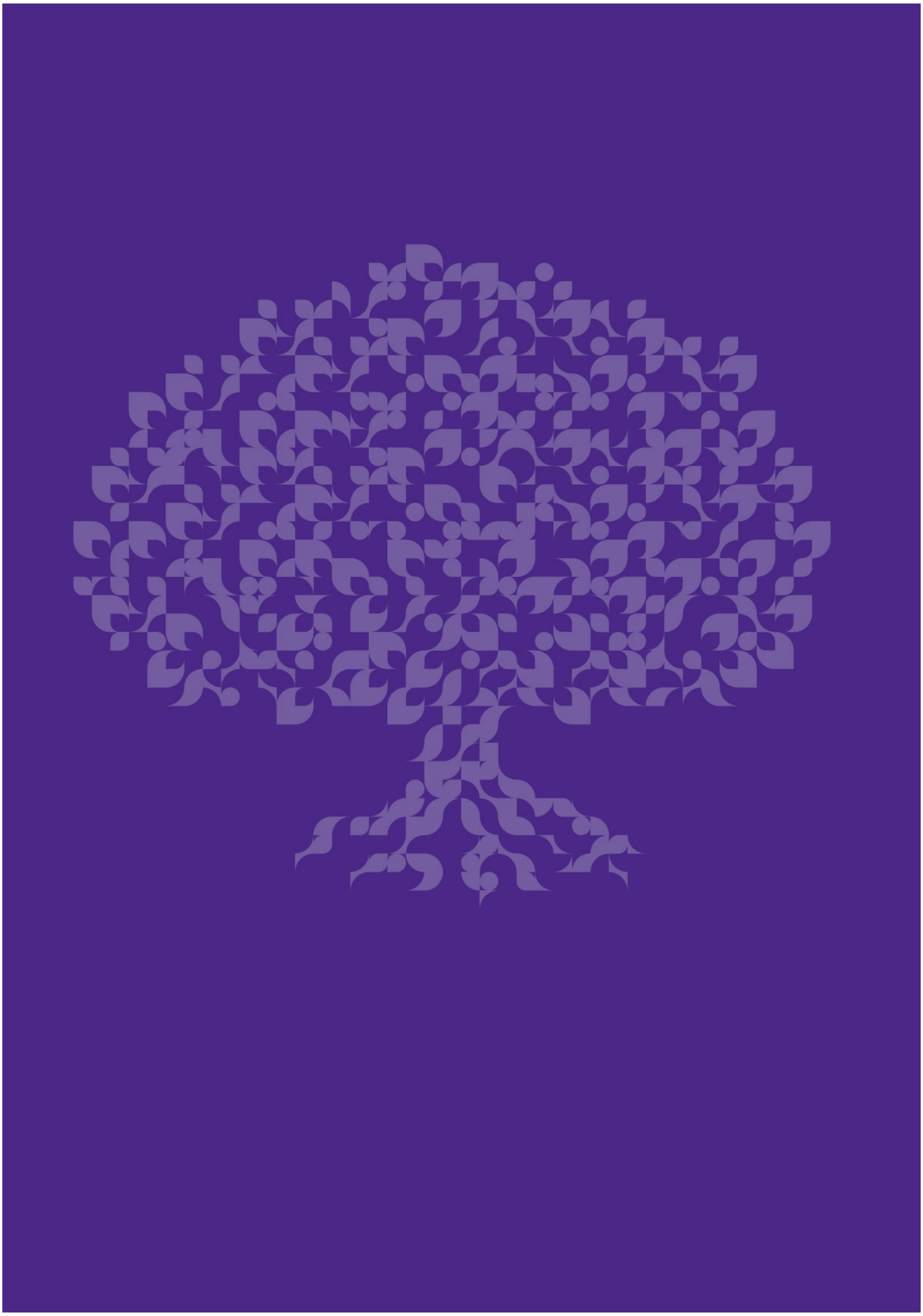
Pillar III Disclosures December 2009



This Statement does not form any part of the financial statements.

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Introduction

In 2006, the Bank of Thailand (BOT) introduced a new capital management framework (based on Basel II) for commercial banks in Thailand. The Siam Commercial Bank adopted these new guidelines with effect from 31 December 2008.

This framework consists of three pillars. Each of pillar concentrates on a different aspect of banking regulations.

- Pillar I provides guidelines for calculation of minimum capital requirements.
- Pillar II outlines the key principles of the supervisory review process and related risk management guidance.
- Pillar III complements the first two pillars by requiring a set of disclosures on capital and risk assessment processes, aimed at encouraging and reinforcing market discipline.

In compliance with the BOT guidelines, the pillar III disclosure report will be regularly prepared for two period ends: 30 June and 31 December, starting from 30 June 2009. The semi-annual disclosure requires summary quantitative information of the Bank's capital adequacy, including the composition of risk-weighted assets and an overview of its market risk management.

This annual disclosure report provides more explanatory details on the Bank's risk management policies and risk management framework and the measures adopted to monitor and report within this framework. Detailed in this report are the major components of capital structure, the key risk exposures and the associated capital requirements. The key risk exposures are grouped under credit risk, market risk, operational risk and the various other risks identified in the new guidelines. Each of these risks is individually discussed in later sections of this report where the individual risk components, measurement techniques and management practices are described. The qualitative disclosures in this report will be updated on an annual basis and more frequently if material changes to policies are made and such changes warrant earlier disclosure.

The Bank will make the pillar III report available within four months after the date of its financial statements under the Investor Relations section of the Bank's website at www.scb.co.th/en/abt/abt_ivr.shtml and as a supplement to its next audited financial statements. The Bank has not had and is not required to have the 2009 Pillar III Disclosures audited by its external auditors.

It is important to note that some quantitative figures in the 2009 Pillar 3 Disclosures have been prepared in accordance with the new regulatory capital requirement framework as per the BOT guidelines, rather than in accordance with Thai Accounting Standards (TAS). Therefore, information in the Pillar 3 Disclosures is not directly comparable with information in the 2009 Annual Report published by the Bank. This is most apparent for the credit risk disclosures, where the risk arising from credit exposure is estimated by using parameters specified under Basel II. This differs from similar information in the 2009 Annual Report, which does not reflect the expected future drawdown under committed credit lines.

Scope of Application

In line with the BOT guidelines, the Bank's capital adequacy is currently computed on a non-consolidated basis. Group companies of the Bank will adopt Basel II for computing the group's capital adequacy as and when required by the BOT.

The Bank has adopted the Standardized Approach for measuring credit risk, market risk and operational risk in order to compute its regulatory capital requirements.

Capital & Risk Management

Capital Management

The Bank's capital management policies are to ensure that its capital:

- will provide a cushion against unexpected losses arising from risks it underwrites and that this cover is in excess of the regulatory requirements at all times; and
- is sufficient to support the risk profile of the Bank and its growth based on its business strategy and is able to withstand losses sustained during an economic downturn.

The Bank's senior management reviews the capital adequacy periodically, taking into account the needs of its underlying businesses, regulations and the economic environment.

Capital Structure and Capital Adequacy

The regulatory capital consists of Tier 1 and Tier 2 capital. Tier 1 capital comprises the highest quality components of capital that provides a permanent and unrestricted commitment of funds. The Bank's tier 1 capital consists primarily of share capital, premium on shares, retained earnings and legal reserves. The Bank's tier 2 capital consists of long-term subordinated liabilities, general provisions (1.25% of total risk-weighted assets), revaluation reserves for land and buildings (50%-70% eligible) and unrealized gains on listed securities (45% eligible).

