

## **Disclosure A: Scope of Application**

The Basel II – Pillar III Disclosures contained within this document, relate to the ABN AMRO Bank, N.V. Bangkok Branch (ABNBKK) (renaming to The Royal Bank of Scotland, N.V. Bangkok Branch on February 6, 2010) for the period ended December 31, 2009. These disclosures are in compliance with the requirements as set forth by the Bank of Thailand notification no. Sor.Nor.Sor 25/2552

ABN AMRO Bank N.V. has been granted by the Ministry of Finance a license to carry out domestic banking business through ABN AMRO Bank N.V., Bangkok Branch (“the Bank”) under the Commercial Banking Act B.E. 2505 (1962). The Bank commenced its operations in December 1994 with its registered address at 179/3 Bangkok City Tower, South Sathorn Road, Bangkok.

On May 25, 2007, the bank was granted leasing and factoring business licensed by the Ministry of Commerce.

ABN AMRO Holding N.V. is a public limited liability company, incorporated under the Dutch Law in May 1990 with its registered address at Gustav Mahlerlaan 10, 1082 PP Amsterdam, Netherlands. ABN AMRO Holding N.V. is the parent company of the ABN AMRO consolidated group of companies, including ABN AMRO Bank N.V. (Referred to as the “ABN AMRO Group”). The ABN AMRO Group provides a broad range of financial services on a worldwide basis, including consumer, commercial, and investment banking. At present, ABN AMRO Holding N.V. is governed by its Managing Board and Supervisory Board and regulated by the Dutch Central Bank.

On October 17, 2007, RFS Holdings B.V. (“RFS Holdings”), a company jointly owned by the Royal Bank of Scotland Group plc (“RBS”), Fortis Bank Nederland (Holding) N.V. (“Fortis”) and Banco Santander S.A. (“Santander”) (together, the “Consortium Members”), completed the acquisition of ABN AMRO Holding N.V. (“ABN AMRO”).

On October 3, 2008, the State of the Netherlands acquired Fortis Bank Nederland (Holding) N.V. including Fortis’s participation in RBS Holdings that represented the acquired activities of ABN AMRO.

The Consortium Members have implemented an orderly separation of the business units of ABN AMRO with RBS retaining the following former ABN AMRO business units:

- Continuing businesses of Business Unit North America;
- Business Unit Global Clients and Wholesale Clients in the Netherlands (including former Dutch wholesale clients) and Latin America (excluding Brazil);
- Business Unit Asia (excluding Saudi Hollandi); which includes ABN AMRO Bank N.V., Bangkok Branch and
- Business Unit Europe (excluding Antonveneta).

Some other remaining asset will continue to be shared by the Consortium Members until their orderly disposal of transfer.

The separation of the main platform shared between RBS and its Dutch state-owned partner was completed in 2009 and on February 6, 2010 the majority of the business of ABN AMRO acquired by Dutch State were legally demerged from the RBS-acquired businesses. It is expected that, the full legal separation of the constituent parts of ABN AMRO will be completed in April 2010 which is subject to the legal process and regulatory approvals. The Bank, the RBS acquired business, changed the name to “The Royal Bank of Scotland N.V., Bangkok Branch” on February 6, 2010.

The following disclosure of ABNBKK has been done on a standalone basis in line with above notifications. The information source of its Head office regarding to Basel II-Pillar III are available in web site :

- [http://www.investors.rbs.com/our\\_performance/resultsandpresentations.cfm](http://www.investors.rbs.com/our_performance/resultsandpresentations.cfm)

## **Disclosure B: Capital**

### **Item 1: Capital Structure**

#### ***Qualitative Disclosure:***

ABNBKK is a branch of a foreign bank – ABN AMRO Bank N.V., Total capital of ABNBKK consists of assets maintained under Section 32 reduced by items deductible from capital as set forth by Bank of Thailand notification no. Sor Nor Sor 89/2551 Re: Components of Capital of Branches of Foreign Commercial Banks.

As of December 31, 2009, total regulatory capital was THB 4,500 million. Total assets maintained under Section 32 of the Financial Institutions Businesses Act B.E. 2551 were THB 4,724.22 million (at cost) , and were comprised of 3 primary components, Government and Central Bank and Corporate Bonds . The Government bonds and corporate bond are debt securities backed by the full faith and credit of the Thai government with duration at 0.2-3.2 years and 0.56 year respectively. Central Bank bonds are debt securities issued by the Bank of Thailand with duration at 0.1- 1.6 years .

