

Information Disclosures under Basel II Capital Requirement

Scope of application

According to the Bank of Thailand's guideline in the supervision of capital for commercial banks based on Basel II, enforced at bank's solo basis, revised from the regulation based on Basel I effective since 1993, commercial banks are required to maintain the minimum capital requirement corresponding to more complicated risk assessment methods leading to better measure the risks and embrace other relevant aspects of banks' encountered risks by disclosing both quantitatively and qualitatively using the data as of December 31, 2008 and 2009, respectively.

Besides the regulation as mentioned above, the Bank of Thailand further requires the Bank disclose other key relevant information regarding the capital to be easily accessible and to engender the transparency of the Bank's risks and capital information as follows.

Capital structure

The Bank's capital as of December 31, 2008 and 2009 are composed of the followings.

(Unit: Baht)		
	Separate Financial Statement	
	2009	2008
<u>Tier-1 Capital</u>		
Paid-up share capital	15,904,529,450	15,904,529,450
Investments in instruments already counted as other financial institutions' capital funds	(384,631,994)	(527,344,071)
Deficit	(3,143,633,229)	(3,535,007,068)
Total	12,376,264,227	11,842,178,311
<u>Tier-2 Capital</u>		
Reserve for assets classified as "Pass"	293,747,838	243,885,824
Revaluation surplus on investments in available-for-sale securities	2,343,688	-
Investments in instruments already counted as other financial institutions' capital funds	(296,091,526)	(243,885,824)
Total	-	-
Total capital before deductions	12,376,264,227	11,842,178,311
Deductions from total capital		
Revaluation surplus (deficit) on investments in available-for-sale securities	-	(12,505,418)
Total capital funds	12,376,264,227	11,829,672,893

Capital Adequacy

According to the Bank of Thailand's guideline in supervision of capital requiring commercial banks maintain the capital in proportion to the credit, market and operational risk weighted assets of at least 8.5%, the Bank has established the policy to maintain the regulatory capital in compliance with the methodologies and conditions as specified by the Bank of Thailand. To assess the capital adequacy for different types of risk, the Bank utilizes the approaches corresponding to complexity of transactions and size of the Bank as follows.

- Credit Risk Standardized Approach
- Market Risk Standardized Approach
- Operational Risk Basic Indicator Approach

Besides, the Bank has the capital adequacy assessment so as to comply with the Bank of Thailand's guideline in supervision of capital for commercial banks.

The minimum capital requirement

According to the Basel II guideline in supervision of capital, the Bank has to maintain the capital corresponding to each type of risk as follows.

1. Credit risk capital requirement

Based on the Standardized Approach, the minimum capital requirement classified by type of assets with the data as of December 31, 2008 and 2009 are as follows.

(Unit: Baht)

	Separate Financial Statement	
Minimum Credit Risk Capital Requirement	2009	2008
Performing Loans		
Claims on Sovereigns and Central Bank and claims on non-Central Government Public Sector Entities (PSEs) which are treated as Claims on Sovereigns and Central Bank	446,479	-
Claims on Financial Institutions and claims on Non-central Government Public Sector Entities (PSEs) which are treated as Claims on Financial Institutions	70,767,355	103,866,506
Claims on Corporates and claims on Non-Central Government Public Sector Entities (PSEs) which are treated as Claims on Corporates	3,774,621,604	3,341,332,142
Claims in the Regulatory Retails Portfolio	14,905,309	12,294,851
Residential Mortgage Loans	4,939,899	7,006,636
Other assets	292,356,720	284,354,950
Non-performing Loans	221,778,641	189,346,000
Total credit risk capital requirement	4,379,816,007	3,938,201,085

2. Market Risk Capital Requirement

For the Trading Book, the Bank uses the Standardized Approach for capital calculation. The market risk capital requirement as of December 31, 2009 and 2008 amounted to 42,468,441 baht and 12,309,347 baht, respectively.

3. Operational Risk Capital Requirement

The Bank uses the Basic Indicator Approach for capital requirement calculation. The capital required for operational risk as of December 31, 2009 and 2008 amounted to 224,719,138 baht and 182,906,522 baht, respectively.

Based on the Basel II guideline on capital calculation for all 3 types of risk, the Bank maintained the Capital Adequacy Ratio as of December 31, 2009 and 2008 as follows.

(Unit: Percent)

Capital Adequacy Ratio	Separate Financial Statement			
	2009		2008	
	Bank	Regulatory requirement	Bank	Regulatory requirement
Tier 1 capital to risk assets	22.64	4.25	24.35	4.25
Total capital to risk assets	22.64	8.50	24.33	8.50

Credit Risk Policies

The Bank has established the credit risk policies and credit policies as the guidelines for credit approvals consideration to be within the portfolio risk tolerance of the Bank. The credit risk management policies comprise the lending to related parties policy, individual and group facility limits, the list of prohibited businesses lending, specific businesses lending, sectorial lending limits, other relevant policies to credit approval processes in line with the Bank of Thailand's regulations in order that the Bank has appropriate control of credit risk and sufficient credit and portfolio risk management. The policy also incorporates the processes of credit risk assessment, monitoring and control and capital adequacy assessment process.