The tables below provide comparative information of the Bank's capital resources, risk weighted assets, capital adequacy ratios, and capital requirements by risk type as at 30 June and 31 December 2009. There are no capital deduction items under Tier 1 and Tier 2. The Bank's total risk-weighted capital ratios at 30 June and 31 December 2009 were 15.52% and 16.47% respectively, which are well beyond the BOT minimum regulatory requirement of 8.5%. Moreover, the Tier 1 risk-weighted capital ratios were 11.28% and 12.27%, which too are well in excess of the regulatory minimum requirement of 4.25%. The increase of the capital adequacy ratio was mainly from the appropriation of net profit of 10,415 million for the first-half of 2009.*

Table 1: Comprehensive Capital Structures and Capital Adequacy

In THB millions	31-Dec-09	30-Jun-09
Tier 1 Capital		
Paid-up Capital	33,920	26,009
Premium on shares	11,124	11,124
Paid-up Preferred shares	72	7,983
Legal Reserve	5,063	5,063
Appropriated Retained Earnings	64,073	53,657
Total Tier 1 Capital	**114,252**	**103,836**
Tier 2 Capital		
Tier 2 Capital subject to limits	39,118	39,055
Total Regulatory Capital	**153,370**	**142,891**
Risk Weighted Assets		
Credit Risk	814,124	814,246
Market Risk[1]	27,621	20,570
Operational Risk	89,661	85,879
Total Risk Weighted Assets	**931,406**	**920,695**
Total Risk-Weighted Capital Ratio (%)	**16.47%**	**15.52%**
Tier 1 Risk-Weighted Capital Ratio (%)	**12.27%**	**11.28%**
Minimum Regulatory Capital Adequacy Ratio (%)	**8.50%**	**8.50%**
Minimum Tier 1 Risk-Weighted Capital Ratio (%)	**4.25%**	**4.25%**

[1] Values for 30 June 2009 are amended from those previously reported due to a change in the methodology that increased market risk weighted assets by THB 7,589 million

*(Note: Appropriation of profit for the second half are not included in this computation, if included, the total risk-weighted capital ratio and the Tier 1 risk-weighted capital ratio would be 17.45% and 13.25% respectively before consideration of any dividend payment.)

Capital & Risk Management - continued

Table 2: Minimum Capital Requirements by Risk Type

In THB millions	31-Dec-09	30-Jun-09
Credit Risk – Standardized Approach		
Performing Claims		
Governments, Central Banks, MDBs[1] and PSEs[2] treated as Sovereign	76	87
Banks and PSEs[2] treated as Banks	1,839	1,935
Corporates[3] and PSEs[2] treated as Corporate	43,262	44,861
Retail	7,995	7,042
Retail Mortgage Loans	7,460	7,166
Other Assets	6,308	5,982
Non-Performing Claims	2,261	2,138
First-to-Default Credit Derivatives and Securitisation	-	-
Total Minimum Capital Requirements for Credit Risk	**69,201**	**69,211**
Market Risk – Standardized Approach		
Interest Rate Risk	1,656	1,503
Equity Position Risk	-	-
Foreign Exchange Risk	692	245
Commodity Risk	-	-
Total Minimum Capital Requirements for Market Risk	**2,348**	**1,748**
Operational Risk – Standardized Approach		
Total Minimum Capital Requirements for Operational Risk	**7,621**	**7,300**
Total Minimum Capital Requirements	**79,170**	**78,259**

[1] *Multilateral Development Banks*
[2] *Non-central government Public Sector Entities*
[3] *Including claims on individuals and their businesses with business purposes that exceed the conditions that allows categorization under Retail*

Risk Management System

The Bank seeks to develop and implement a holistic enterprise-wide risk management framework and establish risk management as its core competency to ensure long-term competitiveness.

The risk management system consists of four key elements:

Risk Identification

There are six types of risk in the Bank's overall operations, including transactions dealing with customers and counter parties: Credit Risk, Market Risk, Operational Risk, Liquidity Risk, Strategic Risk, and Reputation Risk.

- **Credit risk** is the risk of loss due to a debtor's non-payment – deliberate or by necessity – of a loan or other lines of credit (either the principal or interest, or both). Credit risk cover all types of financial products, including both on- and off-balance sheet transactions. *

- **Market risk** refers to risk of losses arising from changes in both on and off balance sheet positions as a result of any movement in market risk factors: exchange rates, interest rates, equity prices, credit spreads, and commodity prices.*

- **Operational Risk** is the risk of loss due to inadequacy or failure of internal processes, people, and systems or from an external event.*

* more explanatory details in later sections

- **Liquidity risk**

  Liquidity risk is one of the most important risks of commercial banks. Bank's funds are mainly raised from deposits, which have ambiguous and short-term maturity such as saving deposits, 3-month or 6-month deposits. Meanwhile, most of funds raised are used for lending, for which the maturity is usually longer than that of deposits, and/or loans that cannot be called back before maturity. Therefore, banks have liquidity risk from mismatches when assets cannot be traded for cash quickly enough to meet the maturity of liabilities.

  Based on a study of customers' behavior in the past, the Bank is confident that its source of liquidity is adequate to meet its daily cash flow demand. In addition, the Bank has a contingency plan to ensure that its liquidity is sufficient to support unexpected withdrawals as a result of the loss of customer confidence in the banking system or similar panic withdrawals. The Bank is required to maintain liquid assets no less than the BOT minimum requirement. In addition, the Bank has studied cash flow based on deposits, withdrawals, loan disbursements, and repayments to monitor the daily cash volume, so that the Bank can maintain adequate liquid assets or prepare sources of liquidity to meet such cash demand.

  The Assets and Liabilities management unit (ALM) is responsible for liquidity management and the Balance Sheet Monitoring Division (BSMD) is charged with liquidity risk monitoring, control, measurement and assessment. Liquidity reports are distributed on a daily basis to management. Further, the ALM unit reports on liquidity risk to the Asset & Liabilities Committee (ALCO) and Risk Management Committee on a monthly basis. In the even that liquidity risk exposure breaches, or is likely to breach, the set limits, BSMD will immediately report to the CFO in order that prompt actions can be taken to remedy the breach.

- **Strategic Risk** refers to the risk of current or prospective impact on the Bank's earnings, capital, reputation or standing arising from changes in the environment that the Bank operates in and from adverse strategic decisions, inadequate implementation of decisions, or lack of responsiveness to industry, economic or technological changes.

  To provide a formalized and structured approach, the Board of Directors has adopted a Strategic Risk Management Guideline as the framework to manage strategic risks. Key strategic risk management processes include 1.) Strategic Planning; 2.) Alignment and Change Management; 3.) Implementation and Monitoring; and 4.) Performance Evaluation and Feedback. The Change Program Management Office's Strategic Planning Team is currently the process owner supporting the Board and senior management in managing strategic risk and other related processes.

  Typically, the monitoring and control activities of the strategic plan implementation will be managed through the Bank's Strategy and Review Committee (STAR) or, if it involves a major change initiative, through the Change Program Steering Committee (CPSC). On a regular basis, the progress of the strategic plan and change initiatives, including any strategic risk issues that may arise, are reported to the Executive Committee and the Board by senior management.