*Quantitative Disclosure :*

**Table 2 Capital of branches of foreign banks**

For the period as of 31 December and 30 June 2009

Unit : Thousand Baht

Items	31.12.2009	30.06.2009
<b>1. Capital for maintenance of assets under Section 32</b>	4,500,000	4,500,000
<b>2. Net capital for maintenance of assets under Section 32 and net balance of inter-office accounts (2.1 + 2.2)</b>	5,834,010	5,723,278
2.1 Net capital for maintenance of assets under Section 32	5,382,525	5,143,306
2.2 Net balance of inter-office accounts between the branch which is the debtor (the creditor) to the head office and other branches in the country, the parent company and subsidiary companies	451,485	579,972
<b>3. Total regulatory capital (the lowest among 1, 2 or 2.1)</b>	4,500,000	4,500,000
3.1 Total regulatory capital before deductions ( the lowest amount among item 1,item2 ,and item 2.1 )	4,500,000	4,500,000
3.2 Deductions	0	0

## **Disclosure B : Capital**

### **Item 2: Capital Adequacy**

#### ***Qualitative Disclosure:***

ABNBKK is required to calculate and report its capital adequacy ratio for regulatory reporting purposes to Bank of Thailand on a monthly basis. ABNBKK is required to maintain a minimum Capital Adequacy Ratio of 7.5%.

The capital adequacy position of ABNBKK is reviewed and monitored on a monthly basis by the financial controller and the Local Management Team (The LMT) . ABNBKK has set an internal threshold of 12% regulatory capital target, above the 7.5% minimum required by the Bank of Thailand. The LMT actively monitors and maintains capital at or above the internal threshold.

is responsible for ensuring branch compliance with the Corporation's policies, procedures and corporate governance practices including those relating to Basel II .The LMT is comprised of members from various functional areas of RBSBKK which are

- Country Executive (C.E.) - Chair person
- Country Chief Financial Officer (CFO) - Deputy Chair person
- Country Operation Officer (COO)
- Credit Risk Officer – Ad Hoc
- GBM Markets Head
- GTS Head
- Market Risk Manager
- Permanent Invitee: ALM Representative/ Regional Treasury Rep

As of December 31, 2009, ABNBKK had total regulatory capital of THB 4,500 million.The Basel II -Capital Adequacy Ratio was 24.07 % on total risk weighted assets of THB 18,696 million.

**Quantitative Disclosure:**

**Table 3 Minimum capital requirements for credit risk classified by types of assets under the SA**

**For the period as of 31 December and 30 June 2009**

Unit : Thousand Baht

<b>Minimum capital requirement for credit risk classified by type of assets under the SA approach</b>	<b>31.12.2009</b>	<b>30.06.2009</b>
- Performing assets		
1.Claims on sovereigns and central banks and multilateral development banks (MDBs)	81,750	8,100
2.Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	5,186	276,867
3.Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate	751,575	580,166
4.Claims on retail portfolios		
5.Residential mortgage exposures		
6.Other assets	6,797	36,803
- Non-performing assets*	11,881	11,669
<b>First-to-default credit derivatives and Securitization</b>	-	-
<b>Total Minimum capital requirement for credit risk classified by type of assets under the SA approach</b>	<b>857,189</b>	<b>913,605</b>

**Table 6 Minimum capital requirement for market risk for positions in the trading book (Standardized Approach)**

For the period as of 31 December and 30 June 2009

Unit : Thousand Baht

<b>Minimum capital requirement for market risk (positions in the trading book)</b>	<b>31.12.2009</b>	<b>30.06.2009</b>
1. Calculation by the Standardized Approach		
2. Calculation by Internal Model Approach	412,475	777,975
<b>Total minimum capital requirement for market risk</b>	<b>412,475</b>	<b>777,975</b>

**Table 7 Minimum capital requirement for operational risk ( SA )**

For the period as of 31 December and 30 June 2009

Unit : Thousand Baht

<b>Minimum capital requirement for operational risk</b>	<b>31.12.2009</b>	<b>30.06.2009</b>
1. Calculation by the Basic Indicator approach	0	0
2. Calculation by the Standardized approach	125,512	107,682
3. Calculation by the Alternative Standardized approach	0	0
<b>Total minimum capital requirement for operational risk</b>	<b>125,512</b>	<b>107,682</b>