Definition of default and impairment of assets

The Bank has established the policy to define the default for the impairment of loan consideration whereby the incurrence of default corresponds to the overdue of either notional principal or interest of over 90 days or any loans qualitatively classified as non-performing.

Guideline for setting general and specific provision

The Bank sets the provision for the doubtful loans in full in line with the minimum requirement set by the Bank of Thailand's guideline in Classification and Provisioning of the Financial Institution. For Non-performing loans, the Bank has set provision of 100% for the difference between the loan outstanding and the present value of the expected cash flow from the collateral liquidation.

Moreover, the Bank has set additional provision for individual loans as follows.

1. In case that the Bank has considered the credit approval, extension of facility or restructuring and found that it is possible that the loans cannot be repaid in both principal and interest according to the contract, the Risk Management Division will recommend additional specific provision for each individual loan.
2. The Bank may set the additional provision in case of the recommendations from the management, internal audit, auditors or the Bank of Thailand.

For General Provision, the management shall consider general provisioning to prevent potential loan loss and such provisions are not related to any specific loan account by consideration of expected loss, e.g. the shared loss from Thai Asset Management Corporation (TAMC), the loss from asset for sales.

The Bank has the outstanding of the on-balance sheet and off-balance sheet asset before adjusting with the credit risk mitigation as of December 31, 2009 and 2008 as follows.

Items	(Unit: Baht)	
	Separate financial statement	
	2009	2008
On-balance sheet assets		
Total Net loans ^{1/}	51,418,189,944	53,061,464,057
Net investment in debt securities ^{2/}	9,112,508,850	13,191,580,500
Deposits (including accrued interest receivables)	285,629,364	459,656,378
Off-balance sheet assets ^{3/}		
Avals, Guarantee to loans and Letters of Credit	244,859,467	386,190,989
OTC derivatives	50,624,059,620	28,594,806,673
Undrawn committed lines	-	16,148,703

^{1/} Including accrued interest receivables and net amortization, allowances for doubtful debts, allowances for restructuring and net loans to interbank and money market

^{2/} Excluding accrued interest receivables and net the allowances for amortization and impairment of assets

^{3/} Before multiplying by the credit conversion factors (CCF)

The Bank has the outstanding in on-balance and off-balance assets before adjusting with the credit risk mitigation classified by country as of December 31, 2009 and 2008 as follows.

(Unit: Baht)

Separate financial statement							
2009							
Customer's country of residence	Net Loan ^{1/}	Net investment in debt securities ^{2/}	Deposits (including interest receivables)	Total	Avals, Guarantees to loans and Letter of Credit	Over-the-counter derivatives	Undrawn Committed Line
Thailand	51,402,296,473	9,112,508,850	268,525,977	60,783,331,300	244,859,467	40,992,701,676	-
Pacific Rim excluding Thailand	15,893,471		16,549,449	32,442,920	-	-	-
North America and Latin America	-	-	-	-	-	-	-
Africa and Middle East	-	-	-	-	-	-	-
Europe	-	-	553,938	553,938	-	9,631,357,944	-
Total	51,418,189,944	9,112,508,850	285,629,364	60,816,328,158	244,859,467	50,624,059,620	-

(Unit: Baht)

Separate Financial Statement							
2008							
Customer's country of residence	Net Loan ^{1/}	Net investment in debt securities ^{2/}	Deposits (including interest receivable)	Total	Aval, Loan Guarantees and Letter of Credit	Over-the-counter derivatives	Undrawn Committed Line
Thailand	53,043,871,668	11,679,918,001	394,716,726	65,118,506,395	386,190,989	19,685,219,720	16,148,703
Pacific Rim excluding Thailand	17,592,389	1,511,662,499	11,882,389	1,541,137,277	-	118,654,669	-
North America and Latin America	-	-	-	-	-	-	-
Africa and Middle East	-	-	-	-	-	-	-
Europe	-	-	53,057,263	53,057,263	-	8,790,932,284	-
Total	53,061,464,057	13,191,580,500	459,656,378	66,712,700,935	386,190,989	28,594,806,673	16,148,703

^{1/} Including accrued interest receivables and net amortization, allowances for doubtful debts, allowances for restructuring and net loans to interbank and money market

^{2/} Excluding accrued interest receivables and net the allowances for amortization and impairment of assets

^{3/} Before multiplying by the credit conversion factors (CCF)

The Bank has the outstanding in on-balance and off-balance assets before adjusting with the credit risk mitigation classified by time to maturities as of December 31, 2009 and 2008 as follows.