- **Reputation Risk** can arise from adverse public perception of the Bank. Given its nature, it is difficult to identify or assess this type of risk since it is influenced by political, economic and social issues during a particular period, including specific public expectations of the Bank.

  The Board of Directors has set procedures for the Bank in dealing with businesses or issues which may be subject to social criticism under which, in the first instance, if the Bank engages in any such business or issues, the management concerned must seek approval from the Chairman of the Executive Committee or the President before involvement in any such transaction - in order to establish the appropriateness of its involvement. The matter is then reported to the Chairman of the Board, the Chairman of the Audit Committee, and the Chairman of the

Corporate Governance Committee. In the second stage, the Executive Committee has the authority to approve the Bank's involvement in such transaction with the consent of the Chairman of the Board, the Chairman of the Audit Committee, and the Chairman of the Corporate Governance Committee.

In effect, to manage reputation risk, the Bank relies upon the active participation of the Board of Directors and senior management in order to assess the issue from different perspectives and establish safeguards to protect the reputation of the Bank.

Risk Measurement

The Bank applies a variety of quantitative and qualitative methods to measure each risk. Although the Bank applies the Basel II Standardized Approach to calculate the minimum capital requirements, the internal risk management framework is based on an Internal Rating-Based Approach (IRB) or the use of an internally developed model, which better reflects risk, such as

- **Credit Risk**: Business borrowers are assessed by Borrower Risk Rating to measure the probability of default. Retail clients are assessed by credit scoring such as Application score / Behavioral score. Loss given default (LGD) are measured by Severity Class, which relies on the Loan to Discounted Collateral Value Ratio.

- **Market Risk**: Both Statistical and non-statistical tools are applied for market risk measurement, including Value at Risk (VaR), Sensitivity Analysis, Stop-Loss Limit, Position Size Limit, etc.

- **Operational Risk**: Standard industry practice methodologies are used to measure this risk, which are Risk and Control Self Assessment (RCSA), Key Risk Indicator (KRI) and Incident and Loss Management (ILM).

Risk Monitoring and Control

The Bank controls risk by determining risk limits of the exposure faced by the Bank at the portfolio, product, transaction, and other appropriate levels. The Bank has a variety of internal control mechanisms in place to manage risks according to the Bank's policies and procedures. For Operational risk management, Key Risk Indicators and their thresholds are determined for key risks in order to monitor them. If a risk breaches the threshold, the unit shall investigate if there is an abnormality in the data or take action in order to reduce the level of exposure so as to be within the acceptable level.

Risk Reporting

Risks are reported to senior Management and relevant business units so that they can manage risks appropriately and in a timely manner. Risk reporting is developed to cover risk at the product, business unit, and Bank level.

Governance structure

The Risk and capital management strategy is owned and determined by the Board of Directors, and implemented by executive management led by the Chairman and Chief Executive Officer. A number of committees and executives support the execution of the business plan, strategy, and risk management measures.

Policies

The Board of Directors has the authority and responsibility for approving the major risk management policies of the Bank: Credit Policy Guide, Market Risk Policy Guide, Trading Book Policy, Banking Book Policy, Operational Risk Policy Guide, Reputation Risk Management Policy, and Strategic Risk Management Policy.

Capital & Risk Management - continued

Authority

The Board of Directors has the authority and responsibility for approving the delegation of its authority to management and other committees. This delegation includes credit approval authority as well as other types of risk management authorities. The level of authority is set using risk-based measurement.

Committees with a role relating to Risk Management

The Board of Directors has assigned three committees to address and resolve risk management matters as follows:

- **The Executive Committee** is responsible for reviewing and recommending risk management policies to the Board of Directors. In addition, the Executive Committee has the authority to approve loans and investments, together with the authority to delegate to management within the parameters set by the Board of Directors.

- **The Audit Committee** comprises independent members of the Board with responsibility for direct management over the Audit & Compliance Group. This committee is responsible for reviewing the adequacy of the Bank's risk management processes and policies and the effectiveness of the implementation of the Bank's risk management systems.

- **The Risk Management Committee** is responsible for reviewing and recommending risk management policies to the Executive Committee and the Board of Directors, determining risk management strategies consistent with the guidance of the Board of Directors, and managing overall risks of the Bank.

The Bank has several other committees to manage each of the following specific risk areas:

- **The Assets and Liabilities Committee (ALCO)** is responsible for managing market risk, interest rate risk, and liquidity risk.

- **The Equity Investment Management Committee (EIMC)** is responsible for managing the risk arising from the Bank's equity investments.

- **The Global Investment Committee (GIC)** is responsible for managing, among others, the risk arising from the Bank's investment in off-shore debt instruments and other foreign investments.

- **The Credit Committee (CC), the Retail Credit Committee (RC), and the Special Assets Committee (SC)** have delegated authority to approve credit according to pre-established approval authority. The Executive Committee has authority to approve loan amounts beyond the three committees' approval authorities. However, if the loan is granted to a bank-related business, a major shareholder or a related party, the credit approval authority rests with the Board of Directors. The members of CC/RC/SC comprise of both representatives from business and from risk management units.

- **The Underwriting Risk Committee** considers, reviews, and approves underwriting risk limits, and provide comments for decision making by the Executive Committee or the Board of Directors in cases where an underwriting risk limit is beyond its approval authority.

Risk Management Group

The Risk Management Group reports to the President and is responsible for determining the framework for risk management in the area of credit risk, market risk and operational risk, recommending risk management policies, monitoring, and reporting each major types of risk. The Risk Management Group has the responsibility to develop risk management policies and promoting the Bank in its drive to meet international risk management standards, and to ensure that the Bank has a comprehensive and cohesive risk management framework.

Finance Group

The Finance Group also directly reports to the President and is mainly responsible for managing liquidity risk, equity investment risk, and interest rate risk in the banking book.

Recently established, the Capital Management unit is incorporated under the Finance Group. The Capital Management's mission is to monitor and maintain appropriate levels of capital, in excess of regulatory requirements, and to ensure the Bank's capital position remains strong in the context of the economic and competitive environment.

The Risk Management Group and Finance Group are independent of revenue generating functions and this supports the strong risk management framework within the Bank.

Internal Audit

The Audit division provides independent, objective assurance and consultative services to improve the efficiency of the Bank operations and assist the Bank to accomplish its objectives within an effective internal control environment, utilizing appropriate risk management system and good governance process. Furthermore, the Audit division reports the key audit findings together with process improvement recommendations to the Audit Committee and the Bank's top management.

Credit Risk

Credit risk is the risk of loss due to a debtor's inability to pay principal and/or interest. Credit risk covers all types of financial products, including both on- and off-balance sheet transactions. On-balance sheet transactions include loans, overdrafts, bills of exchange, and debtors by other types of agreement. Off-balance sheet transactions are mainly derivative trading transactions and letters of guarantee in various formats.

Credit Risk Management

The SCB credit risk management process is documented under the Credit Policy Guide approved by the Board of Directors and the Executive Committee. At the strategic level, SCB has set credit underwriting standards to identify target customers and desirable underwriting conditions.