**Table 8 Total risk-weighted capital ratio and Tier 1 risk-weighted capital ratio**

For the period as of 31 December and 30 June 2009

Unit : Thousand Baht

<b>Ratio</b>	<b>31.12.2009</b>	<b>30.06.2009</b>
1. Total capital to risk-weighted assets	24.07 %	18.76 %
2. Tier 1 capital to risk-weighted assets*		

\*Disclosed only in case of locally incorporated commercial banks

## Disclosure C: Risk exposure and assessment

### Item 1 General Risk Exposure

#### Governance

Risk and capital management strategy is owned and set by the Group's Board of Directors, and implemented by executive management led by the Group Chief Executive. There are a number of committees and executives that support the execution of the business plan and strategy where the structure of group can be seen in this web link : <http://cbfmnet.fm.rbsgrp.net/S1891>

RBSBKK has accordingly comply to Group Policy on risk and Capital Management and has following function to manage risk and capital locally

Committee	Focus	Membership
Business unit under group risk )	Recommends limits & process to ensure the effective management to all Group head of each risk type material risks across the Group .	<ul style="list-style-type: none"><li>- Credit Risk Officers</li><li>- Market Risk officer</li><li>- Operational risk officer</li></ul>
ALCO Committee	Identifies, manages and controls the branch balance sheet risks.	<ul style="list-style-type: none"><li>- Country Executive</li><li>- Head of Trader</li><li>- Chief Financial Officer</li><li>- Chief Operating Officer</li><li>- Market Risk Officer</li><li>- Head of GTS</li><li>- Regional Alco representatives</li></ul>

#### Management responsibilities

All employees have a role to play in the day to day management of capital and risk which is set and managed by specialist staff in:

- *Risk management*: credit, market, operational, regulatory, enterprise and insurance risk, together with risk analytics.
- *Group Treasury*: balance sheet, capital management, intra-group exposure, funding, liquidity and hedging policies.

Independence underpins the approach to risk management, which is reinforced through the Group by appropriate reporting lines. Risk management and Group

Treasury functions are independent of the revenue generating business. As part of the move toward greater functional independence, the divisional chief risk officers have a direct reporting line to the Group Chief Risk Officer.

Group Internal Audit supports the Group Audit Committee in providing an independent assessment of the design, adequacy and effectiveness of the internal controls.

## **Risk control : Group Internal Audit**

The Group's risk management framework is embedded in the business through the three lines of defence model supported by an appropriate level of investment in information technology and our people.

The Three Lines of Defence Policy Standard defines responsibilities and accountabilities in accordance with the following:

- 1st line of defence is business and functions. The Business is responsible for setting risk appetite, owns and manages its risks within the overall Group risk appetite, and is responsible for complying with all Group policies. The business must test and certify the adequacy and effectiveness of its controls in place to meet these responsibilities.
- 2nd line of defence is RBS Risk Management. It is responsible for owning and developing the risk management framework and tools, which the business uses to discharge its responsibilities. The 2nd line of defence must provide oversight and challenge to the 1st line on management of its risks.
- 3rd line of defence is Group Internal Audit (GIA). It is responsible for providing independent assurance on the design, adequacy and effectiveness of the Group's system of internal controls.

### **Purpose and roles**

Group Internal Audit supports the Group and Bank Boards and Group and Bank Executive in achieving agreed strategic and operational objectives and in discharging their corporate governance responsibilities.

Group Internal Audit's roles are to:

- continuously assess how operating risks are being managed and controlled throughout the Group and report regularly to the Group Executive and Group Audit Committee on the results of these assessments; and
- influence the continuous development of the risk management and control process through sharing best practices.

### **Our approach**

By identifying the key risks and threats facing the Group, we create a plan for auditing the management of these to provide the senior executive with an assessment of how the main business risks are being managed and controlled.

### **Risk assessment and high level planning**

#### **Risk assessment**

Our work starts with analysis of the key risks that could prevent the Group from achieving its objectives. A risk is the possibility of an event occurring that impacts the achievement of business objectives, e.g. financial loss or reputational damage due to unacceptable customer service.

Risks are identified in partnership with the senior executive, risk committees, divisions and business units based on individual discussion, a review of previous audit work and our own view of emerging risks. They can range from those that impact the entire or significant parts of the Group to those that are specific to an individual business unit.

Risks are assessed from two perspectives:

- the impact on the business if the risk occurred, and
- the likelihood of the risk occurring.

This analysis allows us to identify areas within the Group that are exposed to the highest risk and contributes to determining where and when we audit.

