
Pillar III Disclosure December 2010



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1. Introduction

Siam Commercial Bank PCL (SCB) first adopted the new capital management framework, commonly known as Basel II, on December 31, 2008, following the directive of the Bank of Thailand (BOT). The capital framework was extended to encompass the entire SCB Financial Group on June 30, 2010.

The Basel II Capital Accord comprises 3 pillars, each of which is a critical element in strengthening the stability of financial institutions:

- **Pillar 1** provides guidelines for measuring minimum capital requirements for credit risk, market risk, and operational risk.
- **Pillar 2** addresses the key principles for the supervisory review processes and relevant internal risk assessment beyond Pillar 1, with emphasizes on the bank's Internal Capital Adequacy Assessment Process (ICAAP).
- **Pillar 3** aims to bolster market discipline through guidelines for public disclosure of key information on capital adequacy, risk exposures, and risk assessment and management.

The Pillar 3 disclosure reports are required by BOT to be disclosed on a semi-annual basis: 30 June and 31 December, in accordance with the Bank of Thailand guidelines. Disclosures for the first half of the year provides mainly quantitative information relating to capital adequacy of the Financial Group, including risk asset components and summarized details of market risk management. Disclosures at the year end provide more both qualitative and quantitative information and are, therefore, more comprehensive.

This year marks the first time that capital requirements according to Pillar III will be simultaneously disclosed for both SCB and its Financial Group (namely on a full consolidated basis). This document presents information on SCB (*referred to on the tables as 'Bank Only'*) and its Financial Group (*referred to in the tables as 'Consolidated'*) in term of capital adequacy and related risk weighted assets calculations for credit risk including equity investment in the banking book, market risk in the trading book, operational risk, and interest rate in the banking book, all according to BOT guidelines. Details will be provided for both quantitative and qualitative aspects of the risk management guidelines and framework of the SCB Financial Group, risk components, and applicable measurement methods adopted for monitoring and reporting under each risk management framework, including the measurement adopted for capital adequacy requirements, all of which are in line with Basel II framework. The qualitative information will be updated annually, or when there are any significant changes to the underlying policy, and disclosure of such changes is deemed necessary.

The pillar III disclosure report is made available to market participants within four months following the date of the financial statements under the Investor Relations section of SCB's website at www.scb.co.th/en/abt/abt_ivr.shtml. This disclosure is not required to be audited by external auditors. However, it is consistent with information used internally and provided to BOT. Further, it has been verified and approved internally by SCB and its Financial Group, in line with SCB's Pillar III disclosure policy.

The quantitative disclosure in this report is in alignment with the Pillar III principles under Basel II framework adopted by the BOT, rather than the Thai Accounting Standards. Accordingly, Pillar III disclosures cannot be directly compared with the 2010 Financial Statement published by SCB. For example, capital computation also includes undrawn portions of committed lines as credit risk assets, although this information is not included within the Bank's 2010 Financial Statement.

Highlights SCB and its Financial Group's Capital Adequacy Ratios (%)	Bank Only		Consolidated
	31 Dec 10	30 Jun 10	31 Dec 10
Tier 1 capital (minimum requirement of 4.25%)	11.63	12.03	11.55
Tier 2 capital	3.89	4.13	3.57
Total Capital (minimum requirement of 8.5%)	15.52	16.16	15.11

2. Scope of Application

Disclosures in this report are for SCB and its Financial Group i.e. the full-consolidated supervision level. Details of the Financial Group are provided in Chart 1 below.

Standardized approach

SCB and its Financial Group have adopted the Standardized Approach, which is in line with the BOT guidelines for measuring credit risk, market risk and operational risk, in order to compute the regulatory capital requirements.

Accounting Consolidation

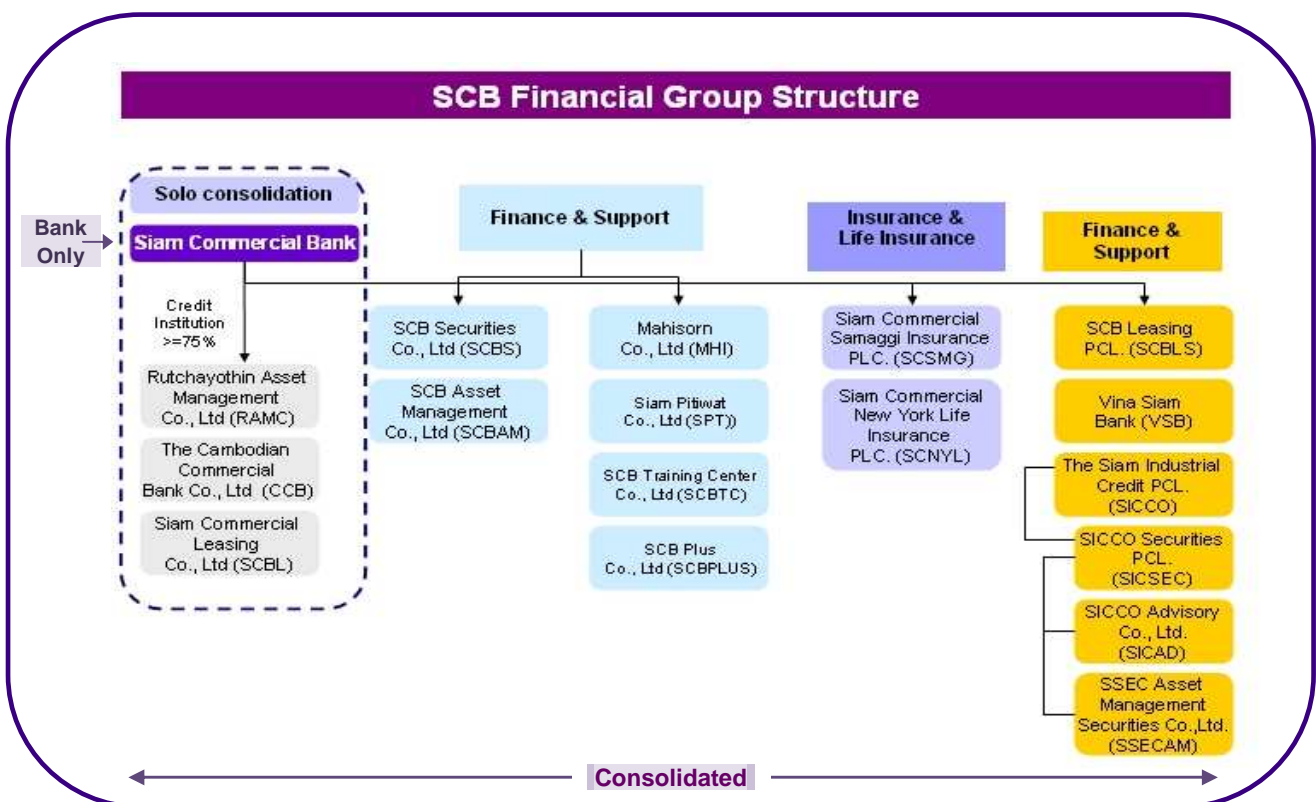
The basis of consolidation for accounting purposes prepared based under Thai Accounting Standards is described within the Annual Report for 2010. The consolidated financial statements incorporate the assets and liabilities of all subsidiaries controlled by SCB. The effects of all transactions between entities in its financial group are eliminated.

Regulatory Consolidation

The regulatory consolidation consists of solo consolidation, which includes all financial entities in which SCB has a shareholding of more than 75% and full consolidation, which incorporates all entities under the Financial Group. In this context, entities involved in the insurance business or other financial operations with a shareholding of more than 10% but less than 50% or greater than 50% are excluded but instead the investment in them is deducted from the Financial Group's regulatory capital in the manner prescribed by the BOT.

SCB and all the subsidiaries of the Financial Group are adequately capitalized. In this report, quantitative information is provided based on a non-consolidated basis (*'Bank Only'*) and a full-consolidated basis (*'Consolidated'*).

Chart 1: Company List and Business Type of companies in SCB Financial Group (Full Consolidation)



Details of company under SCB Financial Group (Solo and Full Consolidation)

Solo Consolidation Group	Business Type	Non-Solo Consolidation Group	Business Type
Siam Commercial Bank PCL.*	Banking	SCB Security Co.,Ltd.*	Security
Cambodian Commercial Bank*	Banking	SCB Asset Management Co.,Ltd.*	Fund Management
Siam Commercial Leasing PCL.*	Leasing	Siam Commercial Samaggi PCL.*	Insurance
Ratchayothin Asset Management Co., Ltd.*	Asset Management	Siam Commercial New York Life Insurance PCL	Life Insurance
		SCB Leasing PCL	Leasing
		VinaSiam Bank	Banking
		Siam Industrial Credit PCL	Financing
		Sicco Security PLC.	Security
		Sicco Advisory Co.,LTd	Financing Advisory
		SSEC Asset Management Cp.,Ltd.	Fund Management
		Mahisorn Co.,Ltd.*	Support Business
		Siam Pithiwat Co.,Ltd.*	Support Business
		SCB Training Center Co., Ltd.*	Support Business
SCB Plus Co.,Ltd.*	Support Business		

* Companies are consolidated under Full Consolidation Financial Statements.

3. Regulatory Capital

3.1 Capital management

Objective

Capital is a crucial resource in the business of banking. Accordingly, SCB has adopted the Internal Capital Adequacy Assessment Process (ICAAP) to assess significant risks, capital adequacy and support for the Financial Group business under normal and stressed situation. In assessing overall capital adequacy of the Financial Group, SCB and its Financial Group's policies and procedures are developed to ensure that its capital:

- Will provide a cushion for unexpected losses arising from the 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 SCB and its Financial Group and on-going growth based on business strategies, as well as to withstand possible risks arising from an economic recession or other adverse scenarios.