Governance structure

Under the Risk Management Group, SCB has set a governance framework for credit risk management in two divisions: Credit Risk Management Division is responsible for corporate and SMEs credit underwriting, Retail Credit Risk Management Division is in charge of Retail Credit Portfolio management, covering new client acquisition policy, account maintenance, and collection strategy. Both divisions are responsible for model development and validation.

Authority

The Board of Directors is the approver of credit approval authority delegation regulations which decentralize authority to executives, committees and approvers at different levels. Credit approvals that are contrary to the Credit Policy Guide or credit underwriting standards must be approved at the appropriate authorized level.

The committees with credit approval authority are as follows:

- The Board of Directors
- The Executive Committee
- The Credit Committee
- The Retail Credit Committee
- The Special Assets Committee
- The Underwriting Committee.

The authorized individual credit approvers are as follows:

- Chairman of the Executive Committee and CEO
- President
- Chief Risk Officer (CRO)
- Chief Credit Officer (CCO)
- Senior Credit Officers (SCO)
- Credit Officers. (CO)

For the approval process, the Bank adopts the principal of segregation of duty by separating the Business Unit and the Credit Approval Unit. However, for retail credit, though the credit underwriters are under the Retail Banking Group, credit underwriters are independent from Marketing and originating units and their approval must be in line with the Risk/Product Program and Scoring Model approved by the Executive Committee or Retail Credit Committee. Criteria for exceptions, if any, are also pre-specified.

Credit Risk Measurement

As the nature of credit risk varies by credit type, SCB applies different credit risk measuring tools, ranging from simple statistical tools to more complicated ones, so that the credit risk of each credit type is appropriately reflected.

Credit Risk - continued

Credit risk is calculated from 3 key factors as follows:

1. **Probability of Default (PD)**
   Typically for wholesale credit, the probability of default will be measured from obligor rating obtained from the Borrower Risk Rating system (BRR) to determine borrower's level of risk. The risk rating of each borrower is regularly reviewed to ensure that it actually reflects the debtor's risk. For Retail credit, active accounts of each portfolio are classified into a segment (PD pool), which can be classified by various factors e.g. Month-On-Book (MOB), aging, Application score, Behavior score, utilization, and payment pattern, etc.
2. **Loss Given Default (LGD)**
   Loss given defaults are measured by Severity Classes, which are based on Loan to Discounted Collateral Value Ratio.
3. **Exposure at Default (EAD)**
   This exposure is calculated from the current outstanding balance and availability of committed credit line. In this regard, the key factor is the Bank's obligations related to the available credit line.

For Wholesale credit, credit risk is measured at an individual exposure. For Retail credit, the principles of credit risk measurement are similar, but measured on a pooled basis.

The Bank uses the above factors to determine approval authority, costs of risk in pricing, and other conditions such as preferred collateral, so as to drive a risk-based approach for regular credit decision making.

Credit Risk Monitoring and Control

As a crucial element in credit risk management, credit risk monitoring is a necessary process to ensure that credit risk assessment is accurate, appropriate, objective, and comprehensively covers all requisite aspects. Continuous monitoring is indispensable to enable timely and up-to-date credit risk assessment.

Credit Review is an important process. For debtors who have credit line more than Baht 20 million the Bank must review the BRR profile, credit strategy and next year business plan at least annually, or when there appears to be significant change. At the portfolio level, the Bank monitors trends and growth of loans and NPLs against with targets set at the beginning of the year in order to analyze future trends of loans growth and NPLs as well as past performance and the results of past strategies. It also covers comparison of current loans and NPLs to those in the past and those within Thailand's commercial banking sector in order to analyze the Bank's credit risk trends from various perspectives.

Credit risk monitoring is a dynamic process, adapting to changing situations, to effectively reflect credit risk. For example, the Borrower Risk Rating system requires regular validation to determine whether or not the system still appropriately explains the credit performance of the Bank's customers.

In terms of credit risk control, in addition to appropriate authorization, the Bank has set a soft limit to determine the concentration limits for both business sectors/industries and single obligor levels to prevent excessive credit risk in a particular business sector/industry or individual debtor account. The Bank also has internal control measures to ensure that risk management is in line with the defined framework and procedure.

Credit Risk Reporting

After the completion of the credit risk assessment, a summary report on credit risk is submitted on a monthly basis to the President, executives in charge of Risk Management, and those in charge of

Credit Risk - continued

business groups so that they have sufficient information to further manage risk appropriately and effectively. The summary report covers lending growth and NPLs classified by business unit and business sector, new client accounts, new NPLs, and NPL trends. Credit approvals that are contrary to the Credit Policy Guide or credit underwriting standards will be monitored and reported to senior executives.

Furthermore, a detailed report on credit risk is submitted to the Chief Risk Officer on a monthly basis. The detailed report features total outstanding loan balance, total NPLs, Borrower Risk Rating concentration, new loans and new NPLs, lending, NPL trends, and the Bank's overall credit risk.
Also, significant issues concerning credit risk are reported to the Risk Management Committee on a monthly basis as information to support the Committee's decision making. In the event that there are any factors that may lead to an unexpected risk exposure, an analysis report on such risk factors may be prepared on a case-by-case basis.

Credit Risk Prevention and Mitigation Policy

The Bank has implemented the following credit risk mitigation policy:

- Establish a credit approval process that segregates the business units from the authorized credit approvers in order to have the checks and balances mentioned earlier under the topic of risk governance.
- Assign the approval authority by using risk-based measures
- Define credit underwriting standards, covering qualifications of target clients, credit line conditions, and characteristics of desirable collateral.
- Ensure that for collateral used for credit risk mitigation, its characteristics are in compliance with the credit risk mitigation policy.
- Establish risk limits in order to prevent risk concentration in individual debtor accounts, sectors and industries, and collateral.

Guidelines on Determining Risk Control Limit

- Approved authority levels are set by reference to the expected loss levels that take into account the credit line, borrower risk rating and severity class. Typically, the credit line at customers' group level will be used. To identify the group, the relationship of shareholding and level of control following Section 4 of Financial Institution Business Act B.E. 2551 is applied.
- Single lending limit shall not exceed 25% of the Bank's capital. Total exposure of clients with outstanding balances over 10% of the Bank's capital shall not exceed 3 times of the capital of the Bank.
- Limit by sector/industry: There must not be too much credit concentration in a particular sector/industry. Factors considered are industry outlook, banking ratios, and probability of loss and default.
- Limit by risk/product program: Credit lines for marketing campaigns for a target client group or product must be clearly specified, covering purpose and type of credit, client qualifications, standard requirements, and conditions for credit line utilization.

Classification of Default and Impairment of Assets

SCB adopts the definitions of default and Loss given default. There is default, if either one or both of the following events occur

- The Bank deems that the debtor is unable to repay fully according to the credit obligations, without considering any payment that may be received from collateral, such as bank consents to a debt restructuring by material forgiveness or postponing principal, interest or fees. In such situations, the Bank deems that the financial condition of the debtor has deteriorated and it stops accruing interest on the debtor.

Credit Risk - continued

- The debtor has more than 90 days past due principal or interest, or the debtor is classified as Substandard or lower according to the Notification of the Bank of Thailand Re: Asset classification and provisioning

The Bank has classified default and impairment of assets into Pass, Special Mention, Substandard, Doubtful, and Doubtful Loss based on the Bank of Thailand's criteria. The Bank's debt classification policy classifies debt by debtor, except for some retail debtor products that are classified by account. Besides outstanding period, the Bank also considers qualitative debt classification, having a review process to ensure that debt classification is proper and accurate and that adequate provision has been made.