(Unit: Baht)			
Items	Separate financial statement		
	2009		
	Up to 1 year	Over 1 year	Total
On-balance sheet assets			
Total Net loans ^{1/}	32,865,085,767	18,553,104,177	51,418,189,944
Net investment in debt securities ^{2/}	3,217,152,118	5,895,356,732	9,112,508,850
Deposit (including accrued interest receivables)	285,629,364	-	285,629,364
Off-balance sheet items ^{3/}			
Avals, Guarantees to loans and Letters of Credit	244,859,467	-	244,859,467
Over-the-counter derivatives	41,114,206,540	9,509,853,080	50,624,059,620
Undrawn committed line	-	-	-
(Unit: Baht)			
Items	Separate financial statement		
	2008		
	Up to 1 year	Longer than 1 year	Total
On-balance sheet assets			
Total Net loans ^{1/}	37,025,651,757	16,035,812,300	53,061,464,057
Net investment in debt securities ^{2/}	2,825,734,462	10,365,846,038	13,191,580,500
Deposit (including accrued interest receivables)	459,656,378	-	459,656,378
Off-balance sheet items ^{3/}			
Avals, Guarantees to loans and Letters of Credit	315,493,487	70,697,502	386,190,989
Over-the-counter derivatives	18,486,050,305	10,108,756,368	28,594,806,673
Undrawn committed line	16,148,703	-	16,148,703

^{1/} Including the interest receivables and net amortization, allowances for doubtful debts, allowances for restructuring and net loans to interbank and money market

^{2/} Excluding the interest receivables and net the allowances for amortization and impairment of assets

^{3/} Before multiplying by the credit conversion factors (CCF)

The Bank has the outstanding of loans including the accrued interest receivable and investment in debt instruments before adjusting with the credit risk mitigation classified by country of borrowers according to the Bank of Thailand's guideline as of December 31, 2009 and 2008 as follows.

(Unit: Baht)

Customer's country of residence	Separate financial statement						
	2009						
	Loans and accrued interest receivables ^{1/}						Investment
	Normal	Special	Sub-standard	Doubtful	Doubtful Loss	Total	in doubtful loss debt securities
	Mentioned						
Thailand	49,169,974,955	687,245,875	723,699,862	896,857,632	922,872,695	52,400,651,019	86,829,153
Pacific Rim excluding Thailand	15,893,471	-	-	-	-	15,893,471	-
North America and Latin America	-	-	-	-	-	-	-
Africa and Middle East	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-
Total	49,185,868,426	687,245,875	723,699,862	896,857,632	922,872,695	52,416,544,490	86,829,153

^{1/} Including net loans to interbank and money market

(Unit: Baht)

Customer's country of residence	Separate financial statement						
	2008						
	Loans and accrued interest receivables ^{1/}						Investment in
	Normal	Special	Sub-standard	Doubtful	Doubtful Loss	Total	doubtful loss debt securities
	Mentioned						
Thailand	50,415,826,741	1,141,110,719	405,303,617	1,009,469,367	805,310,905	53,777,021,349	86,903,761
Pacific Rim excluding Thailand	7,886,852	9,705,538	-	-	-	17,592,390	-
North America and Latin America	-	-	-	-	-	-	-
Africa and Middle East	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-
Total	50,423,713,593	1,150,816,257	405,303,617	1,009,469,367	805,310,905	53,794,613,739	86,903,761

^{1/} Including net loans to interbank and money market

The Bank has set both general provision and specific provision and during the period write-off for the non-performing loans including the interest receivable and the investments in debt instruments as of December 31, 2009 and 2008 classified by country of borrowers as follows.

(Unit: Baht)

Separate financial statement				
2009				
Customer's country of residence	Loans and accrued interest receivables ^{1/}			Specific provision for
	General provision	Specific	Bad debt written-off	investment in debt
		provision		securities
Thailand		997,762,935	722,769,426	363,156,607
Pacific Rim excluding Thailand		-	-	-
North America and Latin America		-	-	-
Africa and Middle East		-	-	-
Europe		-	-	-
Total	293,747,838	997,762,935	722,769,426	363,156,607

(Unit: Baht)

Separate financial statement				
2008				
Customer's country of residence	Loans and accrued interest receivables ^{1/}			Specific provision for
	General provision	Specific	Bad debt written-off	investment in debt
		provision		securities
Thailand		732,824,547	423,395,294	616,366,007
Pacific Rim excluding Thailand		-	-	-
North America and Latin America		-	-	-
Africa and Middle East		-	-	-
Europe		-	-	-
Total	243,885,824	732,824,547	423,395,294	616,366,007

^{1/} Total provision and during the period write-off for loans and accrued interest receivable to interbank and money market

The Bank has the outstanding of total loans including interest receivable before credit risk mitigation classified by type of businesses of borrowers and by the Bank of Thailand's guideline for loan classification as of December 31, 2009 and 2008 as follows.

