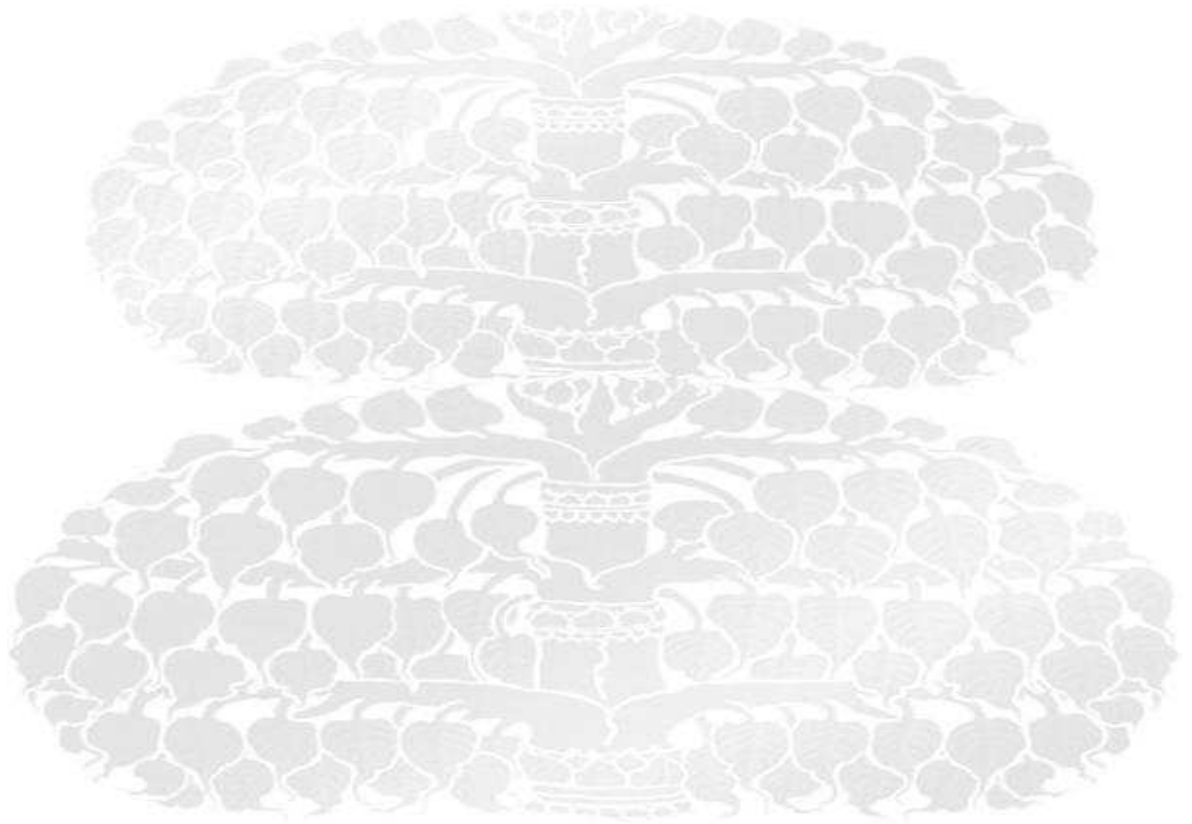




ธนาคารไทยพาณิชย์
SIAM COMMERCIAL BANK



Siam Commercial Bank PCL.
Pillar 3 Disclosures
30 June 2009

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

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1. Introduction

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

This report complies with the disclosure requirements of Pillar III Market Discipline of Basel II requirements as prescribed by the Bank of Thailand (BOT). Pillar III aims to promote market discipline by recommending disclosures which will allow market participants to assess certain information on the scope of the application of Basel II, overall risk exposures, risk assessment processes, and more importantly the capital adequacy of a financial institution.

This report is the Bank's first semi-annual disclosure prepared as at 30 June 2009. The report provides details of the Bank's capital adequacy, including the composition of risk-weighted assets and an overview of its market risk management. The first full set of annual disclosures as at 31 December 2009 will include more explanatory details on the Bank's risk management practices with both qualitative and quantitative information and will be available during the first quarter of 2010. The Pillar III disclosures will be available under the Investor Relations section of the Bank's website at www.scb.co.th/en/abt/abt_ivr.shtml and as a supplementary section to its financial statements.

2. Scope of Application

In the initial phase of Basel II implementation and in line with the BOT guidelines, the Bank's capital adequacy is computed on a non-consolidated basis only. The SCB group of companies 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.

3. Regulatory Capital

3.1 Capital Management

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

- will provide a cushion for 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 review the capital adequacy periodically taking into account the needs of its underlying businesses.

3.2 Capital Structure and 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 reserve. 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 details of the Bank's capital resources, risk weighted assets, capital adequacy ratios, and capital requirements by risk type as of 30 June 2009. There are no capital deduction items under Tier 1 and Tier 2. The Bank's total capital adequacy and tier 1 ratios were 15.65% and 11.37%, which are well beyond the BOT minimum regulatory requirements of 8.5% and 4.25%.