Senior management reviews the capital adequacy periodically taking into account the needs of its underlying businesses and any imminent regulatory changes.

3.2 Capital structure and adequacy

3.2.1 Capital structure

Capital according to regulatory requirements comprises Tier 1 and Tier 2 capital. Tier 1 capital includes the strongest quality of capital, which must be adequate to permanently support financial commitments without any restriction. Details of Tier 1 and Tier 2 capital are as follows:

- Tier 1 represents the highest quality component of capital. It includes:
 - Fully paid-up common and preferred shares
 - Premium on shares
 - Appropriated retained earnings
 - Legal reserves
- Tier 2 representing non-permanent capital consists of:
 - Long-term subordinated liabilities (less 20% of amortization in each of the last 5 year prior to maturity)
 - General provisions (eligibility limited to 1.25% of total risk-weighted assets)
 - Revaluation reserves for land and buildings (eligibility limited to 50%-70%)
 - Unrealized gains on available for sale securities (eligibility limited to 45%)

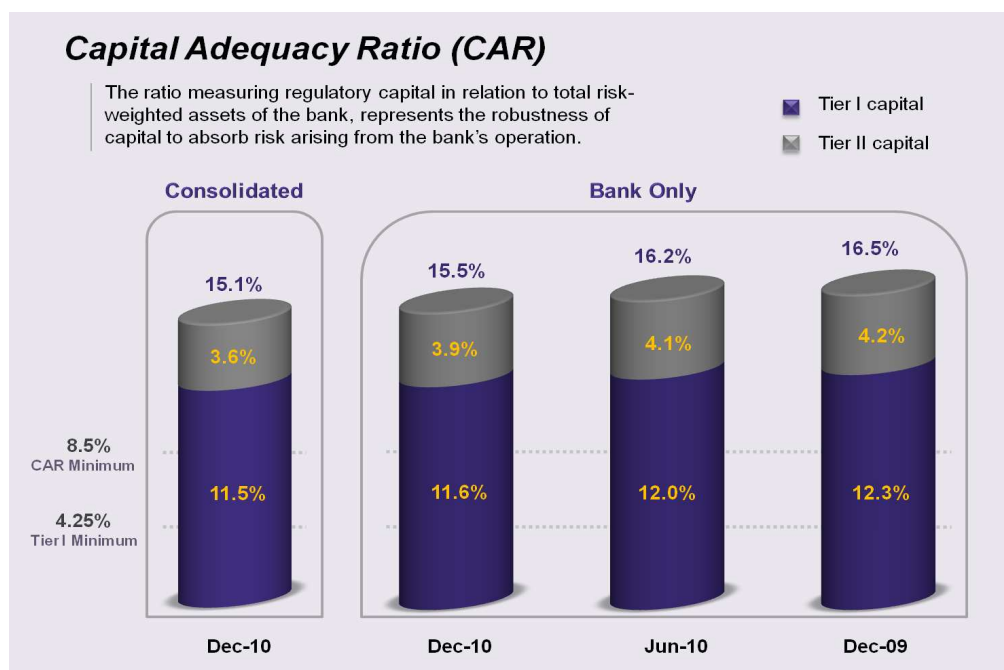
3.2.2 Capital adequacy

Capital provides a cushion against the risks SCB and its Financial Group underwrite and, therefore, maintaining an adequate capital level is of critical importance to SCB and its Financial Group's economic soundness. SCB identifies and manages the risks it faces through defined internal control procedures and stress tests. It assesses and manages the monetary impact of these risks through a capital planning process. Scenario analysis and stress tests are an important mechanism in understanding the sensitivities of the regulatory capital to business plans, including adverse impact arising from extreme yet plausible events. SCB considers these analysis and tests as a tool to foresee any potential financial impact on its business plans and capital needs. SCB will consider and establish management action plans for mitigating the impact from such adverse events should they, or similar circumstances, occur.

The regulatory guidelines stipulate the minimum level of capital requirements for SCB and its Financial Group that must be maintained at all times; 8.5% of risk weighted assets to cover credit risk, market risk and operational risk. Further SCB and its Financial Group must maintain, at least, 4.25% of this capital in Tier 1 capital as a regulatory requirement.

Chart 2 and the tables below provide summary data of SCB and its Financial Group's capital resources, risk weighted assets, and capital adequacy ratios. As at 31 December 2010, SCB's total capital adequacy and tier 1 ratios stood at 15.52% and 11.63%, which although lower than the ratios at 30 June 2010 by 64 bps and 60 bps respectively, were still well beyond the BOT minimum regulatory requirements. At the same time, the Financial Group also reported its total capital adequacy and tier 1 ratios at 15.11% and 11.55% (*These consolidated ratios are being reported for the first time*).

Chart 2: SCB and its Financial Group's Capital Adequacy Ratios under Standardized Approach (SA)



Summary SCB and its Financial Group's Capital Adequacy and RWA (In THB Millions)	Bank Only		Consolidated
	31-Dec-10	30-Jun-10	31-Dec-10
Total Risk Weighted Assets	1,054,458	955,144	1,057,109
Tier 1 capital (net)	122,662	114,931	122,044
Total capital (net)	163,680	154,362	159,758
Tier 1 capital (%)	11.63%	12.03%	11.55%
Total Capital (%)	15.52%	16.16%	15.11%

Table 1: Comprehensive Regulatory Capital and Capital Adequacy

In THB millions	Bank Only		Consolidated
	31-Dec-10	30-Jun-10	31-Dec-10
Tier 1 Capital			
Paid-up Capital	33,926	33,924	33,926
Premium on shares	11,124	11,124	11,124
Paid-up Preferred shares	66	68	66
Legal Reserve	6,034	6,034	6,034
Appropriated Retained Earnings	71,512	63,780	74,947
Minority interest	-	-	88
Deductions from Tier 1 Capital			
Goodwill	-	-	(804)
50/50 Deduction items	-	-	(3,337)
Total Tier 1 Capital	122,662	114,931	122,044
Tier 2 Capital			
Revaluation Surplus on Land and Building Appraisal	6,478	6,518	6,478
Revaluation Surplus on AFS Investment	1,359	974	1,359
General Provision	13,181	11,939	13,214
Subordinated Debt	20,000	20,000	20,000
Deductions from Tier 2 Capital			
50/50 deduction items	-	-	(3,337)
Total Tier 2 Capital	41,018	39,431	37,714
Total Regulatory Capital	163,680	154,362	159,758
Risk Weighted Assets			
Credit Risk	932,356	832,837	928,667
Market Risk	23,587	27,997	23,590
Operational Risk	98,514	94,309	104,852
Total Risk Weighted Assets	1,054,458	955,144	1,057,109
Total Risk-Weighted Capital Ratio (%)	15.52%	16.16%	15.11%
Tier 1 Risk-Weighted Capital Ratio (%)	11.63%	12.03%	11.55%
Minimum Regulatory Capital Adequacy Ratio (%)	8.50%	8.50%	8.50%
Minimum Tier 1 Risk-Weighted Capital Ratio (%)	4.25%	4.25%	4.25%

*Note: Appropriation of the Bank's profit after dividend distribution for the second half of 2010 are not included in this computation.

If included, SCB's total risk-weighted capital ratio and the Tier 1 risk-weighted capital ratio would be 15.94% and 12.05% respectively and on a consolidated basis 15.53% and 11.96% respectively.

Table 2: Capital Requirements by Risk Type

In THB millions	Bank Only		Consolidated
	31-Dec-10	30-Jun-10	31-Dec-10
Credit Risk - Standardized Approach			
Performing			
Governments, Central Banks, MDBs ¹ and PSEs ² treated as Sovereign	27	38	157
Banks and PSEs ² treated as Bank	1,626	1,585	1,641
Corporates ³ and PSEs ² treated as Corporate	48,778	43,778	48,585
Retail	11,723	9,114	12,830
Retail Mortgage Loans	8,323	8,028	8,323
Other Assets	6,857	6,330	5,354
Non-Performing	1,916	1,918	2,047
First-to-Default Credit Derivatives and Securitisation	-	-	-
Total Minimum Capital Requirements for Credit Risk	79,250	70,791	78,937
Market Risk - Standardized Approach			
Interest Rate Risk	1,550	1,818	1,550
Equity Position Risk	80	-	80
Foreign Exchange Risk	375	561	375
Commodity Risk	-	-	-
Total Minimum Capital Requirements for Market Risk	2,005	2,380	2,005
Operational Risk - Standardized Approach			
Total Minimum Capital Requirements for Operational Risk	8,374	8,016	8,912
Total Minimum Capital Requirements	89,629	81,187	89,854

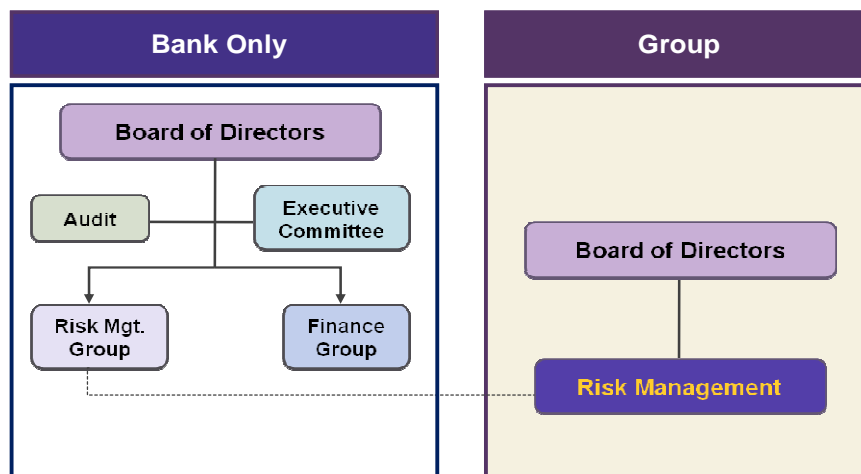
¹ Multilateral development banks

² Non-central government public sector entities

³ Including claims on individuals and their groups with business purposes but exceeding conditions of claims on retail

4. Risk Management

4.1 Risk Management Structure



The supervision of SCB Financial Group risk management falls under the responsibility of several SCB organizational units, including senior management and committees. The Board of Directors of the Bank has the responsibility for determining strategies and approving the Group's risk management policy, which must be reviewed and concurred by those who will be more directly responsible in the supervision of overall risks, namely the Group Risk Management Committee, Audit Committee, and Executive Committee.