However, we will not review all risks. Some of these risks, whilst not material in the context of the Group, could have an impact on business performance at a local or business unit level.

Responsibility for identifying and managing these risks, and for assessing the strength of the controls against them lies with business management and the divisional risk management functions.

#### High level planning

Based on our risk assessment we produce an audit plan which includes a variety of audit responses. The main audit response is an audit assignment but other audit responses include:

- Advice to management - Business management may commission GIA to undertake specific work eg assess control of processes.
- Control failure investigation - This is likely to arise from ad hoc events in the business eg GNEPs
- Issue follow up - We use this response where we have closed an Issue and have to confirm new or enhanced controls are updated as expected
- Targeted review - These are short duration audit assessments with limited scope
- Audit Automation - Process by which we obtain information from computerised systems, either for use as a part of continuous monitoring or use in an audit assignment.

Our work can focus on any area, from the Group as a whole to an individual operating unit or process.

*Quantitative Disclosure*

Table 9 Outstandings of on-balance sheet assets and off-balance sheet items before credit risk mitigation

(Show outstandings at the end of the month)\*\*

Item	Unit : Thousand Baht
	31.12.2009
1. On-balance sheet assets (1.1 + 1.2 + 1.3)	<b>17,392,708</b>
1.1 Net loans <sup>1/</sup> (including interbank and money market item)	9,005,887
1.2 Net investments in debt securities <sup>2/</sup>	8,287,215
1.3 Deposits (including accrued interests)	99,606
2. Off-balance sheet items <sup>3/</sup> (2.1 + 2.2 + 2.3)	<b>621,409,495</b>
2.1 Aval of bills, guarantee, and letter of credits	4,212,076
2.2 OTC derivatives	616,941,119
2.3 Undrawn committed lines	256,300

\* FIs shall disclose positions in the banking book and the trading book, on-balance sheet assets not including equity exposures and off-balance sheet items including equity exposures.

\*\* In case where period end outstanding does not differ significantly from average outstanding over the period, FIs are not required to disclose average outstandings over that period.

1/ Including accrued interests and net of deferred revenues, allowances for doubtful accounts and revaluation allowances for debt restructuring.

2/ Excluding accrued interests and net of revaluation allowances for equities and impairment allowances for equities.

3/ Before multiplying by CCF.

4/ Including equities Derivatives

Table 10 Outstandings of on-balance sheet assets and off-balance sheet items before CRM classified by country or geographic area of debtors \*

31.12.2009

Unit : Thousand Baht

Country or geographic area of debtor	On-balance sheet assets				Off-balance sheet items <sup>3/</sup>			
	Total	Net loan <sup>1/</sup>	Net investment in debt securities <sup>2/</sup>	Deposit (include accrued interests )	Total	Aval of bills, guarantee, and letter of credits	OTC derivatives	Undrawn committed lines
1. Thailand	17,382,151	9,005,888	8,287,215	89,048	539,365,914	3,673,818	535,435,796	256,300
2. Asia Pacific (exclude Thailand)	10,557			10,557	487,128	487,128		
3. North America and Latin America								
4. Africa and Middle East								
5. Europe					81,556,452	51,129	81,505,323	
Total	17,392,708	9,005,888	8,287,215	99,605	621,409,494	4,212,075	616,941,119	256,300

\* FIs shall classify countries or geographic areas according to guidelines used in their internal management and shall explain supporting reasons.

1/ Including accrued interests and net of deferred revenues, allowances for doubtful accounts and revaluation allowances for debt restructuring and include interbank and money market item.

2/ Excluding accrued interests and net of revaluation allowances for equities and impairment allowances for equities.

3/ Before multiplying by CCF.

Table 11 Outstandings of on-balance sheet assets and off-balance sheet items before credit risk mitigation classified by residual maturity

Unit : Thousand Baht

Item	31.12.2009		
	Maturity not exceeding	Maturity exceeding	Total
	1 year	1 year	
<b>1. On-balance sheet assets (1.1 + 1.2 + 1.3)</b>	<b>11,046,809</b>	<b>6,117,485</b>	<b>17,392,708</b>
1.1 Net loan <sup>1/</sup> (include interbank and money market item)	6,482,434	2,523,454	9,005,888
1.2 Net investment in debt securities <sup>2/</sup>	4,390,220	3,896,995	8,287,215
1.3 Deposit (include accrued interests)	99,605		99,605
<b>2. Off-balance sheet items <sup>3/</sup> (2.1 + 2.2 + 2.3)</b>	<b>213,069,235</b>	<b>408,340,259</b>	<b>621,409,494</b>
2.1 Aval of bills, guarantee, and letter of credits	3,111,605	1,100,470	4,212,075
2.2 OTC derivatives	209,957,630	406,983,489	616,941,119
2.3 Undrawn committed lines		256,300	256,300

<sup>1/</sup> Including accrued interests and net of deferred revenues, allowances for doubtful accounts and revaluation allowances for debt restructuring.