General Provision

General provision in the Bank's context means reserved amounts held against loans that might be impaired in the future in which these unallocated provisions will be independently available to absorb losses. The general provision is not specifically defined at an individual level but the Bank has maintained a level of provisions that is deemed appropriate and sufficient to absorb all credit losses innate to its loan portfolio. Provisioning amounts are considered from various factors e.g. economic conditions which may impact a debtor's ability to repay, qualities and characteristics of portfolio, regulatory requirements, related accounting standards and applicable tax principles.

Specific Provision

SCB calculates specific provision based on asset classification as prescribed by the BOT, or even more strict criteria in some cases. For example, for NPLs with an outstanding balance of less than Baht 20 million and with collateral quality that is assessed as fair or lower, the Bank applies the present value of cash flow from collateral disposal, which is more conservative than the criteria specified by the BOT. Furthermore, in the review process, debtor status is taken into account and special provision may be considered to ensure that the Bank has adequate provision to cushion against future losses and that net asset are appraised appropriately.

Credit Risk Exposures

The following tables represent significant exposure values taken from on- and-off balance sheet items classified under various dimensions including bad debts written-off without taking into consideration credit risk mitigation (Table 3 – Table 11). For example, exposure values are allocated to a region based on the country or geographical area of incorporation of the booking branch where the exposure was originated.

Table 3: Exposures of significant items on-and-off balance sheet

In THB millions

Categories	31-Dec-09
1. On-Balance Sheet Items (1.1+1.2+1.3)	
1.1 Net Loans[1]	949,263
1.2 Net Investment in Debt Securities[2]	143,260
1.3 Deposit (incl.accrued interest receivables)	17,300
2. Off-Balance Sheet Items[3] (2.1+2.2+2.3)	
2.1 Aval, Guarantee and LC	21,148
2.2 OTC Derivatives[4]	1,946,960
2.2 Undrawn Committed Lines	66,689

Note:
[1] Including accrued interest receivables and net of deferred income, allowance for doubtful accounts and allowance for revaluation from debt restructuring and including net loans of interbank and money market.
[2] Excluding accrued interest receivables and net of allowances for revaluation and impairment of securities.
[3] Before multiplying credit conversion factor
[4] Including Equity-related derivatives

Credit Risk - continued

Table 4: Exposures classified by geographical area

31-Dec-09 — In THB Millions

Geographic Area	On-Balance Sheet assets				Off-Balance Sheet items[3]			
	Total	Net Loans[1]	Net Investment in Debt Securities[2]	Deposit	Total	Aval, Guarantee, LC	OTC Derivatives	Undrawn Committed Lines
Thailand	1,086,100	937,738	141,148	7,215	2,029,718	20,847	1,942,183	66,689
Foreign Countries	23,723	11,525	2,112	10,085	5,079	301	4,778	-
Total	1,109,823	949,263	143,260	17,300	2,034,797	21,148	1,946,960	66,689

[1] Including accrued interest receivables and net of deferred income, allowance for doubtful accounts and allowance for revaluation from debt restructuring and including net loans of interbank and money market.

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

[3] Before multiplying credit conversion factor

Table 5: Exposures classified by residual maturity

In THB Millions

Categories	31-Dec-09		
	Maturity <= 1 Yr.	Maturity > 1 Yr.	Total
1. On-Balance Sheet Items (1.1+1.2+1.3)			
1.1 Net Loans[1]	462,949	486,314	949,263
1.2 Net Investment in Debt Securities[2]	56,474	86,785	143,260
1.3 Deposit (incl.accrued interest receivables)	17,300	-	17,300
2. Off-Balance Sheet Items[3] (2.1+2.2+2.3)			
2.1 Aval, Guarantee and LC	21,055	93	21,148
2.2 Credit Derivatives	945,913	1,001,047	1,946,960
2.2 Undrawn Committed Lines	1,498	65,191	66,689

[1] Including accrued interest receivables and net of deferred income, allowance for doubtful accounts and allowance for revaluation from debt restructuring and including net loans of interbank and money market.

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

[3] Before multiplying credit conversion factor

Table 6: Loans and investment in debt securities classified by geographical area and asset classification

31-Dec-09 — In THB Millions

Geographical area	Loans[1]						Investment in Debt Securities Doubtful Loss
	Normal	Special Mention	Substandard	Doubtful	Doubtful Loss	Total	
Thailand	908,791	29,080	6,341	5,525	28,803	978,541	2,069
Foreign Countries	11,787	-	167	-	-	11,954	-
Total	920,578	29,080	6,509	5,525	28,803	990,495	2,069

[1] Including outstanding amounts of loans and accrued interest receivables of interbank and money market (excluding allowances of doubtful accounts)

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Credit Risk - continued

Table 7: Provisions and bad debt written-off on loans & investment in debt Securities by geographical area

31-Dec-09 | In THB Millions

Geographic area	Loans[1]			Specific Provision for Investment in Debt Securities
	General Provisions[2]	Specific Provisions	Bad debt written-off during period	
Thailand		27,910	4,370	2,069
Foreign Countries		167	-	-
Total	13,155	28,077	4,370	2,069

[1] Including outstanding amounts of loans and accrued interest receivables of interbank and money market

[2] Disclosed in total amounts

Table 8: Loans classified by type of business and asset classification

31-Dec-09 | In THB Millions

Type of Business	Loans[1]					
	Normal	Special Mention	Substandard	Doubtful	Doubtful Loss	Total
- Agriculture & Mining	12,770	104	51	2	459	13,386
- Manufacture & Commerce	286,049	15,693	1,773	3,030	11,158	317,703
- Real Estate and Construction	68,632	1,700	1,041	435	1,745	73,553
- Infrastructure & services	105,646	3,930	1,003	126	3,136	113,842
- Housing Loans	233,981	5,704	1,848	1,536	7,150	250,218
- Others[1]	213,499	1,949	792	397	5,154	221,793
Total	920,578	29,080	6,509	5,525	28,803	990,495

[1] Including outstanding amounts of loans and accrued interest receivables of interbank and money market

Table 9: Provisions and Bad debts written-off for loans[1] classified by type of business

In THB Millions

Type of Business	31-Dec-09		
	General Provisions[2]	Specific Provisions	Bad debts written-off during period
- Agriculture & Mining		201	199
- Manufacture & Commerce		17,952	1,378
- Real Estate and Construction		1,265	260
- Infrastructure & services		2,791	24
- Housing Loans		3,487	554
- Others		2,381	1,954
Total	13,155	28,077	4,370

[1] Including outstanding amounts of loans and accrued interest receivables of interbank and money market

[2] Disclosed in total amounts

Credit Risk - continued

Table 10: Reconciliation of Change in Provisions for Loans[1]

In THB Millions

Particulars	31-Dec-09		
	General Provisions	Specific Provisions	Total
Balance, beginning of the year	13,099	26,210	39,309
Charge-offs during the period		4,370	4,370
Increase/Decrease in Provisions	56	6,029	6,084
Other provisions (e.g. provision for losses from foreign exchange, provisions for M&A or Sell-off)		208	208
Balance, end of the year	13,155	28,077	41,232

[1] Including outstanding amounts of loans and accrued interest receivables of interbank and money market

Credit Risk Exposure under Standardized Approach

External Credit Assessment Institutes (ECAIs)

For claims on sovereign and banks, the Bank uses credit ratings from Standard & Poor's. For claims on corporate, the Bank uses TRIS Rating, and/or Fitch Ratings (Thailand)

Criteria for external credit rating selection

In cases where a debtor receives different credit ratings from different agencies, the Bank follows the Bank of Thailand's criteria for rating selection as follows:

- In case of 2 ratings with different risk weights, the higher risk weight will be selected.
- In cases where a debtor does not have an external credit rating but issues a financial instrument and receives a credit rating, the Bank will assign a risk weight based on the Bank of Thailand's criteria.