For specific risk management, such as lending, investment, liquidity, and interest rate management, the Board of Directors assigns responsibilities to various committees with specific expertise, namely the Credit Committee, the Equity Investment Management Committee, the Asset Liability Management Committee, and others to act on its behalf for specific risk management matters.

The SCB Board of Directors requires that companies under its Financial Group, especially those entities engaging in financial business, must have functional units responsible for risk management. In addition, business and risk management functions must be separated, and a Risk Management Committee must be formed to consider and review risks before making proposals to their company's board.

In the event of any change in risk management policies, companies engaging in financial business must seek concurrence from the Group Risk Management Committee.

The Risk Management Group is responsible for determining the framework for risk management for credit risk, market risk and operational risk, recommending risk management policies, monitoring, and reporting each major types of risk. The Risk Management Group also has the responsibility to develop risk management policies and promoting international risk management standards throughout SCB and its Financial Group. In particular, the Risk Management Group submits regular risk reports, assessments and recommendations for improvement to the Group Risk Management Committee, Audit Committee, Executive Committee and the Board of Directors.

The Group Treasury, which directly reports to Chief Financial Officer, has the primary responsibility for managing liquidity risk and interest rate risk in the banking book. Organized under Finance Group, equity investment risk is managed by Equity Investment Management Division while the Capital Management Unit is mainly responsible for monitoring SCB's and its Financial Group's capital adequacy. The Capital Management Unit's mission is to monitor and maintain appropriate levels of capital; in excess of regulatory requirements, and to ensure SCB's capital position remains strong in the context of the prevalent economic and competitive environment. The Risk Management Group and Finance Group are independent of revenue generating functions and this supports the strong risk management culture throughout the Financial Group.

In order to enhance the effectiveness and efficiency of SCB and its Financial Group operations through sound internal control, risk management, and compliance, the Audit and Compliance Group has a mandate to assess internal controls as well as the adequacy of risk management policies and procedures of SCB and its Financial Group. This Group will report important audit findings, while providing recommendations for improvement to senior management of the Bank and it Audit Committee.

4.2 Risk Management Policy

SCB and its Financial Group have established and applied the Risk Management Policy Framework at the following two levels as follows:

- SCB, as the parent company, is responsible for developing the Group Risk Management Policy to be adopted as the overall Risk Management Policy Framework. The policy framework covers 6 major risks, namely credit risk, market risk, operational risk, liquidity risk, strategic risk and reputation risk, while also identifying major risks within each of its Financial Group companies. The policy also establishes guidelines for managing and controlling risks for each business, and provides formats for reports to control and monitor risks of its entire Financial Group, applying the same standard to each business.
- Companies in the SCB Financial Group are responsible for establishing a risk management policy covering the risks which have been identified as a significant risk within Group Risk Management Policy. Risk management policies of the SCB Financial Group companies must be proposed to the Group Risk Management Committee and the Executive Committee of the Bank for review prior to seeking approval from the Board of Directors of the respective companies.

4.3 Risk Management System

SCB and its Financial Group aim to develop an organization-wide risk management system at both SCB and at its Financial Group level. As the focal point for risk management within its Financial Group, SCB has assumed the responsibility to establish a risk management framework and guidelines and to control risk management of group companies in a manner that will support sustainable business growth and strengthen competitive capabilities, in both the short and long term, following a transparent system and good governance concepts.

The Risk Management System comprises 4 important processes which are described as follows:

4.3.1 Risk Identification

Business operations of SCB and its Financial Group comprise transactions and activities with customers, counterparties, group companies, and units within the organization. Risks that arise may be classified into six categories as follows:

- **Credit Risk** refers to risk arising from the failure of either debtors to repay principal and interest as agreed, or of counterparties to comply with conditions or contracts, which may result in damage to the revenue and capital of SCB and its Financial Group. The failure might be either from necessity or intention of debtors or counterparties. Credit risk covers both on- and off-balance sheet items, including loans, investments, commitments, obligations, or similar transactions.
- **Market Risk** refers to risks that SCB and its Financial Group may incur a loss from changes in the value of on- or off-balance sheet positions due to the movement of market risk factors such as exchange rates, interest rates, stock prices, credit spreads, and commodity prices, which may affect the revenue and capital of SCB and its Financial Group.
- **Operational Risk** refers to risk of loss arising due to an inadequacy or failure of internal processes, personnel, systems, or external events. This definition also includes legal risk and impacts on reputation due to operational risk, but does not include strategic risk. Operational risk can occur from both internal and external factors, such as changes in personnel, organizational structure, procedures, systems, products, customers, business landscape or operational standards, and activities organized by units.
- **Liquidity Risk** refers to the risk arising from a failure to repay debts and obligations upon maturity due to the inability to convert assets to cash or to acquire sufficient capital, or of capital being acquired at unacceptably high prices. It also includes the risks arising from the inability to unwind or offset risk assets, causing forced sale of such assets at prices lower than cost due to low liquidity of such assets or lack of liquidity in the market, which may affect both present and future revenue.

- **Strategic Risk** refers to the risks or impact on revenue, capital, reputation, or status of SCB and its Financial Group, both current or in the future, caused by changes in the business landscape, strategic decisions, inappropriate application of decisions made, or from a failure to respond to significant underlying changes in industries, the economy, or technologies.
- **Reputation Risk** refers to the risks arising when external parties, such as customers, counterparties, investors, or the regulator lose confidence in, or have a negative image of, SCB and its Financial Group, which may impact revenue and / or capital of the Group either immediately or in the future.

4.3.2 Risk Measurement

SCB and its Financial Group adopt the same method for measuring a particular type of risk using for both qualitative and quantitative approaches or methods based on the Internal Rating-Based Approach or an Internal Model in order to assess actual risks.

- **Credit Risk:** SCB measures the risk of Probability of Default (PD); evaluate Loss Given Default (LGD), which will reflect through collateral discount, and Exposure at Default (EAD). In addition, the group also applies other key indicators for credit risk measurement such as the Probability of Non-Performing Loan or the Probability of a Write Off. The details are described in the credit risk section.
- **Market Risk:** Statistical and non-statistical tools are employed for assessing market risk, namely Value at Risk (VaR), Sensitivity Analysis, Stop-Loss, Position Size, and others.
- **Operational Risk:** Operational risk is measured by risk management tools, such as Risk Control Self Assessment (RCSA), Key Risk Indicators (KRI), and Incident and Loss Management.
- **Liquidity Risk:** SCB and its Financial Group measure this risk by using cash flow reports or liquidity gap reports including behavioral cash flow reports and liquidity ratio analysis.
- **Strategic Risk:** Strategic risk is measured by a Risk Self Assessment and the strategic risk management processes.
- **Reputation Risk:** Business and support units will define factors and indicators of reputation risk both from external and internal factors to monitor the risk level. The risk level is defined at one of five levels (level 1 is the lowest risk and level 5 is the highest risk level)

4.3.3 Risk Monitoring and Control

Risks within SCB and its Financial Group are monitored and controlled through the Group Risk Management Committee, which is responsible for renewing and recommending new or changed policies and practices, setting risk limits for transactions with credit and market risk, and adopting risk indicators for significant operational risk for use by relevant units. In addition, the Group Risk Management Committee presents, through the Chief Risk Officer, the key risk issues, including new policies or practices for approval to the Executive Committee and Board of Directors of the Bank on a regular basis.

4.3.4 Risk Reporting

SCB and its Financial Group have established deadlines and formats for risk reporting, which must be submitted by relevant units to senior executives, on a comprehensive and timely basis, in order to control and manage risk effectively.

5. Credit Risk

5.1 Credit Risk Management Structure

In order to manage the Credit Risk of SCB and its Financial Group effectively and efficiently, organization units responsible for managing risk have been set up with clearly defined roles and duties. These units are separate from business units. For credit risk management units, the Bank has established the following units under Risk Management Group:

- The Credit Risk Management Division has the major role in approving loans that fall within its designated authority and to independently provide comments and recommendations to higher levels of approval authority for considering and approving loans as provided within the credit policy guide and under the underwriting standards.
- The Credit Policy and Procedures Unit has the responsibility to formulate and revise the credit policy guides of SCB and its Financial Group and the related credit risk management policy and procedures, including the credit manual and credit approval authorities.
- The Retail Credit Risk Management Division has the responsibility to control and oversee retail lending policy through the Credit Policy Guide, and by setting the approval authority for retail lending, Product Programs / Risk Programs for each product. It determines the policy and direction for; tapping target customer segments; pricing based on risk level; increasing/reducing credit lines; and measuring risks of each product and each customer segment. In addition, its retail credit portfolio management unit jointly determines the collection strategy with the Collection Unit.
- Credit Risk Analytic Division has the responsibility to analyze credit portfolios of SCB and its Financial Group, while also developing, validating and adopting models for analyzing credit risk, and monitoring and developing credit scoring for all retail loans.