<sup>2/</sup> Excluding accrued interests and net of revaluation allowances for equities and impairment allowances for equities.

<sup>3/</sup> Before multiplying by CCF.

Table 12 Loans and accrued interests and investments in debt securities before credit risk mitigation classified by country or geographic area of debtors\* and by asset classification specified by the Bank of Thailand

Unit : Thousand  
Baht

31.12.2009

Country or geographic area of debtor	Loans and accrued interests <sup>1/</sup>						Investment in debt securities - doubtful loss
	Normal	Special mentioned	Substandard	Doubtful	Doubtful loss	Total	
1. Thailand	17,134,683	0.00			158,419	17,293,102	0
2. Asia Pacific (excluding Thailand)						0.00	
3. North America and Latin America						0.00	
4. Africa and Middle East						0.00	
5. Europe						0.00	
Total	17,134,683	0.00	0.00	0.00	158,419	17,293,102	

\* FIs shall classify countries or geographic areas according to guidelines used in their internal management and shall explain supporting reasons.

<sup>1/</sup> Including loans and accrued interest receivables of interbank

Table 13 Provisions (divided into general provisions and specific provisions) and charge-offs for loans and accrued interests and investments in debt securities classified by country or geographic area\*

31.12.2009				Unit : Thousand Baht
Country or geographic area of debtor	Loans and accrued interest receivables <sup>1/</sup>			Investment in debt securities
	General provision	Specific provision	Charge-off between period	Specific provision
1. Thailand	(34,134)	(507,074)		
2. Asia Pacific (exclude Thailand)				
3. North America and Latin America				
4. Africa and Middle East				
5. Europe				
Total	(34,134)	(507,074)		

\* FIs shall classify countries or geographic areas according to guidelines used in their internal management and shall explain supporting reasons.

<sup>1/</sup> Include provisions and charge-offs for loans and accrued interest receivables of interbank and money market item.

<sup>2/</sup> Disclosure in total balance

Table 14 Loans and accrued interests\* before credit risk mitigation classified by type of business and by asset classification specified by the Bank of Thailand

31.12.2009						Unit : Thousand Baht
Type of business	Normal	Special mention ed	Substand ard	Doubtful	Doubtful loss	Total
- Agriculture and Mining	27,004					27,004
- Manufacturing and Commerce	1,362,460				507,074	1,869,534
- Property and Construction	1,367,392					1,367,392
- Public Utilities and Services	322,780					322,780
- Housing						-
- Others (depend on FIs)	510,049					510,049
- Financial Industry	5,450,336					5,450,336
<b>Total</b>	<b>9,040,021</b>				<b>507,074</b>	<b>9,547,095</b>

\* Including loans and accrued interests of interbank and money market item.

Table 15 Provisions (divided into general provisions and specific provisions) and charge-offs for loans and accrued interests\* classified by type of business

Unit : Thousand  
Baht

Type of business	31.12.2009		
	General provision	Specific provision	Charge-off between period
- Agriculture and Mining			
- Manufacturing and Commerce	12,618	507,074	
- Property and Construction	4,444		
- Public Utilities and Services	9,072		
- Housing			
- Others (depend on FIs)	8,000		
- .....			
- .....			
<b>Total</b>	<b>34,134</b>	<b>507,074</b>	

\* Including loans and accrued interests of interbank and money market item.

<sup>1/</sup> Disclosure in total balance

Table 16 Reconciliation of changes in provisions for credits including accrued interests\*

Unit : Thousand  
Baht

Items	31.12.2009		
	General provision	Specific provision	Total
Provisions at the beginning of the period	76,362	527,186	603,548
Charge-offs during the period			
Increases or decreases of provisions during the period	(42,228)		(42,228 )
Other provisions (provisions for losses from foreign exchange, provisions for merger and sale of businesses)		(20,112 )	(20,112)
Provisions at the end of the period	34,134	507,074)	541,208

\* Including loans and accrued interests of interbank and money market item.