Table 1: Comprehensive Capital Structures and Adequacy

In THB millions	30 Jun 2009
Tier 1 Capital	
Paid-up Capital	26,009
Premium on shares	11,124
Paid-up Preferred shares	7,983
Legal Reserve	5,063
Appropriated Retained Earnings	53,657
Total Tier 1 Capital	103,836
Tier 2 Capital	
Tier 2 Capital subject to limits	39,055
Total Regulatory Capital	142,891
Risk Weighted Assets	
Credit Risk	814,086
Market Risk	12,981
Operational Risk	85,879
Total Risk Weighted Assets	912,946
Total Capital Adequacy Ratio (%)	15.65%
Tier 1 Capital Adequacy Ratio (%)	11.37%
Minimum Regulatory Capital Adequacy Ratio (%)	8.5%

Table 2: Minimum Capital Requirements by Risk Type

In THB millions	30 Jun 2009
Credit Risk – Standardized Approach	
Performing	
Governments, Central Banks, MDBs ¹ and PSEs ² treated as Sovereign	87
Banks and PSEs treated as Bank	2,020
Corporates and PSEs treated as Corporate	43,584
Retail	8,220
Retail Mortgage Loans	7,166
Other Assets	5,982
Non-Performing	2,138
First-to-Default Credit Derivatives and Securitisation	-
Total Minimum Capital Requirements for Credit Risk	69,197
Market Risk – Standardized Approach	
Interest Rate Risk	858
Equity Position Risk	-
Foreign Exchange Risk	245
Commodity Risk	-
Total Minimum Capital Requirements for Market Risk	1,103
Operational Risk – Standardized Approach	
Total Minimum Capital Requirements for Operational Risk	7,300
Total Minimum Capital Requirements	77,600

¹ Multilateral development banks

² Non-central government public sector entities

4. Market Risk Management

In the SCB context, 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.

The Bank has divided market risk into two categories: banking book and trading book. Trading books comprise positions in a financial instrument held with a trading intent and, typically, for a short period, with an intention to sell and/or to benefit from changes in prices or through market arbitrage.

4.1 Market Risk Management Policy

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 situation that has a material impact on policy compliance. The Executive Committee is assigned to consider and approve policy amendments or changes, and report them to the Board of Directors.

4.2 Organization and Responsibility

An objective of the Bank's market risk management is to manage and control market risk within the risk appetite limits set by the Board of Directors.

The Risk Management Group is independent of other business groups. The Market Risk Management Division of this Group is responsible for trading book market risk monitoring, control, measurement, and assessment, so as to ensure that market risk is within specified exposure limits. Market risk reports are distributed on a daily basis to appropriate senior management. In the event of a market risk exposure breach of limit, the person in charge of managing a trading book shall seek risk exposure approval in accordance with the procedure prescribed in the Market Risk Policy Guide. Reports on risk monitoring and market risk management are also submitted to the Assets and Liabilities Management Committee and the Risk Management Committee, respectively, on a monthly basis.

4.3 Risk Limits

The Bank has determined the risk appetite for market risk management. The Market Risk Management Division is responsible for proposing market risk limits for the Assets and Liabilities Management Committee's consideration and approval, and, where appropriate, to the Executive Committee for consideration and approval. Market risk limits are reviewed at least once a year, and/or upon a significant change.

4.4 Risk Monitoring and Assessment

In order to assess risk exposure and compare to established risk limits, the Bank applies a range of risk monitoring and assessment tools to the 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, stress testing, and back testing.

4.4.1 Value at Risk (VaR)

Value at Risk (VaR) is a statistical tool for risk assessment. VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market risk factors over a specified time horizon and to a given level of confidence in normal market situation.

SCB 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 applies to risk positions incurred from transactions concerning exchange rates, interest rates, and equity prices. On the other hand, Monte Carlo simulation applies 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 over 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.

4.4.2 Sensitivity Analysis

Sensitivity Analysis is a tool to assess loss from a position held at a particular period due to changes in each market risk factor. The Bank uses a total risk limit that is determined by the type of portfolio and risk, depending on the characteristics of each financial instrument. For example, interest rate risk is assessed when the interest or market yield rate changes by 0.01%.

4.4.3 Stop-Loss Limit

Stop-loss limit is a tool to control loss for a particular period due to changes in market risk factors, such as a maximum loss in one business day or one month. The Bank uses this limit to minimize its losses in the event of adverse market conditions.

4.4.4 Position Size Limit

Position limit is a tool used by the Bank to restrict the size of a risk position and the size of a maximum transaction volume that a portfolio may hold and conduct at the end of a business day, such as the bank's aggregate FX position held overnight after business hours.

4.4.5 Stress Testing

The Bank has stress testing procedures in place for trading book market risk using scenarios covering a variety of foreign exchange and interest rate risk factors that may lead to irregular profit or loss in the bank's position. Stress testing helps to determine the size of potential loss and capital adequacy to cushion the loss. Stress testing results are reported to the Risk Management Committee on a monthly basis.

4.4.6 Back testing

The Bank conducts back testing on a daily basis. Using the historical data of the past 250 business days, to compare the daily VaR with losses due to the hypothetical changes of the portfolio value, calculated from loss that incurs from changes in market prices of that day with the portfolio position at the end of the previous day. Integrity of the VaR model considered from a result of Back testing will depend on the number of exceptions, resulting from the fact that the hypothetical loss (loss due to hypothetical change) exceeds the VaR computed from portfolio position of the previous day. A report on back testing results is prepared on at least a quarterly basis, and submitted to the Risk Management Committee.