5.2 Credit Risk Management Policy and Guidelines

According to the Group Risk Management Policy, companies engaging in banking, finance, leasing, securities, asset management, fund management, non-life and life insurance are exposed to material levels of credit risk. Such companies, like SCB, must also implement credit risk management policies as follows:

- Formulate a credit risk management policy
- Clearly determine risk-based limits and approval authorities in writing
- Implement a credit approval process with checks and balances to ensure transparency and validation under the 'Four-Eyes' principle
- Determine concentration limits for companies in the Financial Group capable to control the concentration limit by debtor. For SCB, the limit is controlled for both by debtor and by industry.

5.2.1 Collateral and Credit Risk Mitigation Policy

Credit risk mitigation aims to reduce losses arising from default on repayment by disposing of collateral or claiming payment from guarantors.

SCB and its Financial Group have opted for the Standardized Approach for calculation of credit risk. Collateral, which can be applied for credit risk mitigation falls within one of two categories, namely:

1. Financial Collateral which comprises items that can be liquidated for cash easily with mark to market value, such as cash, deposits, bonds, securities, and unit trusts; and

2. Guarantees and Credit Derivatives

SCB and its Financial Group entities which accept collateral, have policies and guidelines for appraising the value of collateral and property obtained following repayment or purchase from public auctions of its collateral referred to as the Collateral and Non-Performing Asset Appraisal Policy. The policy is adopted as a guideline for collateral management in order to reflect fair market value, both before and after acceptance of the collateral.

SCB and its Financial Group have established the following broad principles to optimize the value of the collateral:

- Minimize concentration of any type of collateral or issuers.
- Avoiding any positive correlation between collateral and default risk of debtors.
- Avoidance of currencies mismatch between the obligation and collateral. To the extent that such mismatch exists, the value of collateral should be discounted to compensate for the risk.
- Contracts must be standard and reviewed by legal units of SCB or its Group companies for enforceability and validity
- No maturity mismatch between maturity of obligation and contracts. If such mismatch does exist, renewal must be monitored and arrangements made before the maturity date to ensure that the collateral remains valid throughout the loan tenor.

Appraisal of financial collateral must be reviewed at least once monthly using the latest bid price as the appraised value. Guarantees that can be used to mitigate credit risk must carry less risk weight, compared with that of the debtor. Specifically, a private entity acting as a guarantor must have a better rating from rating agencies, compared with that of the debtor, or be rated, at least, as A-.

5.2.2 On- and off-balance sheet netting policy and process

SCB and its Financial Group can mitigate credit risk by netting as long as the underlying contract binding all parties allow this. The contract must be in line with the minimum standard established by the Bank of Thailand and must be approved by the relevant legal units of SCB / company. The contract must be regularly reviewed to identify impact on enforcement, which may arise from changes in regulatory requirements and / or laws. In addition, SCB and its Financial Group must have systems to monitor and control the risk arising from maturity mismatch of assets and liabilities that are subject to netting. Specifically, all compliance monitoring and control must be on a netting basis. Non-compliance with the above principles will result in the obligation not being eligible for netting.

5.2.3 Definitions of Default and Impairment of Assets

The SCB Financial Group has established definitions of default and loss based on the occurrence of either or both of the following events:

- It is deemed that the debtor cannot repay in full debt according to the contract without taking into account any repayment to be recovered from collateral enforcement, e.g. consent for debt restructuring with a significant haircut or postponement of principal, interest, or fee payments due to the deteriorated financial status of the debtor.
- Default on repayment (principal and interest) for more than 90 days from the due date, or the debtor being classified as substandard or lower according to the Bank of Thailand notification regarding Debt Classification and Reserves Criteria for Financial Institutions.

For impairment of assets, SCB and its Solo Consolidation companies are required to adopt the asset classification criteria as established by the Bank of Thailand. This classification criteria requires classification of loans as pass, special mention, substandard, doubtful, doubtful loss, and loss. The policy also requires that debts be classified by debtor, except for retail debtors for some products, which will be classified by account. Apart from classification according to outstanding period, SCB also adopts the qualitative approach for classifying debts. Using this qualitative credit review process ensures that classification are accurate and appropriate with adequate reserves.

5.2.4 Classification and Provisioning Policy

General Provision

According to the definition of the Financial Group under the solo consolidation basis, a general provision refers to the surplus reserves set aside for possible impairment of loans in the future. Such reserves support cover against potential losses without reference to a specific debtor. Although, general reserves cannot be identified by debtors, SCB and its Financial Group will maintain such reserves at an appropriate level for possible future loan loss. Setting aside reserves will be considered using various factors, such as the economic conditions which might impact debt service ability of borrowers, quality and characteristics of the loan portfolio, regulatory requirements, and accounting standards.

Specific Provision

SCB and its Financial Group calculate specific provisions based on asset classification as regulations set 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 a special provision may be considered to ensure that the Bank has adequate provision to cushion against future losses and that net assets are fairly stated.

5.3 Credit Approval Process

SCB and its Financial Group have adopted segregation of duties between business origination and credit approval units. Although the SCB retail credit approval unit is under the business group, the unit is independent from the marketing, product of origination units. In this case, credit approval will be performed under the Risk/Product Program framework and Scoring Model approved by the Executive Committee or the Retail Credit Committee, wherein approval authorities and criteria have clearly been specified, including exemptions.

Approval Authority

The SCB Financial Group has clearly determined approval authority, which must be approved by the Board of Directors of SCB or its Financial Group companies, in order to delegate authority to the Committees and approval authorities at different levels. Credit approval that does not comply with policy or the underwriting standard must be properly approved by the relevant approval authority.

SCB has divided approval authority into 2 levels, namely at committee and individual levels. Committees that are authorized to approve loans, include the Credit Committees, Executive Committee, and Board of Directors. Individual approval authority starts from Credit Officers and goes up to the President and/or Chairman of the SCB Executive Committee. In addition, the Bank also grants individual approval authority to Business Units from the level of Sector Manager / Regional Manager for the Business Banking Group, and Branch Manager for the Retail Banking Group for specific industry or specific circumstances.

Approval authority must be determined in accordance with risk level or expected loss, which will depend on the credit line, Borrower Risk Rating, and Severity Class. Approval authority for Group Exposure will be considered after taking into account relationships in terms of shareholding and controlling authority in accordance with Section 4 of the Financial Institution Act.

5.4 Credit Risk Measurement

Characteristics of credit risk can differ according to type of credit. Accordingly, different approaches will be adopted for measuring risks, from simple to complicated statistical tools, in order to appropriately reflect each type of risk.

Credit Risk Measurement can be computed from the following specific risks:

- **Probability of Default (PD):** For corporate customers, risk rating will be measured individually by adopting a Borrower Risk Rating system to evaluate debtor risk rating. Risk rating must be reviewed regularly to reflect debtor risk behavior.

For retail customers, risk measurement will be performed on a Pooled Basis, such as through using a PD Pool. Several variables will be applied for this approach to determine segments, such as age of debtors, default period, application score, behavior score, utilization rate and payment method, etc.

- **Loss Given Default (LGD)** will be measured from Loan to Value Ratio, a ratio between loans to collateral value after discounting the value according to a specific severity class.
- **Exposure at Default (EAD)** will be calculated from the current outstanding. For outstanding arising from of contingent liabilities which are off-balance sheet items and Unused Committed Lines will be calculated as a risk asset through applying a conversion factor (CCF) as specified by the Bank of Thailand
- **Probability of Non-Performing Loan** will be measured from the ratio of debtor in a portfolio with delayed payment 90 days. For retail customers this ratio will be calculated by product and customer segmentation. For portfolio management, this ratio reflects the underlying credit quality of a portfolio.
- **Probability of Write-Off** will be measured from the ratio of debtors in a portfolio who fail in meeting their payment obligation and benefit from a haircut. For retail customers this ratio will be measured by product and customer segmentation. For portfolio management, this ratio reflects credit quality of a portfolio.

The above risks will be calculated individually for commercial loans. For small business and retail loans a similar method is adopted but on a pooled basis.

Results from the above will be applied as a component in the credit approval process, such as determining approval authority, pricing, and other conditions, such as collateral conditions, in order to ensure that credit decisions are always made on a risk based basis.

5.4.1 Credit Risk Measurement under the Standardized Approach

SCB and its Financial Group adopted the new capital management framework or 'Basel II based on the Standardized Approach. Under this approach, external credit ratings will be adopted to measure credit risk. Standard Poor's ratings are applied for Sovereign and Financial Institutions, while TRIS Rating and / or Fitch Ratings (Thailand) are applied for Corporate borrowers.

In the event that the debtor has a rating assigned by several institutions, SCB and its Financial Group will select the rating according to the Bank of Thailand's regulations:

- In case of two ratings assigned, rating with higher risk weights will be adopted for those with different risk weights.
- For non-rated companies, SCB will use the Bank of Thailand guidelines to determine the risk weights.