(Unit: Baht)

Type of business	Separate financial statement					
	2009					
	Normal	Special Mentioned	Sub-standard	Doubtful	Doubtful of loss	Total
Agriculture and mining	396,506,442	-	2,681,774	942,822	2,636,275	402,767,313
Manufacturing and commerce	18,690,043,928	538,530,969	383,114,685	535,367,895	483,649,290	20,630,706,767
Real estate and construction	4,060,118,443	117,677,198	11,366,754	292,335,804	327,025,381	4,808,523,580
Public utility and services	5,171,975,378	11,997,921	320,900,803	61,642,451	51,913,287	5,618,429,840
Housing loans	124,938,526	18,733,170	5,635,846	6,568,660	35,912,129	191,788,331
Others	20,742,285,709	306,617	-	-	21,736,333	20,764,328,659
Total	49,185,868,426	687,245,875	723,699,862	896,857,632	922,872,695	52,416,544,490

(Unit: Baht)

Type of business	Separate financial statement					
	2008					
	Normal	Special Mentioned	Sub-standard	Doubtful	Doubtful of loss	Total
Agriculture and mining	545,283,687	2,605,898	1,905,917	-	5,685,313	555,480,815
Manufacturing and commercial	21,197,685,325	945,374,113	172,150,123	613,960,580	298,094,079	23,227,264,220
Real estate and construction	4,532,403,475	107,830,115	200,704,957	305,606,176	415,051,194	5,561,595,917
Public utility and services	3,705,564,612	66,953,180	8,564,132	66,073,699	18,656,977	3,865,812,600
Housing loans	169,595,400	27,718,957	6,392,319	23,828,912	44,625,061	272,160,649
Others	20,273,181,094	333,994	15,586,169	-	23,198,281	20,312,299,538
Total	50,423,713,593	1,150,816,257	405,303,617	1,009,469,367	805,310,905	53,794,613,739

The Bank has set both general provision and specific provision and during the period write-off for the non-performing loans including the accrued interest receivable and the investments in debt instruments classified by the type of businesses of the borrowers as of December 31, 2009 and 2008 as follows.

(Unit: Baht)

Type of business	Separate financial statement					
	2009			2008		
	General provision	Specific provision	Bad debt written -off	General provision	Specific provision	Bad debt written -off
Agriculture and mining		-	-		921,016	10,558,126
Manufacturing and commercial		896,289,257	445,390,615		552,189,802	163,736,398
Real estate and construction		56,255,721	240,240,717		145,313,818	204,898,758
Public utility and services		44,680,311	2,819,884		12,528,055	10,031,014
Housing loans		537,646	17,925,093		6,409,885	28,917,534
Others		-	16,393,117		15,461,971	5,253,464
Total	293,747,838	997,762,935	722,769,426	243,885,824	732,824,547	423,395,294

Changes in the general provision and specific provision for the loans including the accrued interest receivable during the year^{1/} were as follows.

(Unit: Baht)

Items	Separate financial statement					
	2009			2008		
	General provision	Specific provision	Total	General provision	Specific provision	Total
Beginning balance of year	243,885,824	732,746,785	976,632,609	191,288,850	783,020,151	974,309,001
Bad debt written off	-	(722,769,426)	(722,769,426)	-	(423,395,294)	(423,395,294)
Increase (decrease) in provision during the period	49,862,014	985,210,505	1,035,072,519	52,596,974	373,121,928	425,718,902
Ending balance of year	293,747,838	995,187,864	1,288,935,702	243,885,824	732,746,785	976,632,609

^{1/} Including loans and accrued interest receivables to interbank and money market

The outstanding of the on-balance sheet assets and on-balance sheet equivalence items classified by the type of assets by Standardized Approach as of December 31, 2009 and 2008 as follows.

(Unit: Baht)

Type of assets	Separate financial statement		
	2009		
	On-balance sheet assets	Off-balance sheet item ^{1/}	Total
Performing loans			
Claims on Sovereigns and Central Bank and claims on non-Central Government Public Sector Entities (PSEs) which are treated as Claims on Sovereigns and Central Bank	5,518,955,366	-	5,518,955,366
Claims on Financial Institutions and claims on Non- central Government Public Sector Entities (PSEs) which are treated as Claims on Financial Institutions	6,978,199,159	355,992,746	7,334,191,905
Claims on Corporates and claims on Non-Central Government Public Sector Entities (PSEs) which are treated as Claims on Corporates	46,106,030,059	597,056,305	46,703,086,364
Claims in the Regulatory Retail Portfolio	192,840,217	-	192,840,217
Residential Mortgage Loans	144,796,453	-	144,796,453
Other assets	4,453,091,334	-	4,453,091,334
Non-performing loans	1,954,220,633	6,165,382	1,960,386,015
Total	65,348,133,221	959,214,433	66,307,347,654

^{1/} After multiplying by the credit conversion factor (CCF) and specific provision