Table 11: Exposures classified by asset type under Standardized Approach (SA)

In THB Millions

Asset Type	31-Dec-09		
	On-Balance Sheet	Off-Balance Sheet**	TOTAL
1. Performing			
1.1 Claims on Sovereign & Central Banks, MDBs, PSEs-Sovereign	149,523	74,360	223,882
1.2 Claims on Bank, PSEs-Bank	36,464	61,642	98,106
1.3 Claims on Corporate, PSEs-Corporate	484,462	79,143	563,604
1.4 Claims on Retail portfolios	127,509	4,249	131,758
1.5 Claims on Retail Mortgage Loans	237,568	1,277	238,845
1.6 Other Assets	139,939		139,939
2. Non-Performing Loans	23,034	1,010	24,044
3. First to Default Credit Derivatives and Securitisation	0		0
Total	1,198,499	221,680	1,420,179

* after multiplying with Credit Conversion Factor (CCF) and Specific Provision including all Repo-style transactions (and Reverse Repo Transactions)

Credit Risk - continued

Table 12: Exposures of On-and off-balance sheet items* after adjusting for credit risk mitigation classified by asset type and risk weights under Standardized Approach (SA)

In THB Millions

Asset Type	31-Dec-09													
	Rated Expsoures					Unrated Exposures								
Risk Weights (%)	0	20	50	100	150	0	20	35	50	75	100	625	937.5	100/ 8.5%
Performing														
1. Claims on Sovereign & Central Banks[1]	164,692		1,199		195									
2. Claims on Bank, PSEs-Bank		50,928	20,330	1,279	5									
3. Claims on Corporate, PSEs-Corporate		17,789	55,904	31,322	9,944						431,211			
4. Claims on Retail portfolios										125,414				
5. Claims on Retail Mortgage Loans								227,056		9,857	899			
6. Other Assets						56,947	10,968				72,024			
Risk Weights (%)		20	50	100	150					75				
Non-Performing Loans[2]		346	2,632	12,590	8,414					3				
Total	164,692	69,063	80,065	45,191	18,557	56,947	10,968	227,056		135,275	504,134			
Capital Deducion prescribes by the BOT														

* after translation with Credit Conversion Factor (CCF)

[1] Including claims on MDBs and PSE-Sovereign

[2] For the portion claims with no credti risk mitigation, risk weight are determined by the proportion of provision to total amount of claims

Credit risk mitigation

The Bank's credit risk mitigation policy is centered on reduction of loss given default through having the ability to sell collateral or call on debt guarantors for repayment in case of default.

Policy, Procedure, and Scope of On- and Off-Balance Sheet Netting

The Bank will apply credit risk mitigation by means of netting when a contract constitutes obligations among all parties and is legally enforceable. The standard of the contract must be in accordance with the minimum standard criteria prescribed by the Bank of Thailand. The Bank's legal unit shall approve and regularly review such contracts, and consider possible impact from changes in government regulations regarding enforcement and/or other legal issues. In addition, there must be monitoring of Net Debt and control of risks arising from maturity mismatching. If these elements are not met, the mitigation will not be allowed.

Collateral Management and Value Appraisal Policy and Procedure

The Bank has approved a collateral and property foreclosed appraisal policy. The policy contains guidelines on collateral management reflecting its actual value both before and after collateralization. The policy includes requirements for an independent appraiser for debts with a credit line or book value equivalent to or greater than Baht 50 million; review of collateral value every 5 years for performing loans with a credit line equivalent to or greater than Baht 20 million, and every 3 years for non-performing loan. In case of troubled debt restructuring, the collateral value needs to be appraised every year.

The policy maximizes the effectiveness of financial collateral management:

1. No concentration on type of collateral.
2. Collateral value must not have a positive correlation with the debtor.
3. There should be no currency mismatch between debts and collateral. If there is a mismatch, the discount (or Haircut) must be increased to compensate for the mismatch.

Credit Risk - continued

4. Agreements must be in the standard form and reviewed by the Bank's legal unit for enforcement validity at all times.
5. Agreement filing, collateral records, and collateral enforcement procedures must be regularly checked.
6. There should be no maturity mismatch. If there is a mismatch, the renewal agreement must be executed before collateral maturity for continuous validity throughout the period of the debt.

With respect to collateral value appraisal, the Bank will review the value of financial collateral every month and use the last bid price as the appraised value. With respect to guarantees, the guarantors must have lower risk weights than debtors. In cases where a guarantor is a private company, it must have a better credit rating than the debtors, or equivalent to, at least, A-.

Types of Collateral

The Bank applies the Standardized Approach (SA) to calculate credit risk. The collateral mitigation is classified into 2 types, as follows:

1. Financial Collateral comprising assets that have high liquidity and a market price or value that can be determined, such as cash, deposits, gold, bonds, equity, and unit trusts.
2. Guarantee and Credit Derivatives.

Concentration of credit risk mitigation

The Bank applies credit risk mitigation adjusted with supervisory haircuts in accordance with the BOT's guidelines. As at 31 December 2009, the proportion of financial collateral stood at 79% of which BOT bonds represented 52%. The proportion of guarantee and credit derivatives stood at 21%.

Table 13: Exposures covered by risk mitigation classified by asset type and type of Collateral under Standardized Approach (SA)

In THB Millions

Asset Type	31-Dec-09	
	Eligible Financial Collateral[1]	Guarantee & Credit Derivatives
Performing		
1. Claims on Sovereign & Central Banks, MDBs, PSEs-Sovereign	71,228	-
2. Claims on Bank, PSEs-Bank	22,853	13,057
3. Claims on Corporate, PSEs-Corporate	6,721	14,774
4. Claims on Retail portfolios	6,337	7
5. Claims on Retail Mortgage Loans	1,033	-
6. Other Assets		
Non-Performing	60	346
Total	108,232	28,184

Note : Credit risk mitigation excludes securitization

* Values after on-balance sheet and off-balance sheet netting

[1] Eligible financial collateral that the BOT allows to use for risk mitigation. For applying the Comprehensive approach, the values after haircut shall be disclosed

Market Risk

Market risk refers to the risk that the Bank may be exposed to loss from changes in both on and off balance sheet positions as a result of any movement in market risk factors: exchange rates, interest rates, equity prices, credit spreads, and commodity prices.