5.5 Credit Risk Monitoring and Control

5.5.1 Risk Monitoring Guidelines

Credit Risk Monitoring is an important credit risk management process. SCB and its Financial Group have adopted a monitoring process to ensure that credit risk assessment will be accurate, appropriate, unbiased, complete, and continuously monitored in order to assess credit risk in a timely manner.

The Credit risk monitoring process of SCB and its Financial Group is divided into two parts as follows:

- The first part is credit risk monitoring through risk management tools, such as Credit Scoring or Borrower Risk Rating, and others such methods. These risk management tools must be statistically tested to ensure that they can effectively reflect the risk level and behavior of customers in a manner that is acceptable to SCB and its Financial Group, and must be regularly reviewed to ensure their continued validity.

- The second part relates to credit risk monitoring through limits, either from approval authority, transaction volume, and especially credit concentration limit. SCB and its Financial Group have established a limit for financial transactions with customers or a limit for intra group transactions. In addition, SCB and its Financial Group also determine a limit for each industry.

At an individual level, SCB and its Financial Group have established credit review as a priority process. At SCB, borrowers with credit lines of Baht 50 millions or above must be individual reviewed in terms of credit rating, credit strategies, and next-year business plans, at least once annually or upon any significant change in the customers perceived credit worthiness. Those customers with credit lines below Baht 50 million will be reviewed on a pooled basis, and an individual basis for those in a high default risk group.

At portfolio level, credit risk must be monitored to analyze credit quality, trends and determine whether or not they are in line with the target planned at the beginning of the year. Loan monitoring will enable SCB to analyze trends in loan growth and future problem loans, and the effectiveness of its credit related strategies. For retail credit SCB also analyzes payment behavior and monitors credit quality through target key indicators.

Credit risk monitoring also includes comparison of loans outstanding and non-performing loans with historical data of SCB and of the Thai commercial banking industry, which highlights credit risk trends. In addition, credit risk stress testing must be performed in accordance with predetermined scenarios, which must cover a range of risk factors. The tests will allow SCB to forecast losses and capital adequacy to support such losses should such stress situations arise. Testing results will be used for risk mitigation and capital planning, and for determining approaches to mitigate or minimize any potential losses in these situations.

5.5.2 Risk Control Guidelines

- Lending, investment, contingent liabilities, or lending-like transactions to major borrowers will be controlled at 2 levels as follows:
 1. Bank level: Concentration must not exceed 25% of the Bank's total capital. Additionally, for all major borrower groups with total debts exceeding 10% of the Bank's total capital, the aggregate debt must not exceed 3 times the Bank's total capital.
 2. Full Consolidation level: Concentration must not exceed 25% of the Full Consolidation's capital.
- Lending, investment, contingent liabilities, or lending-like transactions to major shareholders or business with beneficial interests must be controlled according to Bank of Thailand regulations, at both SCB and on a Solo Consolidation level.

In 2010, SCB has complied with the Bank of Thailand's regulation in controlling lending to major borrower groups and related parties at the Full Consolidation level. SCB has placed a priority on the development of a process to monitor and control limits for lending, investment, and contingent liabilities to such borrower groups. A Primary Account Manager (PAM) will be designated for each borrower group to be responsible for controlling limits for lending, investment, and contingent liabilities for such major borrower groups within the limits set by the Bank of Thailand regulations. Limits must be allocated by the PAM for companies in the consolidation group for lending, investment, and contingent liabilities to major borrowers or related parties in the Solo Consolidation companies. Full consolidation companies must submit a report on credit lines and outstanding debts for such controlled groups on a monthly basis.

- Lending must not be concentrated in a particular industry, which will be determined from industry trends, proportion of the total banking industry, probability of loss, and probability of default. In 2010, the Bank has applied statistical tools to determine industry limits, such as the Herfindahl-Hirschman Index (HHI), which is an index adopted for measuring industry concentration.
- Lending for Risk Program / Product Program Lending for target customers or products must be determined by credit line specifying objectives, type of credit line, customer qualifications, criteria, and standard conditions.

5.5.3 Counterparty Credit Risk and Country Risk

SCB and its Financial Group control the credit risk of counterparties by determining credit lines for each counterparty or group for performing transactions in order for potential losses to remain under the maximum level acceptable to the Bank in the event of default by the counterparty.

In addition, SCB also controls country risk by determining policy limits and country limits for lending, investment, and contingent liabilities for each country. In case of credit lines for a borrower to invest 10% of the Bank's tier 1 capital or above in a particular country, credit lines will be considered from risks of both at the borrower and country level, in conjunction with the Sponsor Risk, and must be approved by the Board of Directors of the Bank.

5.6 Credit Risk Report

SCB and its Financial Group are required to regularly report on credit risk. Each relevant unit prepares a monthly report and submits it to the unit manager and this report is used for managing risk. Credit risk reports of SCB and its Financial Group will be submitted to the Group Risk Management Committee on a monthly basis, in terms of loan growth, credit quality, credit concentration, investment diversity, etc.

SCB and its Financial Group have developed a Credit Risk Report by incorporating outstanding assets on the balance sheet and important off-balance sheet items. The report also shows loss items, which have been written off during the accounting period without credit risk adjustment (Table 3-8), e.g. outstanding debts by geographical areas will be divided by country or region. Finally, exposures by risk type and risk weights under the Standardized Approach are also reflected in Table 11 - 13.

Table 3: Significant Exposures Items On-and-Off Balance Sheet

In THB millions	Bank Only		Consolidated
	31-Dec-10	31-Dec-09	31-Dec-10
1. On-Balance Sheet Items (1.1+1.2+1.3)			
1.1 Net Loans ¹	1,134,361	949,263	1,147,867
1.2 Net Investment in Debt Securities ²	128,849	143,260	128,653
1.3 Deposit	17,311	17,300	19,740
2. Off-Balance Sheet Items³ (2.1+2.2+2.3)			
2.1 Avals to Bills, Guarantees and LC	23,378	21,148	23,594
2.2 Credit Derivatives ⁴	2,827,531	1,946,960	2,827,150
2.2 Undrawn Committed Lines	88,404	66,689	88,404

Note:

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

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

³ Before using credit conversion factor

⁴ Including Equity-related derivatives

Table 4: Exposures classified by Geographical Area

31-Dec-10 Geography	Bank Only								In THB Millions
	On-Balance Sheet				Off-Balance Sheet ³				
	Total	Loans ¹	Debt Investment ²	Deposit	Total	Contingent	OTC Derivatives ⁴	Undrawn Committed	
Thailand	1,247,807	1,104,893	126,997	15,918	2,937,626	23,178	2,826,044	88,404	
Foreign Countries	32,714	29,469	1,853	1,393	1,687	200	1,487	-	
Total	1,280,521	1,134,361	128,849	17,311	2,939,313	23,378	2,827,531	88,404	

31-Dec-09 Geography	Bank Only								In THB millions
	On-Balance Sheet				Off-Balance Sheet ³				
	Total	Loans ¹	Debt Investment ²	Deposit	Total	Contingent	OTC Derivatives ⁴	Undrawn Committed	
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	

31-Dec-10 Geography	Consolidated								In THB millions
	On-Balance Sheet				Off-Balance Sheet ³				
	Total	Loans ¹	Debt Investment ²	Deposit	Total	Contingent	OTC Derivatives ⁴	Undrawn Committed	
Thailand	1,260,666	1,117,352	126,800	16,513	2,937,245	23,178	2,825,663	88,404	
Foreign Countries	35,594	30,515	1,853	3,227	1,903	416	1,487	-	
Total	1,296,260	1,147,867	128,653	19,740	2,939,149	23,594	2,827,150	88,404	

Note:

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

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

³ Before using credit conversion factor

⁴ Including Equity-related derivatives

Table 5: Exposures classified by Residual Maturity

In THB millions	Bank Only						Consolidated		
	31-Dec-10			31-Dec-09			31-Dec-10		
	≤ 1 year	>1 yr ≤ 5 yr	> 5 yr.	≤ 1 year	>1 yr ≤ 5 yr	> 5 yr.	≤ 1 year	>1 yr ≤ 5 yr	> 5 yr.
1. On-Balance Sheet Items (1.1+1.2+1.3)									
1.1 Net Loans ¹	549,027	363,171	222,163	462,949	304,180	182,134	547,575	379,835	220,458
1.2 Net Investment in Debt Securities ²	61,970	51,482	15,397	46,888	66,635	29,736	63,020	50,236	15,397
1.3 Deposit	17,311	-	-	17,300	-	-	19,701	-	39
2. Off-Balance Sheet Items³ (2.1+2.2+2.3)									
2.1 Avals to Bills, Guarantees and LC	21,776	1,415	187	21,060	87	1	21,899	1,415	20
2.2 Credit Derivatives ⁴	1,457,705	1,036,947	332,879	945,913	704,768	296,279	1,457,324	1,036,947	332,879
2.2 Undrawn Committed Lines	5,695	16,725	65,985	4,680	20,585	41,424	5,695	16,725	65,985

Note:

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

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

³ Before using credit conversion factor

⁴ Including Equity-related derivatives

Table 6: Loans and Investment in Debt Securities classified by Geographical Area and Asset Classification

31-Dec-10 Jurisdiction	Bank Only						In THB Millions
	Total Loan ¹						Investment in Debt Securities
	Normal	Special Mention	Substandard	Doubtful	Doubtful Loss	Total	DL
Thailand	1,081,834	27,799	8,543	4,428	22,609	1,145,213	1,226
Foreign Countries	29,812	-	151	-	-	29,962	-
Total	1,111,646	27,799	8,693	4,428	22,609	1,175,175	1,226