Table 17 Outstanding of on-balance sheet assets and off-balance sheet items\* for credit risk under the SA approach classified by type of assets

Unit : Thousand  
Baht

Type of asset	31.12.2009		
	On-balance sheet asset	Off-balance sheet item	Total
1. Performing Loans			
1.1.1 Claims on sovereigns and central banks and multilateral development banks (MDBs)	13,500,477		13,500,477
1.1.2 Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	100,035	3,928,104	4,028,139
1.1.3 Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate	3,397,133	5,045,641	8,443,774
1.1.4 Claims on retail portfolios			
1.1.5 Residential mortgage exposures			
1.1.6 Other assets	370,624		370,624
2. Non-Performing Loans	158,419		158,419
3. First-to-default credit derivatives and Securitization			
Total	17,526,581	8,974,745	26,501,433

\* after multiplying by CCF and Specific provision

\*\* Including Repo-style transaction (and Reverse repo)

## **Credit Risk (excluding risk relating to equity instruments)**

### **Item 2.1 General Disclosure relating to credit risks**

#### Item 2.1.1. Qualitative Disclosure

##### **Credit risk**

Credit risk is the risk arising from the possibility that the Bank will incur losses owing to the failure of customers to meet their financial obligations to the Bank.

Credit Risk Function is an independent Risk function which forms a part of RBS's Risk Management.

The primary responsibilities of Credit Risk function are to analyze credit portfolios and individual facilities, to maintain credit risk management framework and to ensure that asset quality is within agreed risk appetite of RBS Group. The function comprises a number of activities including credit approval; transaction/customer assessment; policy formulation and development (in the context of RBS Group's policy framework); portfolio reporting; and quantitative portfolio analytics.

The key principles are:

- A credit risk assessment of the customer and credit facilities is undertaken prior to approval of credit exposure.
- Credit exposures, once approved, are monitored, managed and reviewed periodically against approved limits. Lower quality exposures are subject to more frequent analysis and assessment.
- Credit approval authority is discharged by RBS by way of a framework of individual delegated authorities that requires at least two individuals to approve each credit decision, one from the business and one from the credit risk management function. Both parties must hold sufficient delegated authority under the RBS Group-wide authority grid. The level of authority granted to an individual is dependent on their experience and expertise with only a small number of the Bank's senior executives holding the highest authority provided under the framework.
- Customers with emerging credit problems are identified early and classified accordingly. Remedial actions are implemented promptly and are intended to restore the customer to a satisfactory status and minimize any potential loss to the Group; and
- Stress testing of portfolios is undertaken by RBS Group to assess the potential credit impact of non-systemic scenarios and wider macroeconomic events on the Group's income and capital.

- Within RBS Group, four key areas of concentration in credit risk are monitored, reported and managed. These are single name, industry/sector, country and product/asset class. Frameworks to address the concentrations in credit risk are established and embedded into business processes.

## **Credit risk measurement**

- Credit risk models are used by the Bank to support the quantitative risk assessment element of the credit approval process, ongoing credit risk management, monitoring and reporting and portfolio analytics.
- Credit risk models may be divided into three categories.

### 1. Probability of default/customer credit grade (PD)

These models assess the probability that a customer will fail to make full and timely repayment of their obligations. The probability of a customer failing to do so is measured over a one year period through the economic cycle.

Each counterparty is assigned an internal credit grade which is in turn assigned to a default probability range. There are a number of different credit grading models in use across the RBS Group, each of which considers risk characteristics particular to that type of customer. The credit grading models score a combination of quantitative inputs (for example, recent financial performance) and qualitative inputs, (for example, management performance or sector outlook). Scores are then mapped to grades within each model. Grades are calibrated centrally to default probabilities.

The credit grades for sovereign and central bank entities are assigned by a specialist country risk analysis team using a sovereign grading model.

### 2. Exposure at default (EAD)

Facility usage models estimate the expected level of utilization of a credit facility at the time of a borrower's default. The methodologies used in EAD modeling provide an estimate of potential exposure and recognize that customers may make more use of their existing credit facilities as they approach default.

### 3. Loss given default (LGD)

These models estimate the economic loss that may be experienced – the amount that cannot be recovered – by the Bank on a credit facility in the event of default. The LGD models take into account both borrower and facility characteristics for unsecured or partially unsecured facilities, as well as the quality of any risk mitigation that may be in place for secured

facilities, plus the cost of collections and a time discount factor for the delay in cash recovery.