The Bank has divided market risk into two categories: trading book and banking book. Trading books comprise positions in a financial instruments held with trading intent and for a short period, with an intention to sell and/or to benefit from changes in prices or arbitrage. *(For more details information of interest rate in the banking book (IRRBB), refer to IRRBB section on page 23.)*

Market Risk Management Policy in Trading Book

The Bank has established a Market Risk Policy Guide (MPG) and a Trading Book Policy (TBP) as guidelines for market risk management. The MPG and TBP are approved by the Board of Directors. In order to keep the contents up-to-date, the MPG and TBP are reviewed at least once a year, and/or upon a change in strategy or a significant event that has a material impact on policy compliance. The Executive Committee considers and approves policy amendments or changes, and reports them to the Board of Directors.

The Market Risk Management Division is responsible for the measurement, assessment, monitoring, control and reporting of market risk within the trading book, so as to ensure that market risk is within approved limits. Market risk reports are distributed on a daily basis to senior management. In the event of market risk exposure limit breach, the person-in-charge of managing the trading book is required to seek approval in accordance with the procedure prescribed in the Market Risk Policy Guide. Market risk reports are submitted to the Assets and Liabilities Management Committee and the Risk Management Committee on a monthly basis.

Market Risk Assessment

The Bank applies risk monitoring and assessment tools to data concerning trading book positions and market risk factors. Statistical and non-statistical risk assessment tools applied include Value at Risk (VaR), Sensitivity Analysis, Stop-Loss Limit, and Position Size Limit, etc.

The Bank uses parametric or variance-covariance VaR, which is based on the equation of volatility and correlation values of the following market risk factors: exchange rates, interest rates, and equity prices. Based on an assumption that changes in these factors have a normal distribution pattern, the parametric approach is applied to risk positions incurred from transactions concerning exchange rates, interest rates, and equity prices. Monte Carlo simulation is applied to risk positions incurred from option transactions such as FX options. Criteria for the VaR models used are as follows:

- Using the historical data concerning changes in market risk factors of the past 1 year, or 250 business days.
- Historical data concerning market risk factors comprises exchange rates, interest rates, and equity prices, and the associated volatilities.
- VaR calculation is based on a confidence level of 99% and for a one-day holding period.
- Adjustment/update of correlation values is made on a weekly basis.

The Bank uses stress testing for market risk within the trading book. This comprises scenarios with exchange and interest risk factors that may lead to irregular profit or loss in the Bank's position, with a view to determine the size of potential loss and capital adequacy to cushion against such loss. Stress testing results are reported to the Risk Management Committee as per a specified schedule.

Market Risk Monitoring and Reporting

Market risk monitoring and reporting are required on a daily basis to ensure that potential risk remains within approved limits. Market risk exposures against limits are reported to the Chief Risk Officer and senior management of appropriate business areas. Key limits for market risk monitoring and control include Value at Risk (VaR), Sensitivity Analysis, Stop-Loss Limit, and Position Size Limit.

Market Risk - continued

Market Risk Limit Control

The Bank has determined its risk appetite for the market risk arising from positions in its trading book. Market Risk Management Division is responsible for proposing market risk limits to the Assets and Liabilities Management Committee's consideration and approval. The Executive Committee approves market risk limits on the recommendation of the Assets and Liabilities Management Committee. Market risk limits are reviewed at least once a year, and/or upon a significant change.

Capital Treatment for Market Risk

The Bank uses the Standardized Approach to calculate market risk capital requirements in accordance with the BOT guidelines. The table below identifies the minimum capital requirements for its trading book businesses between H1/2009 and H2/2009. An increase in the minimum capital requirement for Market Risk is mainly driven by an increase in trading activity both from foreign exchange and interest rate trading transactions.

Table 14: Minimum capital requirement of Market Risk under Standardized Approach

In THB millions	31-Dec-09	30-Jun-09
Market Risk – Standardized Approach		
Interest Rate Risk	1,656	1,503
Equity Position Risk	-	-
Foreign Exchange Risk	692	245
Commodity Risk	-	-
Total Minimum Capital Requirements for Market Risk	**2,348**	**1,748**

Operational Risk

Based on the definition provided by the Basel Committee of the Bank of International Settlements (Basel II), the Bank defies operational risk as the risk of loss due to inadequacy or failure of internal processes, people, systems or from an external event. This definition does not include strategic risk but does include legal risk. Reputation impact giving rise to operational risks are included in the definition. The operational risk may emerge from internal and external factors, for examples, organization restructuring, changes in processes, technology, products, business environment, regulatory requirement, etc.

Operational Risk Management Principles

The Bank recognizes operational risk as an inevitable consequences of its business operations, and addresses such risks, particularly in rapidly changing situations, such as economic conditions, competition, the complexity of business, product and technology, disasters, or epidemics.

The Board of Directors has set the Bank's operational risk policy. The policy covers the operational risk management, framework, processes, and approach with a view to encourage understanding of this risk across all the units in the Bank. With the policy in place, business groups are required to proceed with risk identification, control, monitoring, and reporting, while senior executives manage operational risk under their area of responsibility and promote a sound internal control environment.

The operational risk policy has a three-pronged thrust – set minimum capital requirements in compliance with regulatory guidelines, establish a sound internal control environment with effective risk management, and lastly, to make appropriate market disclosures.

Operational Risk Governance Framework

The Bank has adopted an industry practice governance framework for operational risk management, applying the principle of **"three lines of defense"** to ensure effective operational risk management. This is described as follows:

The first line of defense:

Since business units and supporting units have the best knowledge about their operations and risks, they are held responsible for risk management within their own units; risk shall be identified, assessed, controlled, and reported to their senior executives.

The second line of defense:

The centralized risk and control divisions such as Operational Risk Management, Compliance and Operational Control, and specialized units (such as IT Security and Fraud Management) have the responsibility to support the first line of defense in operational risk management, assistance with and/or renew of each units' operational risk management approaches.

The third line of defense:

The Audit Division has the responsibility to independently conduct an audit of business processes and operations to provide assurance to the Audit Committee and the Board of Directors of the effectiveness of the Bank's internal control environment.

Risk Management Process and Methodologies

The Bank has defined an operational risk management process, comprising risk identification, assessment, monitoring, and reporting through ORM methodologies. These are outlined as follows:

Risk and Control Self Assessment (RCSA)

All key units are required to identify and assess their own operational risk. RCSA focuses on future risk assessment by using past records of loss, key risk indicators, and related issues such as audit findings. The RCSA process is facilitated by Operational Risk Champions (ORCs) who are expert in their business areas and work together with personnel from ORM to identify and assess key operational risks that could impact the achievement of business objectives as well as the

Operational Risk - continued

effectiveness of the controls in place to manage these risks. For identified risks lacking sufficient mitigation, the business owners are required to establish action plans to improve the control environment so as to contain the risks at acceptable levels.

Key Risk Indicators (KRIs):

Business and Support Units regularly monitor key risks to ensure that they remain at an acceptable level. The units shall determine KRIs, collect data, and monitor changes in risk level through KRIs.

Incident and Loss Management (ILM):

Business and Support Units are required to report operational losses for further analysis of root cause to prevent loss recurrence. This is also useful for reviewing the effectiveness of the RCSA and KRIs.

Operational Risk Limit and Monitoring

The Bank has determined a bank-wide operational risk appetite, as an expression of the Bank's desired level of exposure to operational risk.

For key risks in each business and support unit, key risk indicators and their thresholds will be determined for risk monitoring. If a risk breaches the threshold, the unit shall investigate if there is abnormality or take action in order to reduce the level of exposure to fall within an acceptable level.