Unit: Baht

Type of assets	Separate financial statement		
	2008		
	On-balance sheet items	Off-balance sheet item ^{1/}	Total
Performing loans			
Claims on Sovereigns and Central Bank and claims on non-Central Government Public Sector Entities (PSEs) which are treated as Claims on Sovereigns and Central Bank	15,096,157,750	-	15,096,157,750
Claims on Financial Institutions and claims on Non- central Government Public Sector Entities (PSEs) which are treated as Claims on Financial Institutions	6,217,703,097	322,260,270	6,539,963,367
Claims on Corporates and claims on Non-Central Government Public Sector Entities (PSEs) which are treated as Claims on Corporates	43,527,750,178	732,960,076	44,260,710,254
Claims in the Regulatory Retail Portfolio	171,697,969	-	171,697,969
Residential Mortgage Loans	197,971,713	-	197,971,713
Other assets	4,110,313,892	-	4,110,313,892
Non-performing loans	1,673,208,801	601,010	1,673,809,811
Total	70,994,803,400	1,055,821,356	72,050,624,756

^{1/} After multiplying by the credit conversion factor (CCF) and specific provision

Credit Risk Exposures Classified by Credit Risk Weighted Asset Calculation Methods

1. The list of the External Credit Rating Institutions (ECAI) that the Bank chooses to determine the risk weight for the borrowers in each type of the assets is as follows.

- Sovereigns, provincial organizations, governmental entities, state enterprises, securities companies which the Bank of Thailand assigns the rating equal to loans to financial institutions

The Bank bases the rating determination on 3 ECAIs including Fitch Ratings, Moody's Investor Services and Standard and Poor's Rating Services

- Corporate borrowers

The Bank assigns the risk weight of 100% for every corporate borrower without considering their credit rating from the ECAI since the number of the Bank's current customers rated by the ECAI is so small and most of them have the risk weight of 100%, therefore, assigning all corporate borrowers at the risk weight of 100% would not lead to a significant impact on the credit risk capital calculation of the Bank.

2. The process of assigning the ECAI credit rating to the borrowers

For sovereigns, provincial organizations, governmental entities, state enterprises, securities companies that the Bank of Thailand treats their risk weight as the financial institutions, the Bank designates the risk weights in compliance with the Bank of Thailand's guidelines in designation of the risk weights corresponding to the type of borrowers.

The outstanding of the on-balance sheet assets and the net off-balance sheet equivalence items^{1/} after considering the credit risk mitigation for each type of asset categorized by the risk weight through Standardised Approach as of December 31, 2009 and 2008 were as follows.

(Unit: Baht)

Type of Assets	Separate financial statement									
	2009									
	Rating				No rating					
Risk weight (%)	0 %	20 %	50 %	100 %	0 %	35 %	50 %	75 %	100 %	150 %
Performing loans										
Claims on Sovereigns and Central Bank and claims on non-Central Government Public Sector Entities (PSEs) which are treated as Claims on Sovereigns and Central Bank	11,718,397,891		10,505,380							
Claims on Financial Institutions and claims on Non-central Government Public Sector Entities (PSEs) which are treated as Claims on Financial Institutions	2,950,363,106	290,113,084	208,631,173	670,218,912						
Claims on Corporates and claims on Non-Central Government Public Sector Entities (PSEs) which are treated as Claims on Corporates									44,407,312,994	
Claims in the Regulatory Retails Portfolio									175,356,578	
Residential Mortgage Loans						126,230,320		18,521,133	45,000	
Other assets					851,885,144				3,439,490,828	
Non-performing loans							308,904,421		45,028,235	1,606,453,361

^{1/} After multiplying by the credit conversion factor (CCF) and specific provision

Type of Assets	Separate financial statement									
	2008									
	Rating				No rating					
Risk weight (%)	0 %	20 %	50 %	100 %	0 %	35 %	50 %	75 %	100 %	150 %
Performing loans										
Claims on Sovereigns and Central Bank and claims on non-Central Government Public Sector Entities (PSEs) which are treated as Claims on Sovereigns and Central Bank	18,719,091,739		-							
Claims on Financial Institutions and claims on Non-central Government Public Sector Entities (PSEs) which are treated as Claims on Financial Institutions	5,522,237,668	1,905,102,257	206,470,340	737,703,273						
Claims on Corporates and claims on Non-Central Government Public Sector Entities (PSEs) which are treated as Claims on Corporates									39,309,789,908	
Claims in the Regulatory Retails Portfolio									144,645,307	
Residential Mortgage Loans						177,678,005		-	20,243,707	
Other assets					524,050,853				3,345,352,357	
Non-performing loans							236,878,055		81,096,086	1,352,043,258

Credit Risk Mitigation by Standardized Approach

The Bank has established the policy in mitigating the credit risk of assets and off-balance sheet items for the purposes of capital maintenance and credit risk reduction in accordance with the Bank of Thailand's guidelines in the credit risk mitigation by Standardized Approach where the Bank has formulated the guidelines and working process regarding the document, contracts, or legal terms relating to the credit risk mitigation as follows.

- The Bank shall maintain the document or contract relating to such credit risk mitigation obligating to and enforceable to all relevant parties.
- The Bank shall have the processes and systems in considering the legal terms.
- The Bank shall revise all relevant document and contracts to be continuously enforceable
- The Bank shall have the processes in controlling other potential risks that are caused by employing the credit risk mitigation.
- The Bank shall comply with the Bank of Thailand's guideline in information disclosure according to Pillar III

- The Bank shall consider the contractual maturities and remaining maturities in the credit risk mitigation process to ensure that there would be no maturity mismatch between the exposures and the credit risk mitigation tools.