31-Dec-09 Jurisdiction	Bank Only						In THB millions
	Total Loan ¹						Investment in Debt Securities
	Normal	Special Mention	Substandard	Doubtful	Doubtful Loss	Total	DL
Thailand	908,791	29,080	6,341	5,525	28,803	978,541	1,701
Foreign Countries	11,787	-	167	-	-	11,954	-
Total	920,578	29,080	6,509	5,525	28,803	990,495	1,701

31-Dec-10 Jurisdiction	Consolidated						In THB millions
	Total Loan ¹						Investment in Debt Securities
	Normal	Special Mention	Substandard	Doubtful	Doubtful Loss	Total	DL
Thailand	1,091,851	29,338	8,704	4,516	25,381	1,159,790	(1,472)
Foreign Countries	30,873	-	151	-	-	31,023	-
Total	1,122,724	29,338	8,855	4,516	25,381	1,190,814	(1,472)

¹ Including outstanding amounts of loans and accrued interest receivables, interbank and money market (excluding allowance of doubtful accounts)

Table 7: Provisions and bad debt Written-off on Loans Investment in Debt Securities by Geographical Area

31-Dec-10 Jurisdiction	Bank Only			In THB Millions
	Total Loan			Investment in Debt Securities
	General Provisions	Specific Provisions	Write-Off	Specific Provisions
Thailand		25,117	5,940	1,226
Foreign Countries		151	-	-
Total	15,547	25,267	5,940	1,226

31-Dec-09 Jurisdiction	Bank Only			In THB millions
	Total Loan			Investment in Debt Securities
	General Provisions	Specific Provisions	Write-Off	Specific Provisions
Thailand		27,910	4,370	1,701
Foreign Countries		167	-	-
Total	13,155	28,077	4,370	1,701

31-Dec-10 Jurisdiction	Consolidated			In THB millions
	Total Loan			Investment in Debt Securities
	General Provisions	Specific Provisions	Write-Off	Specific Provisions
Thailand		27,221	6,639	(1,472)
Foreign Countries		151	-	-
Total	15,575	27,371	6,639	(1,472)

¹ Including outstanding amounts of loans and accrued interest receivables, interbank and money market (excluding allowance of doubtful accounts)

Table 8: Loans classified by Type of Business and Asset Classification

31-Dec-10 Type of Business	Bank Only						In THB Millions
	Total Loan ¹						
	Normal	Special Mention	Substandard	Doubtful	Doubtful Loss	Total	
- Agriculture & Mining	11,381	89	21	1	118	11,610	
- Manufacture & Commerce	326,884	15,721	4,724	2,179	10,037	359,544	
- Real Estate and Construction	70,599	2,082	153	38	2,165	75,037	
- Infrastructure & services	120,722	2,741	1,322	633	1,733	127,151	
- Housing Loans	266,743	4,921	1,733	1,305	4,320	279,022	
- Others	315,318	2,245	740	273	4,237	322,813	
Total	1,111,646	27,799	8,693	4,428	22,609	1,175,175	

31-Dec-09 Type of Business	Bank Only						In THB millions
	Total Loan 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	213,499	1,949	792	397	5,154	221,793	
Total	920,578	29,080	6,509	5,525	28,803	990,495	

31-Dec-10 Type of Business	Consolidated						In THB millions
	Total Loan ¹						
	Normal	Special Mention	Substandard	Doubtful	Doubtful Loss	Total	
- Agriculture & Mining	11,381	89	21	1	118	11,610	
- Manufacture & Commerce	320,784	15,721	4,724	2,179	10,059	353,467	
- Real Estate and Construction	70,603	2,082	153	38	3,420	76,296	
- Infrastructure & services	121,130	2,741	1,322	633	1,733	127,560	
- Housing Loans	266,747	4,921	1,733	1,305	4,368	279,074	
- Others	332,078	3,784	902	361	5,682	342,807	
Total	1,122,724	29,338	8,855	4,516	25,381	1,190,814	

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

Table 9: Provisions and bad debts Written-off for Loans¹ classified by Type of Business

In THB millions	Bank Only						Consolidated		
	31-Dec-10			31-Dec-09			31-Dec-10		
	General Provisions ²	Specific Provisions	Bad debts written-off during period	General Provisions ²	Specific Provisions	Bad debts written-off during period	General Provisions ²	Specific Provisions	Bad debts written-off during period
Type of Business									
- Agriculture & Mining		42	70		201	199		42	70
- Manufacture & Commerce		17,889	4,189		17,952	1,378		17,911	4,189
- Real Estate and Construction		1,189	14		1,265	260		1,843	14
- Infrastructure & services		1,914	19		2,791	24		1,914	19
- Housing Loans		2,185	16		3,487	554		2,201	16
- Others		2,050	1,631		2,381	1,954		3,461	2,331
Total	15,547	25,267	5,940	13,155	28,077	4,370	15,575	27,371	6,639

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

² Disclosed in total amounts

Table 10: Reconciliation of change in Provisions for Loans¹

In THB millions	Bank Only						Consolidated		
	31-Dec-10			31-Dec-09			31-Dec-10		
	General Provisions ²	Specific Provisions	Total	General Provisions ²	Specific Provisions	Total	General Provisions ²	Specific Provisions	Total
Balance, beginning of the year	13,155	28,077	41,232	13,099	26,210	39,309	13,188	30,757	43,946
Charge-offs during the period		-5,940	-5,940		-4,370	-4,370	3	-6,642	-6,639
Increase/Decrease in Provisions	2,392	3,234	5,627	56	6,029	6,084	2,386	3,429	5,718
Other provisions (e.g. provisions for losses from foreign exchange, provisions for M&A or Sell-off)		-105	-105		208	208	-2	-76	-78
Balance, end of the year	15,547	25,267	40,814	13,155	28,077	41,232	15,575	27,371	42,947

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

² Disclosed in total amounts

Table 11: Exposures classified by Asset Type under the Standardized Approach (SA)

In THB millions	Bank Only						Consolidated		
	31-Dec-10			31-Dec-09			31-Dec-10		
	On-Balance Sheet	Off-Balance Sheet *	Total	On-Balance Sheet	Off-Balance Sheet *	Total	On-Balance Sheet	Off-Balance Sheet**	Total
Asset Type									
1. Performing									
1.1 Claims on Sovereign & Central Banks, MDBs, PSEs-Sovereign	140,816	128,546	269,362	149,523	74,360	223,882	144,727	128,546	273,274
1.2 Claims on Bank, PSEs-Bank	24,831	61,887	86,718	36,464	61,642	98,106	25,707	61,887	87,594
1.3 Claims on Corporate, PSEs-Corporate	552,347	95,486	647,833	484,462	79,143	563,604	546,568	95,620	642,189
1.4 Claims on Retail portfolios	186,684	4,762	191,446	127,509	4,249	131,758	204,155	4,843	208,999
1.5 Claims on Retail Mortgage Loans	263,323	1,611	264,933	237,568	1,277	238,845	263,323	1,611	264,933
1.6 Other Assets	156,492		156,492	139,939		139,939	147,393		147,394
2. Non-Performing Loans	19,227	890	20,117	23,034	1,010	24,044	20,665	890	21,554
3. First to Default Credit Derivatives and Securitisation	-	-	-	-	-	-	-	-	-
Total	1,343,721	293,182	1,636,903	1,198,499	221,680	1,420,179	1,352,538	293,398	1,645,937

* Off-Balance sheet exposures (including Repo and Reverse Repo transactions) after multiplying with Credit Conversion Factor (CCF); net of specific provision

Table 12: Exposures after adjusting for Credit Risk Mitigation classified by Asset Type and Risk Weights under the Standardized Approach (SA)

31-Dec-10	Bank Only														In THB millions
	Asset Type	Rated Exposure					Unrated Exposure								
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, MDBs, PSEs-Sovereign	154,248		64		190										
2. Claims on Bank, PSEs-Bank		48,510	16,159	1,338	4										
3. Claims on Corporate, PSEs-Corporate		27,222	67,337	26,557	8,570						495,341				
4. Claims on Retail portfolios										183,894					
5. Claims on Retail Mortgage Loans								251,394		11,639	1,200				
6. Other Assets						66,576	11,560				78,356				
Risk Weights (%)		20	50	100	150					75					
Non-Performing Loans1		335	2,903	8,441	8,367					41					
	154,248	76,068	86,463	36,337	17,131	66,576	11,560	251,394		195,574	574,898				
Capital Deduction prescribed by the BOT: None															

Table 12: Exposures after adjusting for Credit Risk Mitigation classified by Asset Type and Risk Weights under the Standardized Approach (SA)

31-Dec-09		Bank Only													In THB Millions	
Asset Type		Rated Exposure					Unrated Exposure									
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, MDBs, PSEs-Sovereign		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 Loans1			346	2,632	12,590	8,414				3						
		164,692	69,063	80,065	45,191	18,557	56,947	10,968	227,056		135,275	504,134				
Capital Deduction prescribed by the BOT: None																