### **Monitoring and Reporting**

- Daily monitoring of individual counterparty limits is undertaken.
- As a minimum, credit relationships are reviewed and re-approved annually. The renewal process addresses: borrower performance, including reconfirmation or adjustment of risk parameter estimates; the adequacy of security; and compliance with terms and conditions.
- Lower quality exposures are subject to more frequent analysis and assessment.
- A process is also in place to monitor changes in credit quality at the portfolio level.
- Internal reporting and oversight of risk assets is principally differentiated by credit grades, accordingly management of risk is easily aggregated and can be reported at increasingly levels of granularity depending on business need.

### **Policies for hedging or mitigating risks and processes for monitoring effectiveness of hedges or risk mitigation**

The Bank employs a number of structures and techniques to mitigate credit risk:

- Netting of debtor and creditor balances is utilized in accordance with relevant regulatory and internal policies and requires a formal agreement with the customer to net the balances and a legal right of set-off.
- The Bank enhances its position as a lender in a range of transactions by structuring a security interest in a physical or financial asset.
- Credit derivatives including credit default swaps are used to mitigate credit risk.
- Guarantees and similar instruments (for example, credit insurance) from related and third parties are used in the management of credit portfolios. The use and approach to credit risk mitigation varies by product type, customer and business strategy.

To recognize credit mitigations, following minimum standards apply under relevant policy guidelines:

- General requirements, including acceptable credit risk mitigation types and any conditions or restrictions applicable to those mitigants.

- The maximum loan-to-value (LTV) percentages, minimum haircuts or other volatility adjustments applicable to each type of mitigant including, where appropriate, adjustments for currency mismatch, obsolescence and any time sensitivities on asset values.
- The means by which legal certainty is to be established, including required documentation and all necessary steps required to establish legal rights.
- Acceptable methodologies for the initial and any subsequent valuations of collateral and the frequency with which they are to be revalued.
- Actions to be taken in the event the current value of mitigation falls below required levels.
- Management of the risk of correlation between changes in the credit risk of the customer and the value of credit risk mitigation, for example, applying a haircut or recovery value adjustment which reflects the potential correlation risk.
- Management of concentration risks, for example, setting thresholds and controls on the acceptability of credit risk mitigants.
- Collateral management to ensure that credit risk mitigation is legally effective and enforceable.

### **Guidelines for setting credit risk limits**

- A credit risk assessment of the customer and credit facilities is undertaken prior to approval of credit exposure. Typically, this includes both quantitative and qualitative elements including, the purpose of the credit and sources of repayment, compliance with affordability tests; repayment history, ability to repay; sensitivity to economic and market developments, and risk-adjusted return based on credit risk measures appropriate to the customer and facility type. The assessment includes assignment of risk parameter estimates (PD, LGD and EAD) using approved models.
- Credit risk limits are aggregated at the counterparty level to determine the level of credit approval required and to facilitate consolidated credit risk management. In addition, the single name concentration framework includes specific approval requirements; additional reporting and monitoring; and the requirement to develop plans to address and reduce excess exposures.

### **Definitions of default and impaired**

A financial asset is considered impaired and an impairment Loss would be recognized as soon as it is determined that there is:

- Objective, observable evidence that one or more Loss Events have occurred after initial recognition of an asset; and
- As a result of that event(s), the amount or timing of estimated future cash flows is adversely affected resulting in the expected recoverable amount being less than the Carrying Value; and
- It is no longer expected that the principal and interest due will be recovered in full or in accordance with the original terms and conditions.

Impairment losses are recognized as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held. These estimates take into account the customer's debt capacity and financial flexibility; the level and quality of its earnings; the amount and sources of cash flows; the industry in which the counterparty operates; and the realizable value of any security held. Estimating the quantum and timing of future recoveries involves significant judgment. The size of receipts will depend on the future performance of the borrower and the value of security, both of which will be affected by future economic conditions; additionally, collateral may not be readily marketable. The actual amount of future cash flows and the date they are received may differ from these estimates and consequently actual losses incurred may differ from those recognized in financial statement.

In some cases, the impairment loss assessment will not result in the need to raise an impairment loss e.g. where the value of Credit Risk Mitigation is more than sufficient to amounts due.

### **Guidelines used to calculate general provision and specific provision**

Provisions for impairment losses are individually assessed on a case by case basis, taking into account the financial condition of the counterparty and any guarantee and other collateral held after being stressed for downside risk. This incorporates an estimate of the discounted value of any recoveries and realization of security or collateral. The asset continues to be assessed on an individual basis until it is repaid in full, transferred to the performing portfolio or written-off. The elements used in provision calculation are reviewed at least on annual basis to ensure that impairment provision is adequately provided.