The credit risk mitigation by Simple Approach consists of

- Risk mitigation by the eligible financial collaterals
- Risk mitigation by the on-balance sheet netting
- Risk mitigation by guarantee and credit derivatives

The Bank has formulated the policy for the credit risk mitigation by means of on-balance sheet netting as follows.

- The Bank shall have legal consideration regarding the enforceable on-balance netting contract in specifying which assets and liabilities are eligible in netting at any time.
- The Bank shall be capable of monitoring and controlling the risks from maturity mismatch between the assets and liabilities for netting or roll-off risk.
- The Bank shall be capable of monitoring and controlling the exposures on the netting basis.

2. Policy and processes for collateral management and assessment

Under the credit risk mitigation policy the eligible financial collateral including those traded in the exchange and over-the-counter markets are subject to valuation at least semi-annually.

3. Major types of collaterals of the Bank

The main eligible financial collateral is deposit at bank, however, other eligible financial collaterals for credit risk mitigation before risk weighted assets and credit risk capital calculation include:

1. Cash, deposits at bank or deposit receipts issued by banks
2. Gold bullions
3. Debt instrument issued by the issuers rated by the ECAIs as follows
 - Short-term debt instruments with the rating better or equal to A-3/P-3, sovereigns, central banks, provincial organizations, governmental entities, and state enterprises which the supervisory authority treats the risk weight as that of sovereigns and the rating of equivalent to BB- or higher.
 - Other issuers, e.g. financial institutions, securities companies, corporate, provincial organizations, governmental entities, and state enterprises which the supervisory authority treats the risk weight as that of financial institutions and the rating of equivalent to BBB- or higher.
 - Short-term debt instrument with rating better or equivalent to A-3/P-3

4. Non-rated by ECAIs debt instruments with the characteristics as follows

- Issuers are financial institutions and
- Listed in acceptable exchange bond market
- Senior debt and;
- Other debt instruments issued by the Bank with rating of BBB- or A-3/P-3 and the same seniority as that with no rating
- No objective evidence for the Bank to revise the rating to below BBB- or A-3/P-3

5. Equity instruments including the convertible bonds listed in the Stock Exchange of Thailand

6. Unit trust invested in the eligible financial collaterals and marked to market on a daily basis

4. Main types of guarantors and protection sellers of credit derivative

The major current guarantors of the Bank are the Ministry of Finance mainly guaranteeing the state enterprise bond. Other guarantors and the protection sellers can be reckoned in the credit risk mitigation before risk weighted assets and credit risk capital calculations under the Credit Risk Mitigation Policy are:

- Sovereign, Multilateral Development Banks (MDBs), provincial organizations, and governmental entities
- State enterprises, financial institutions, and securities companies with the risk weight below that of the guaranteed counterparties

Corporate including the parent and subsidiary companies and the joint guarantee of credit risk must be rated higher or assigned with the risk weight lower than the guaranteed counterparties. The credit guarantors must be rated higher or equal to A- or A3.

5. Concentration of credit and market risk in each type of collaterals, guarantors, protection sellers of the credit derivative for the credit risk mitigation

Most credit risk mitigation by the eligible financial collaterals method is in forms of deposits at bank for reducing the credit risk in general loans, while the credit risk mitigation by guarantee of loan method is in forms of guarantee by the Ministry of Finance on the investment in debt instruments.

The outstanding of the collateralized exposures in each type of asset by Standardized Approach classified by the types of collaterals as of December 31, 2009 and 2008 as follows.

(Unit: Baht)

Type of assets	Separate financial statement			
	2009		2008	
	Eligible financial collaterals	Guarantees and credit derivatives	Eligible financial collaterals	Guarantees and credit derivatives
Performing loans				
Claims on Sovereigns and Central Bank and claims on non-Central Government Public Sector Entities (PSEs) which are treated as Claims on Sovereigns and Central Bank	-	-	-	-
Claims on Financial Institutions and claims on Non-central Government Public Sector Entities (PSEs) which are treated as Claims on Financial Institutions	6,023,331,691	-	3,372,503,706	-
Claims on Corporates and claims on Non-Central Government Public Sector Entities (PSEs) which are treated as Claims on Corporates	2,292,907,836	3,943,281	4,954,199,377	1,737,344
Claims in the Regulatory Retail Portfolio	17,483,639	-	27,052,662	-
Residential Mortgage Loans	-	-	50,000	-
Other assets	161,715,363	-	240,910,682	-
Non-performing loans	-	-	3,792,412	-
Total	8,495,438,529	3,943,281	8,598,508,839	1,737,344

Market risk in Trading Book

Market risk means the risks potentially from the changes in market prices or values of the Bank's positions caused by interest rates, exchange rates, equity and commodity price movements having impact on net interest income and capital of financial institutions. Such changes have an impact through both general market risk and specific risk. The transactions having the market risk can be categorized as:

- 1. Transactions in the Trading Book** include the positions of financial instruments and commodities with the intents of trading or hedging of other positions in the trading book and all types of financial derivatives with non-hedging intents for Banking Book positions. The transactions must be non-obligated in buying, selling or hedging with the holding period of no longer than 2 years.
- 2. Transactions in the Banking Book** include the positions of financial instruments or other types of transactions with the intents of not for trading or the financial instrument with the initial intention to hold for long period of time or hold to maturity. The holding period must be at least 1 month.