31-Dec-10		Consolidated													In THB millions	
Asset Type		Rated Exposure					Unrated Exposure									
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, MDBs, PSEs-Sovereign		156,623		64	1,536	190										
2. Claims on Bank, PSEs-Bank			49,386	16,159	1,338	4										
3. Claims on Corporate, PSEs-Corporate			27,222	60,610	26,557	8,570					496,423					
4. Claims on Retail portfolios										201,078	127					
5. Claims on Retail Mortgage Loans								251,394		11,639	1,200					
6. Other Assets							75,155	11,560				60,680				
Risk Weights (%)			20	50	100	150				75						
Non-Performing Loans1			335	2,937	9,601	8,611				41						
		156,623	76,944	79,769	39,032	17,375	75,155	11,560	251,394		212,758	558,431				
Capital Deduction prescribes by the BOT : 7,478 millions																

Table 13: Exposures covered by Risk Mitigation classified by Asset Type and Type of Collateral under the Standardized Approach (SA)

In THB millions	Bank Only				Consolidated	
	31-Dec-10		31-Dec-09		31-Dec-10	
	Eligible Financial Collateral ¹	Guarantee & Credit Derivatives	Eligible Financial Collateral ¹	Guarantee & Credit Derivatives	Eligible Financial Collateral ¹	Guarantee & Credit Derivatives
Asset Type						
Performing						
1. Claims on Sovereign & Central Banks, MDBs, PSEs-Sovereign	126,883		71,228		126,883	1
2. Claims on Bank, PSEs-Bank	18,433	11,998	22,853	13,057	18,433	11,998
3. Claims on Corporate, PSEs-Corporate	13,058	12,537	6,721	14,774	13,058	12,537
4. Claims on Retail portfolios	7,552		6,337	7	7,793	
5. Claims on Retail Mortgage Loans	700		1,033		700	
6. Other Assets						
Non-Performing	29	335	60	346	29	335
Total	166,654	24,870	108,232	28,184	166,895	24,871

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

6. Market risk

6.1 Market Risk Management

SCB and its Financial Group have divided market risk positions into Trading books and Non-Trading books. Trading books comprise trading transactions in the market, short-term positions held for sale and / or for speculation or arbitrage, while Non-Trading books mainly comprise positions from interest rate risk management in the Banking Book and investment risk management.

6.2. Market Risk Management Policy

SCB and its Financial Group with market risk exposures are required to formulate a Market Risk Policy and a Trading Book Policy or Investment Policy for managing each company's market risk. The Board of Directors of each Financial Group company will approve the policy, provided it has been agreed by the Bank. This policy must be reviewed at least once annually, or as deemed appropriate and / or upon any significant change in strategies or situation which have a material impact on the policy. Adjustments or changes of the policy of each company must be considered and approved by its Board of Directors.

Companies in the Financial Group with market risk exposure are required to set up a market risk management unit responsible for measuring, evaluating, controlling, monitoring, and reporting on market risk and, further, to maintain risk within predetermined limits. Risk exposures must be regularly reported to the relevant senior management, while risk-monitoring reports must be submitted to the Risk Management Committee of SCB and its Financial Group on a monthly basis.

6.3 Market Risk Assessment

SCB and its Financial Group have adopted appropriate statistical and non-statistical tools for market risk assessment. The tools used depend on the risk exposure of each company. These tools include Value at Risk (VaR), Sensitivity Analysis, Loss Action trigger, and Position Size.

SCB and its Financial Group are required to perform stress testing for various types of risks that can cause the Group to incur loss or generate irregular profit from risk positions held. Such risks include exchange rate risk, interest rate risk, and securities pricing risk. Testing will allow SCB and its Financial Group to know the size of loss that may arise and the capital adequacy to support any potential losses. The extent of stress testing will depend on the risk profile of each company.

6.4 Risk Limits

In order to determine acceptable risk limits for managing market risk, the Market Risk management function of each company must propose risk limits to its Board of Directors for consideration and approval. Limits must be reviewed at least once annually and / or upon any significant change.

6.5 Market Risk Monitoring and Report

Market risk monitoring and reporting must be performed on a daily basis to ensure that potential risks remain within predetermined risk limits. The report must be submitted to the relevant senior management. Limits adopted for preventing or mitigating important risks include VaR, sensitivity limit, Loss Action Trigger, and position size limit.

6.6 Capital Adequacy

SCB and its Financial Group are required to comply with the Bank of Thailand's notification on maintaining adequate capital to support market risk using the Standardized Approach. The following table shows the Bank's and its Financial Group capital reserves for market risk as at December 31, 2010.

Table 14: Minimum Capital Requirements of Market Risk under the Standardized Approach

In THB millions	Bank Only		Consolidated
	31-Dec-10	31-Dec-09	31-Dec-10
Market Risk - Standardized Approach			
Interest Rate Risk	1,550	1,656	1,550
Equity Position Risk	80	-	80
Foreign Exchange Risk	375	692	375
Commodity Risk	-	-	-
Total Minimum Capital Requirements for Market Risk	2,005	2,348	2,005

7. Interest Rate Risk in the Banking Book

Interest rate risk positions in the banking book represent non-trading transactions that may impact the net interest revenue and economic value of shareholders' equity of SCB and its Financial Group in the event of changes in interest rates. Interest rate risk in the Banking Book primarily arises from the repricing risk on both borrowings and lending balances from a shift in interest rate curves.

7.1 Governance

Interest rate risk management in the banking book of SCB and its Financial Group can be categorized as follows:

- **Centralized interest rate risk management:** SCB is responsible for interest rate risk management and adopts the same policy for managing, evaluating, monitoring, reporting and controlling interest rate risk.
- **Decentralized interest rate risk management:** Each of company in the Financial Group is responsible for managing, evaluating, monitoring, reporting, and controlling interest rate risk under the risk limits established by the Bank. In order to manage interest rate risk effectively, SCB and its Financial Group have divided the priority of decentralized interest rate risk management into 2 groups, namely companies with significant interest rate risk in the banking book and those with non-material interest risks

The Balance Sheet Strategy Management Unit of Group Treasury is responsible for managing overall interest rate risk in the banking book and the Balance Sheet Analytic Monitoring unit is responsible for monitoring and controlling the impact to revenues and economic value. In order to manage risk effectively, SCB and its Financial Group have established criteria to measure impact from interest rate changes to net interest revenues and economic value of shareholders using models and simulating future stress scenarios. Risk analysis reports are submitted to the Executive Committee, Asset and Liability Committee, Risk Management Committee, and the Board of Directors.

7.2. Risk Assessment and Control

Interest rate risk in the banking book of SCB and its Financial Group is caused by borrowing and lending activities, and arises from the repricing risk and the basis risk between lending interest rates, such as MLR, MOR and MRR, and those of deposits, including long-term lending or investments with fixed return. SCB and its Financial Group measure the impact on net interest income within 1 year and compare the result with the net interest income target of SCB and its Financial Group. A similar measurement of impact to the economic value of shareholders is also developed for this risk. The revenue impact provides a shorter term view of performance while the economic value impact provides a longer term assessment to the change in the value of its shareholders' equity

In the event that interest rates of major currencies rises by 1%, as of the end of December 2010, net interest income of SCB will increase by Baht 850.43 million, while the economic value of shareholders will drop by Baht 240.29 million. In term of the SCB Financial Group, net interest income will increase by Baht 1,221.39 million, while the economic value of shareholders will drop by Baht 429.04 million.

Table 15: Impact on Net Interest Income (Earnings Perspective)

In THB millions	Bank Only		Consolidated
	31-Dec-10	31-Dec-09	31-Dec-10
Currency			
THB	738.79	43.60	1,108.34
USD	127.43	(21.20)	135.91
EURO and other foreign currencies	(15.79)	0.74	(22.86)
Total Impact	850.43	23.14	1,221.39

Table 16: Impact on Economic Value of Equity (Economic Value Perspective)

In THB millions	SCB		SCB Group
	31-Dec-10	31-Dec-09	31-Dec-10
Currency			
THB	(183.66)	(2,333.04)	(402.19)
USD	(42.91)	(71.58)	(17.04)
EURO and other foreign currencies	(13.73)	(0.62)	(9.81)
Total Impact	(240.29)	(2,405.24)	(429.04)

8. Equity in the Banking Book

The SCB and its Financial Group maintain long-term equity investment in the banking book, which comprise:

- Equity investment, which are intended to generate dividends yield and / or capital gains from changes in equity prices in the long-term and / or to strengthen business alliances with clients for other financial businesses.
- Strategic equity investment with growth potential and / or those intended to support the business of SCB Financial Group.

SCB, as the parent company of the Financial Group, has established the Group's Equity Investment Risk Management Policy. The policy requires that only companies within the Financial Group that are engaged the financial business with specific supervisory bodies and those permitted to engage in portfolio management can engage in equity investment.

8.1 Governance

SCB and its Financial Group have determined approval authority for investment in the form of committees and individual executives in accordance with the investment approval authority established by the company's board of directors and / or the SCB's Board of directors. Investment approval authority varies by transaction types, based on risk attributes, and investment values.

The Equity Investment Management Division, organized under the Finance Group is responsible for managing the equity investments of the Bank and companies in its Financial Group in a way that complies with established policy and guidelines. The Division is responsible for monitoring the compliance of investment transactions with relevant rules and regulations, including external regulations. In addition, the Equity Investment Management Division is also responsible for seeking approval and reporting relevant equity investment transactions at the meeting of the Equity Investment Management Committee, Executive Committee, and / or the Board of Directors in accordance with the approval authorities.

Furthermore, SCB and its Financial Group also monitors and controls investment risks, in terms of determining policies and risk ratios related to investment transactions, through the either the Group Risk Management Committee or, if applicable, the Risk Management Committee of companies in the Financial Group in accordance with a predetermined risk management structure.

