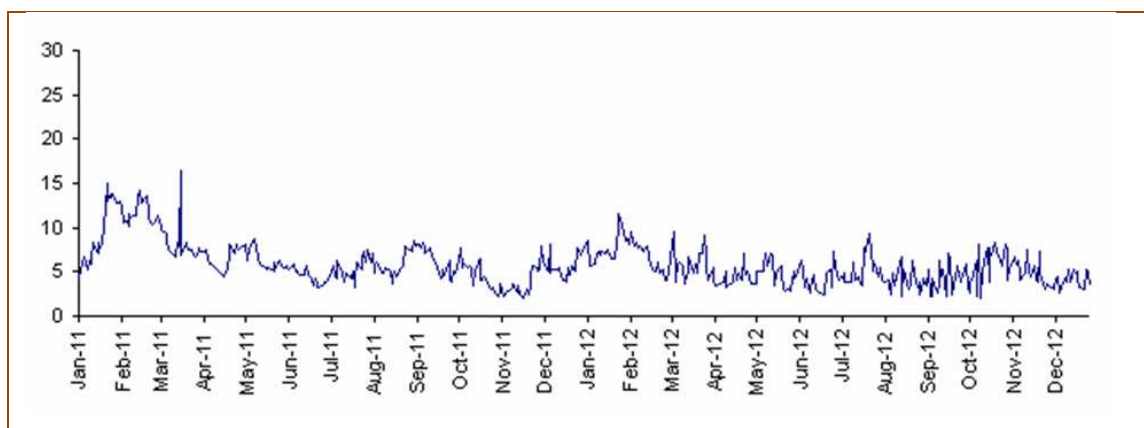
We also manage risk arising from mismatch between the interest rate structure and on- and off-statement of financial position positions. We assess the probable impact on net interest income (earning perspective) from assets, liabilities, and off-statement of financial position items that are sensitive 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 that reflects the sensitivity of the economic value of shareholder equity (economic value perspective).

Managing Market Risk in Trading Book

The assessment, control, and monitoring of market risk in the trading book; we use Value-at-Risk and conduct back-testing to assess the reliability of the models. We also conduct stress testing to assess risk under crisis situations.

The Bank's Total Daily Value-at-Risk (VaR) Movement: 2012 and 2011

(Unit : Million Baht)



Capital Requirements

We conduct risk assessments and maintain capital funds at Bank and financial business group 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 and In-sourcing 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. 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 Treasury Division also 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 and revised 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		THE BANK	
	December 31		December 31	
	2012	2011	2012	2011
1. Equity exposures				
1.1 Equities listed and publicly traded in the Stock Exchange *				
- At cost	6,258	5,623	6,672	6,037
- Market value	6,935	5,849	7,599	6,320
1.2 Other equities *	4,433	2,510	35,861	37,265
2. Gains (losses) of sale of equities during the reporting periods	1,022	332	697	228
3. Net revaluation surplus from valuation AFS equity	696	245	953	309
4. Minimum capital requirements for equity exposures by SA approach	694	477	3,326	3,315

* Included domestic and foreign items

10. Interest rate risk in the banking book

We also manage risk arising from mismatch between 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 that reflects the sensitivity of the economic value of shareholder equity (economic value perspective).

In 2012, the effect on Krungsri's interest rate risk profile was minimal, as the Bank adjusted its statement of financial position structure to be consistent with interest rate risk and Krungsri's specified risk appetite. In addition, the Bank prepared a report on the interest rate risk gap to monitor interest rate risk and assess net interest income sensitivity over the next 12 months, based on an assumption of a one-percentage-point change in the interest rate for all types of assets, liabilities and off-statement of financial position items at their different re-pricing periods.

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

Unit: Million Baht

Currency **	Net Interest Income Impacts			
	CONSOLIDATED		THE BANK	
	December 31		December 31	
	2012	2011	2012	2011
Baht	(662)	(495)	(586)	872
USD	-	-	-	-
EURO	-	-	-	-
Others	-	-	-	-
Total	(662)	(495)	(586)	872

* 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.

Krungsri has established a liquidity risk management system with a proactive and proper asset and liability structure that is efficient, flexible and adaptable to current market conditions. We also review the Liquidity Contingency Crisis Plan and Guidelines on a regular basis to ensure that key operational procedures to cope with any potential liquidity crisis are in place. The Bank has prepared a liquidity cushion (in the form of Contingency Funding Plans), and we test our Liquidity Contingency Crisis Plan on a regular basis. We have also established early warning indicators for monitoring and reporting on a daily basis. All of these aim to ensure the efficiency – and effectiveness – of our liquidity risk management.

Principles

Liquidity management utilizes qualitative and quantitative approaches to ensure appropriate risk diversification. The Bank emphasizes the management of liquidity risk at an acceptable level and controls liquidity risk so that it is consistent with Krungsri's risk appetite and appropriate operating costs. The Bank also maintains an excess liquidity cushion at a level commensurate with the current economic climate. We seek to ensure that there is adequate cash for the business operations of the Bank and its subsidiaries.

Organization and structure

The Asset and Liability Management Committee closely monitors the liquidity position and liquidity risk.

Enhancement of liquidity risk management structure

The Assets and Liabilities Management Department provides the Committee with sufficient analyses of the statement of financial position management of the Bank and its competitors, as well as Krungsri's liquidity risk and funding strategic options, which are major risks under the Committee's responsibilities. The Market Risk Management Department provides risk management strategic options and reports the Bank's liquidity risk exposures to the Risk Management Committee for managing and controlling liquidity risk in a manner consistent with policy. The Treasury Division is further responsible for carrying out regular reviews to determine appropriate liquidity levels and manage daily liquidity.

Measurement system

Achievement of liquidity risk management efficiency

We employ a variety of liquidity risk management tools such as cash flow/liquidity projection and liquidity gap analysis by assets, liabilities and contingent liabilities according to the remaining contractual maturity. In this regard, consideration is given to both 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 points and trigger points, decrease in the highest deposit and bill of exchange level each day, and the top one and top 20 deposits and bill of exchange concentration, in order to reduce the concentration of the Bank's funding sources, as well as its liquidity ratios.

Krungsri has continuously developed advanced tools and measurements and enhanced our Assets and Liabilities Management Software for monitoring and managing liquidity risk on a daily basis. In addition, the Bank has conducted additional stress test scenarios for the event of a market-wide liquidity crisis and a

Bank-specific liquidity crisis, aside from our regular stress tests for both market-wide and Bank-specific liquidity crises (Combination Liquidity Crisis).

The Bank's aggregate liquidity risk was within acceptable levels throughout 2012. Krungsri maintained focus on proper liquidity management in response to changing economic domestic and international circumstances, as well as interest rate direction in the money market as per the Bank of Thailand's policy. Krungsri continued to pursue our strategy of increasing new deposit products and diversifying our customer base to enlarge our main sources of funding.