The Bank has the Market Risk Management Policy to identify, measure, control and monitor the market risk both in Trading Book and the interest rate in Banking Book so as to efficiently manage the risk and comply with the Bank of Thailand's guideline in market risk management. The relevant market risks include:

1. Interest Rate Risk is the risk stemming from changes in interest rates resulting in the changes of values of assets, liabilities and off-balance sheet items especially in the medium- to long-term.
2. FX Risk is the risk stemming from negative impact caused by the changes of FX aggregate positions which may incur from the FX transactions for trading or, partly hedging for Trade Finance customers, partly hedging for investment in FCY debentures, etc.
3. Price Risk is the risk stemming from the change in prices of equity or equity derivatives in the Proprietary Portfolio.

In managing market risk, the Portfolio Risk Management Department under Risk Management Division is responsible for monitoring and controlling any potential market risk incurred by the operation of Treasury Division where the Asset and Liability Committee (ALCO) determines most of the market risk limits which are approved by the Board of Executive Directors (EXCOM). ALCO meeting is organized at least once a month to review the market risk and formulate the risk management strategies under changes in financial market environment. For the Market Risk Management Policy, the Portfolio Risk Management Department shall propose through the Group Risk Committee and EXCOM while the policy shall be approved by the Board of Directors (BoD). Regarding investment in Proprietary Portfolio, the Investment Committee meets at least once a month to consider the portfolio performance, strategy, policy, list of the equity to be invested, liquidation of the portfolio as well as the investment proposal before further submitting to the EXCOM for approval.

The measurement of market risk in the Trading Book embraces all types of market risk including interest rate risk, FX risk, and price risk. Besides, the Bank assesses the risk and capital adequacy on a regular basis both in normal and crisis situations by means of assessing the Trading Book position at least on a daily basis based on marking to market, marking to model or other appropriate prices. The gain/loss from each transaction in the Trading Book is subject to the stop loss limits. Moreover, the Bank conducts the stress test on the Trading book for all relevant risks, while stress test assumptions shall be revised to be in line with economic and financial market condition and to encompass the possibility of negative impacts on the net interest income and Bank's capital on a regular basis.

The risk management tools include control limits, which curb the maximum amounts that the Treasury Division can invest and stop loss limits, restraining the maximum loss acceptable to the Bank in consistent with the Business plan, strategies of the Bank and economic, political, financial market condition domestically and internationally.

Since the trading volume in the Trading Book has reached the criteria to calculate the market risk capital as specified in the Bank of Thailand's regulation, the Bank has utilized the Standardized Approach which is appropriate to the characteristics of investment portfolio of the Bank. Even though the volume in the Trading Book tends to rise in the near future, the transactions the Bank engaged in are not complicated and most of them are to serve the customers on back to back basis, while the Bank's own positions are not composed at large proportion.

Market Risk Capital Requirement	Unit: Baht	
	Separate financial statement	
	2009	2008
Interest Rate Risk	27,768,497	10,735,279
Equity Price Risk	8,969,036	545,280
Foreign Exchange Risk	3,232,765	304,710
Commodity Price Risk	-	-
Total market risk capital requirement	39,970,298	11,585,269

Operational Risk

Operational risk is the risks from damages caused by the short of good corporate governance in the organization and lack of the appropriate controls. It may relate to the internal processes, human being, working systems, or external events and have the negative impact on the interest income and Bank's capital.

The policy of the Bank and its Group specifies the guideline to prevent and manage the relevant risks and includes the definitions, objectives, sources of risk, operational risk management principles and operational risk working procedures which encompasses risk identification, assessment, analysis, designation of risk control processes, application of risk control and monitoring.

At present, the Bank uses Basic Indicator Approach (BIA) in calculating the capital for operational risk corresponding to the characteristics and complexity of the Bank's business operation.

Equity related exposures

Most of the equity in the Banking Book were obtained from debt restructuring and can be classified into two categories; namely, Marketable Securities – the equity exposures of which the market prices are available and are free from selling limitation, therefore, they can be classified as Available-for-Sale securities and must be marked to market at least once a month where the gain/loss shall be recorded in the equity while the recognized realized gain/loss when selling are recorded in the income statement, and General Investment Securities – the equity obtained from debt restructuring or with inability to sell condition, therefore, the exposures are recognized at the historical cost on the balance sheet and deducted by provision and subject to the impairment test at the occurrence of objective evidence of impairment according to the Accounting Standard.