8.2 Risk Assessment and Control

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

The Investments with book values higher than the market price or fair value or recoverable amount are required to be fully provisioned for any impairment. The relevant accounting standard and the BOT notifications are used to determine the fair value or recoverable amount.

Finally, an annual review of the investment portfolio is conducted, based on the latest available information of each investment, in order to establish the appropriate investment strategy, including, if applicable, the divestment approach.

8.3 Capital Adequacy

SCB and its Financial Group have adopted the Standardized Approach to calculate regulatory capital for equity exposures in the banking book. The following table shows SCB and its Financial Group capital requirements for equity exposures in the banking book as at 31 December 2010.

Table 17: Minimum Capital Requirement of Equity Exposures in the Banking Book

In THB millions	Bank Only		Consolidated
	31-Dec-10	31-Dec-09	31-Dec-10
1. Equity Exposure - Standardized Approach			
1.1 Listed (Domestic & Foreign)			
Cost Value	11,826	11,826	11,948
Market Value	15,522	13,908	15,650
1.2 Others (Domestic & Foreign)	22,147	22,502	8,366
2. Total Gain (Loss) arising from sales during the period	952	434	1,002
3. Increase (decrease) in value from AFS	3,021	2,037	5,151
4. Minimum capital requirements on Equity exposures - SA	2,158	2,085	534

9. Operational Risk

9.1. Operational Risk Management Principles

SCB and its Financial Group recognizes that operational risk is an underlying consequence of its business operations and has always taken operational risk management as a priority, especially in today's ever-changing environment, e.g. economic uncertainties, increased competition, growing complexity of products, dependency on technology, increasing trend for natural disasters, and epidemics.

The SCB Board of Directors requires that an operational risk management policy be developed for SCB and its Financial Group, as part of the Risk Management Policy of the entire Group. The Operational Risk Management Policy comprises an operational risk management framework, process, and methodology to manage such risks in order to support all relevant units in SCB and its Financial Group companies in understanding operational risks. The policy requires that each unit must identify and assess its key risks and controls and regularly monitor and report on the status of such risks. Senior management has the duty of managing the operational risks of responsible units and implementing and sustaining a sound internal control environment.

9.2 Governance Framework

SCB and its Financial Group have determined the Governance Framework for operational risk management. The **three-lines of defense** principle has been adopted for the operational risk management to ensure that SCB and its Financial Group effectively identify, measure, assess, monitor, control and report its exposures to such risks. The Three lines of defenses are as follows:

- **1st line of defense:**

Comprises business and supporting units, which have the best understanding of their activities, business processes, and risks involved. These units have primary responsibility for managing risks arising within their own units including identifying and assessing key risks and controls and regularly monitoring and reporting the status of such risks to management

- **2nd line of defense:**

Comprises centralized risk management and control units, e.g. the Operational Risk Management, Compliance and Operational Control, and specialized units (e.g. IT Security, Fraud Management, etc.). These units have a duty to propose the policy framework, sound risk management process and internal control, while also supporting, assisting, and providing recommendations relating to operational risk management approaches to the 1st line of defense.

- **3rd line of defense:**

Comprises mainly Internal Audit function, which has the responsibility to independently conduct audits of business processes and operations to ensure the effectiveness of SCB and its Financial Group's internal control system for the Audit Committee and the SCB Board of Directors.

9.3 Risk Management Process and Approaches

SCB and its Financial Group have determined an operational risk management process of internationally accepted standard to be adopted as a common standard among its Group companies. The process requires regular risk identification, assessment, monitoring and reporting. Key risk management methodologies are as follows:

9.3.1 Operational Risk Appetite

SCB and its Financial Group have determined the overall Operational Risk Appetite, to be adopted as the major guideline to determine which categories or type of risks are acceptable.

9.3.2 Risk and Control Self Assessment (RCSA)

All key units of SCB and its Financial Group are required to identify and assess their own risks. Risks are assessed on a judgmental basis by process owners augmented by historical information such as operational risk losses, key risk indicators and related issues such as audit findings. Risk assessment is a process to brainstorm views from process owners, facilitated by an Operational Risk Champion (ORC) within each unit. ORCs supported by the Operational Risk Management work with business process owners to identify and assess key operational risks, which might impact the achievement of business objectives, and assess the effectiveness of the controls in place to mitigate these risks. The business process owners are required to establish action plans to enhance controls to ensure that risks remain within acceptable level.

9.3.3 Key Risk Indicators (KRIs)

The relevant units must determine Key Risk Indicators (KRIs) to regularly monitor key risks and consider changes of trend through KRIs to ensure that risks remain within an acceptable level. A threshold is set for each KRI, in order to monitor any irregularity that may arise from operational or control process. This facilitates the identification and mitigation of the risks in a timely manner.

9.3.4 Incident Loss and Management (ILM)

All units in SCB and its Financial Group must report operational risk losses to the Operational Risk Management of each company, which will be further reported to SCB. The information will be adopted for analyzing the root cause of the loss and to prevent recurrence of the incident. The loss event data is an important tool to analyze risks in conjunction with the RCSA and KRIs discussed above.

In addition to the above operational risk management tools, SCB and its Financial Group also places emphasis on upgrading risk management and control process in accordance with the evolving internationally accepted standards.

9.3.5 Business Continuity Management

SCB and its Financial Group requires relevant units operating critical processes within SCB or companies in its Financial Group to prepare a business continuity management plan (BCP) to ensure that critical processes of SCB and companies in its Financial Group can be continued with minimal disruption or in event of business interruption. This plan will help mitigate severity and impact on customers and staff in the event of disaster. Units that own the BCP have a duty to regularly review the plan to ensure that it is up-to-date. The plan also requires regular readiness testing to ensure that the plan can be executed in a timely manner should an interruption arise.

9.3.6 Outsourcing

SCB and its Financial Group have developed an Outsourcing Policy, which also requires that service providers must have a Business Continuity Plan (BCP) for important processes. More than one service provider may be employed to diversify risk and a Service Level Agreement (SLA) must be established to control the quality of service delivery and to ensure that the risk arising from outsourcing is acceptable. SCB and its Financial Group recognize its accountability to the risk, despite services being outsourced.

9.3.7 New Product Process (NPP)

SCB and its Financial Group place a priority on risk management relating to new product processes, including new services, or any significant change. The relevant units have a duty to assess risks that may arise from a new product launch and / or material changes to existing products, including related processes and systems, are addressed and controlled to remain within an acceptable level.

9.3.8 Insurance Management

SCB and its Financial Group consider and, where feasible, transfer risk by means of insurance to mitigate possible loss that may arise from operational risks. In using insurance service, a comparison is undertaken between cost of risks and cost of insurance.

9.4 Operational Risk Report

Key units of the Bank and Group companies regularly report operational risk to senior management in order that senior management is aware of key risks and any key risk issues that have arisen when requires management attention. Group companies are required to report operational risks to SCB and the Operational Risk Management of the Bank will analyze this risk information for further reporting to the Group Risk Management Committee on a monthly basis in order to support the Committee's decision-making involving risk management.

9.5 Capital Adequacy

SCB and its Financial Group have adopted the Standardized Approach to calculate regulatory capital for operational risk. The table below shows capital requirements for operational risk as at 31 December 2010.

Table 18: Minimum Capital Requirement for Operational Risk under the Standardized Approach

In THB millions	Bank Only		Consolidated
	31-Dec-10	31-Dec-09	31-Dec-10
Operational Risk - Standardized Approach			
Total Minimum Capital Requirements for Operational Risk	8,374	7,621	8,912

10. Strategic Risk

The SCB Board of Directors has established guidelines to be adopted by SCB and its Financial Group through a strategic risk management framework. The strategic risk management process comprises the following:

- Strategic planning
- Adjustment and amendment
- Taking action and monitoring results
- Assessment and recommendation

Currently, the strategic planning team of the Change Program Management Office of SCB is responsible for providing the necessary support to the Board of Directors and senior management of the Bank in managing strategic risk and other related processes.

Monitoring and control of strategic plans is the responsibility of the Management Committee of SCB (MCOM). Any significant change of strategic plans is handled through the Change Program Steering Committee (CPSC). Progress of strategic plans, changes to key strategies, or other potential strategic issues are reported to the Executive Committee and, if material, to SCB Board of Directors.

11. Reputation Risk

Reputation risk can arise from adverse public perception of SCB and its Financial Group. 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 SCB and its Financial Group.

To manage reputation risk, SCB relies upon the participation of the Board of Directors and senior management in order to obtain different opinions for assessing reputation risk and establishing safeguards.

The SCB Board of Directors has established procedures for the Bank and its Financial Group in dealing with businesses or issues which may be subject to public criticism whereby, in the first instance, if the Bank and its subsidiaries engage in any such business or issues, the management concerned must seek approval from the Chairman of the Executive Committee or the President before initiating or participating in any such transaction, in order to determine the appropriateness of the Bank's involvement. The matter is then reported to the chairman of the Board, the chairman of the Audit Committee, and the chairman of the Nomination, Compensation, and Corporate Governance Committee. In the second stage, the Executive Committee has the authority to approve the transaction with the consent of the chairman of the Board, the chairman of the Audit Committee, and the chairman of the Nomination, Compensation, and Corporate Governance Committee.

The Corporate Communications Division of SCB is responsible for coordinating with business units and supporting units within the Bank to identify and monitor risk areas and risk levels, both international and external, and for reporting findings to the SCB Risk Management Committee.