Risk indicators and thresholds are regularly reviewed by concerned units to ensure that risk indicators appropriately monitor risk levels and reflect changes in risk level, and that the risk thresholds reflect the units' risk appetite.

Operational Risk Reporting

Key business and support units are responsible for reporting operational risk to their management on a regular basis in order to inform the management of the level of current risk exposure and to facilitate improvement action, if required. In addition, the Operational Risk Management Division is responsible for analyzing and summarizing operational risk data from all key units and reporting the aggregated information on operational risk to the Risk Management Committee on monthly basis. This includes information on current risk exposure and loss events.

Other risk prevention and mitigation policies and processes

In addition to operational risk management methodologies such as RCSA, KRIs, and ILM, the Bank has other risk mitigation processes in place to allow business units to manage operational risk as follows:

Business Continuity Management

The Bank requires that each critical business function to have a business continuity plan (BCP) to ensure key business and operations continue with minimal disruption or severity, and that impact to customers are alleviated in event of any serious incident causing severe loss. BCP owners have a duty to regularly review their BCP to ensure that the plan is up to date. Regular BCP testing and readiness checks are required, to ensure that the plan is practical and can be executed in a timely manner.

Outsourcing

The Bank has established an outsourcing policy, which requires that where a service disruption could have material impact to the Bank the service provider shall have a BCP and service level agreement (SLA) in place for priority processes. The responsibility for requiring testing this risk mitigation still rests with the concerned business or support unit.

New Product Approval Process

The Bank requires consideration of risk management for new products, services, business process launches or significant changes thereto. Concerned units have a duty to assess operational risks for

Operational Risk - continued

new product launches and/or significant changes in product features or related processes and working systems, as well as to ensure that operational risk is at acceptable level in these cases.

Insurance Management

The Bank considers risk transfer by means of insurance to mitigate operational risk. To seek an appropriate insurance policy, costs of risk and insurance are compared before insurance cover is obtained.

Capital Treatment for Operational Risk

Since 31 December 2008, the Bank has adopted the Standardized Approach to calculate its operational risk capital requirements. The table below identifies the minimum capital requirements required for operational risk arising from various business lines between H1/2009 and H2/2009. The minimum capital requirements of H2/2009 calculated from the averaged 6 half-year income are slightly higher due to an increase in the line of business revenues over this period.

Table 15: Minimum capital requirement of Operational Risk under Standardized Approach

In THB millions	31-Dec-09	30-Jun-09
Operational Risk – Standardized Approach	7,621	7,300
Total Minimum Capital Requirements for Operational Risk	**7,621**	**7,300**

Equity in the Banking Book

Equity risk arises from holding positions, either long or short, in equities, which create an exposure to a change in the market price of the equities.
The investment policies of the Bank are to focus on long-term investments that consists of:

- Investments in securities which are intended to generate dividend yield and/or long-term capital gains and/or strengthening strategic partnership with clients for other banking businesses;
- Strategic stakes in entities held as part of growth initiatives and/or in support of banking operations.

Governance

The Bank uses Equity Investment Policy Guide (IPG) as a general guideline for its equity investments while the Equity Investment Management Division of the Finance group is mainly responsible for managing SCB Equity investments in a way that makes them in line with the provided policy and guideline. The Equity Investment Management Division is also responsible for monitoring the compliance of investment transactions with relevant rules and regulations, and internal and external factors which could have an impact on investment value. In addition, the Equity Investment Management is responsible for reporting to and consulting with the Equity Investment Management Committee.

The Bank determines approval authorities in the form of committees and individuals executives in accordance with the Regulation of Approval Authority of Equity Investments. The approval authority varies by transaction types and values, which have different levels of investment risk.

Risk Measurement and Control

Equity investments in the banking book are classified and measured in accordance with the Thai Accounting Standards (TAS) and are categorized as Available for Sale investments, General investments and Investments in subsidiaries and associates.

The investments with book value higher than the market price, fair value, or recoverable amount are required to be 100% provisioned. Determining a fair value or recoverable amount must be in compliance with the provisions of the relevant accounting standard and the BOT notification.

Regarding loss experience with the portfolio, as the Bank has adopted a policy to set aside quarterly reserves for investments that are impaired, the declining market value or book value should not severely affect the Bank's investment portfolio. The Bank also performs the so-called Annual Review process. Each investment is analyzed, reviewed and updated on a periodic basis or upon updated information available. As a result, the most up-to-date information is generated for setting proper strategy to respective company.

Capital treatment

The Bank has adopted the Standardized Approach method to calculate regulatory capital for equity exposures in its banking book.

Table 16: Minimum capital requirement of Equity in the Banking Book

In THB millions

Equity Exposures	31-Dec-09
1. Equity Exposures	
1.1 Equity listed and publicly traded in the Stock Exchange	
Book Value	11,826
Market value	13,908
1.2 Others Equities: Book value	22,502
2. Total gains (losses) from sales (interim)	504
3. Increase (Decrease)in value from AFS	2,037
4. Minimum Capital Requirements on Equity Exposures	2,085

Interest Rate in the Banking Book

Interest rate risk in the banking book is the exposure of the Bank's financial conditions in non-trading portfolios responding to adverse movements in interest rates. Excessive interest rate risk can pose a significant threat to the Bank's earnings and capital. Changes in interest rates may affect the Bank's earnings by mostly changing the net interest income (NII) and economic value of equity. The interest rate risks that the Bank is generally exposed to are Repricing risk, Yield curve risk, Basis risk and Optionality risk.

Governance

The Asset & Liability Management division of Finance Group is charged with oversight of non-trading interest rate risk from both an earning perspective and an economic value perspective. To effectively manage the banking book interest rate risk, the Bank has set limits, which are impacted from interest rate risk in term of earnings perspective only. The static NII simulation limit and stress test limit are set as a threshold of a percentage change to a target NII. The risk analysis reports submitted to Asset-Liability Management Committee (ALCO) and Risk committee are scheduled regularly on a monthly basis.

Risk Measurement and Control

To optimize income and balance sheet management, the Bank mobilizes fund mainly from domestic deposits, which mostly are repriced within 1 year. In this case, the interest rate risk in the banking book arises from repricing risk and basis risk measured by lending rates (MLR, MOR, MRR) and deposit rates, including some mismatches from fixed rate lending and fixed income investment. Static NII simulation limit and stress test limit are also incorporated for interest rate risk in the banking book management.

For static NII simulation, the Bank applies a 100 basis point interest rate change (upward & downward) as defined by the regulatory assumption to earnings for major currencies. The impacts to NII for December 2009 were 0.05% if interest rate increased by 100 basis points and –7.68% of the target NII if interest rate decreased by 100 basis points. The result from both assumptions were substantial differences because the Bank's average deposit cost was lower than 1% and the floor of 0% was applied to the decreased interest rate scenario, which led the impact of decreased interest rate scenario more vulnerable than that of the increased interest rate scenario.

Table 17: The Effect of changes in interest rate to net earnings

Currency Code	31-Dec-09	
	Impact on Target NII (%)	
	Int UP 100 bps.	Int DN 100 bps.
THB	0.10%	-7.51%
USD	-0.05%	-0.15%
EURO & Other currencies	0.00%	-0.02%
All Currency Code	**0.05%**	**-7.68%**