Since the equity in the Trading Book is for the purpose of taking the profit from the difference between purchase and sell prices and classified as Held-for-Trading, their fair values must be marked to market while the gain/loss shall be recognized in the income statement of the Bank. This results in the fluctuation of the Bank's profit/loss. Furthermore, the Proprietary Portfolio has a short holding period, not longer than 2 years in accordance with the Trading Book Policy. To control such a risk, the Bank has formulated the control limit and stop loss limit for both the portfolio and individual levels to ensure that the market risk management in the Proprietary Portfolio is efficient and in line with the policies of the Bank and the Bank of Thailand.

The investments in equity for other purposes which can be classified as either Marketable Securities portfolio, subject to marking to market regularly, or General Investment portfolio, recorded on the balance sheet at historical cost and subject to impairment test, are in Banking Book of which the holding period shall be at least 1 month, according to the Bank's policy in Banking Book.

Nonetheless, apart from control limits and stop loss limits, the Bank also conducts the stress test on the equity prices in both Trading and Banking Books but the severity of the assumptions are different depending on the liquidity of the equity in each book and the impact of the prices from buying/selling in a large amount.

The valuation according to the Accounting Standard shall be carried out based on the book type of the equity aforementioned. Firstly, the latest bid price shall be considered. If it is not available, then the price estimated from the model used widespread among major players in the market, academically legitimate and employed the market inputs as much as possible while using the inputs internally from the Bank the least, shall be used. Moreover, such models shall be tested and validated by the unit independent from the one developing the model. Nonetheless, if the price cannot be obtained from the model, the historical cost could possibly be used as the last preference.

The outstanding of the equity related exposures in the Banking Book as of December 31, 2009 and 2008 were as follows.

Equity position	Unit: Baht	
	Separate financial statement	
	2009	2008
Equity related position		
Equity listed in the Stock Exchange of Thailand :-		
• Historical Cost	45,318,691	53,651,517
• Market Values	43,521,114	39,315,325
Other equity values	1,356,994,400	1,569,990,925
Gain (Loss) from selling of the equity	38,883,344	6,279,689
Gain (Loss) from marking to market of the Available-for-Sale equity	(1,797,577)	(14,336,192)
Minimum Risk Standardized Approach	119,043,819	136,791,031

Interest rate risk in the Banking Book

The interest rate risk on the Bank's balance sheet stems from the mismatch of the repricing periods of assets and liabilities both on- and off-balance sheet. Such a difference indicates the level of risk or the magnitude of impact of the change in an interest rate that the Bank encounters.

Owing to no trading position in debt instrument, the interest rate risk of the Bank mainly comes from the Banking Book where the Bank assesses the impact of the interest rates of assets and liabilities both through Net Interest Income (NII), measuring the impact of a change in interest rate on the net interest income in the next 12 months, and through Economic Value of Equity (EVE), measuring the impact of a change in interest rate on the equity which is to perceive the impact on the overall Bank's portfolio.

However, the Bank has engaged in the interest rate swaps, comprising the swap transactions that receive floating rate and pay fixed and some of the swap transactions that receive fixed and pay floating rates in order to partly hedge the interest rate risk.

The Bank employs Repricing Gap Report in measuring and managing the interest rate in the Banking Book in which the control limit has been set at the acceptable level. The Portfolio Risk Management Department is responsible in arranging the gap report and reporting to the relevant sub-committees/committees as well as the Bank of Thailand on a regular basis.

In addition, the Bank conducts the stress test on the interest rate risk in the Banking Book based on the assumptions in line with the principle of extreme but plausible scenarios and divided into individual currencies that the Bank has the exposures in order to report to the Group Risk Committee and EXCOM for consideration and revision of risk management strategy and the action plans to handle any adverse outcomes of the stress tests.

At present, the Bank does not have the behavioral adjustments on both assets and liabilities, e.g. behavioral adjustment on repayment schedule and the rollover of the deposit.

The Repricing Gap report in Baht is reported to the Asset and Liabilities Committee on a monthly basis and generated by currency in order to be reported to the Bank of Thailand on a quarterly basis. Moreover, the Bank arranges the risk report for the Bank of Thailand on a semi-annual basis as well as a quarterly basis for the Bank internal use.

The impact of a change in interest rate on earnings of the Bank

Currency	3 rd Quarter of 2009		4 th Quarter of 2009	
	+1.00%	-1.00%	+1.00%	-1.00%
Thai Baht	64.399	(64.399)	61.668	(61.668)
US Dollar	(7.221)	7.221	(7.407)	7.407
Euro	(0.000)	0.000	(0.002)	0.002
Total impact of the change in interest rate	57.177	(57.177)	54.260	(54.260)
Expected net interest income in the next 12 month	1,632.00		1,721.52	
% of the expected net interest income in the next 12 months	3.504%	-3.504%	3.152%	-3.152%
% of current Bank's capital	0.438%	-0.438%	0.414%	-0.414%

Remark: The numbers in parentheses are negative.