For local regulatory reporting/disclosure, assets are classified according to the Bank of Thailand's Notifications on Classification and Provision of the Financial Institutions.

## **Item 2.2.1 Credit Risk Exposures**

### ***Qualitative Disclosure***

Credit risk is the risk arising from the possibility that the Bank will incur losses owing to the failure of customers to meet their financial obligations to the Bank.

Credit Risk Function is an independent Risk function which forms a part of RBS's Risk Management.

The primary responsibilities of Credit Risk function are to analyze credit portfolios and individual facilities, to maintain credit risk management framework and to ensure that asset quality is within agreed risk appetite of RBS Group. The function comprises a number of activities including credit approval; transaction/customer assessment; policy formulation and development (in the context of RBS Group's policy framework); portfolio reporting; and quantitative portfolio analytics.

The key principles are:

- A credit risk assessment of the customer and credit facilities is undertaken prior to approval of credit exposure.
- Credit exposures, once approved, are monitored, managed and reviewed periodically against approved limits. Lower quality exposures are subject to more frequent analysis and assessment.
- Credit approval authority is discharged by RBS by way of a framework of individual delegated authorities that requires at least two individuals to approve each credit decision, one from the business and one from the credit risk management function. Both parties must hold sufficient delegated authority under the RBS Group-wide authority grid. The level of authority granted to an individual is dependent on their experience and expertise with only a small number of the Bank's senior executives holding the highest authority provided under the framework.
- Customers with emerging credit problems are identified early and classified accordingly. Remedial actions are implemented promptly and are intended to restore the customer to a satisfactory status and minimize any potential loss to the Group; and
- Stress testing of portfolios is undertaken by RBS Group to assess the potential credit impact of non-systemic scenarios and wider macroeconomic events on the Group's income and capital.

- Within RBS Group, four key areas of concentration in credit risk are monitored, reported and managed. These are single name, industry/sector, country and product/asset class. Frameworks to address the concentrations in credit risk are established and embedded into business processes.

### **Credit risk measurement**

ABNBKK has apply standardised approach to calculate quantitative risk assessment while the Head office apply credit risk model to support quantitative risk assessment of the credit approval process, ongoing credit risk management, monitoring and reporting and portfolio analytics.

- Credit risk models may be divided into three categories.

#### 4. Probability of default/customer credit grade (PD)

These models assess the probability that a customer will fail to make full and timely repayment of their obligations. The probability of a customer failing to do so is measured over a one year period through the economic cycle.

Each counterparty is assigned an internal credit grade which is in turn assigned to a default probability range. There are a number of different credit grading models in use across the RBS Group, each of which considers risk characteristics particular to that type of customer. The credit grading models score a combination of quantitative inputs (for example, recent financial performance) and qualitative inputs, (for example, management performance or sector outlook). Scores are then mapped to grades within each model. Grades are calibrated centrally to default probabilities.

The credit grades for sovereign and central bank entities are assigned by a specialist country risk analysis team using a sovereign grading model.

#### 5. Exposure at default (EAD)

Facility usage models estimate the expected level of utilization of a credit facility at the time of a borrower's default. The methodologies used in EAD modeling provide an estimate of potential exposure and recognize that customers may make more use of their existing credit facilities as they approach default.

#### 6. Loss given default (LGD)

These models estimate the economic loss that may be experienced – the amount that cannot be recovered – by the Bank on a credit facility in the event of default. The LGD models take into account both borrower and facility characteristics for unsecured or partially unsecured facilities, as well as the quality of any risk mitigation that may be in place for secured facilities, plus the cost of collections and a time discount factor for the delay in cash recovery.

### **Monitoring and Reporting**

- Daily monitoring of individual counterparty limits is undertaken.
- As a minimum, credit relationships are reviewed and re-approved annually. The renewal process addresses: borrower performance, including reconfirmation or adjustment of risk parameter estimates; the adequacy of security; and compliance with terms and conditions.
- Lower quality exposures are subject to more frequent analysis and assessment.
- A process is also in place to monitor changes in credit quality at the portfolio level.
- Internal reporting and oversight of risk assets is principally differentiated by credit grades, accordingly management of risk is easily aggregated and can be reported at increasingly levels of granularity depending on business need.

### **Policies for hedging or mitigating risks and processes for monitoring effectiveness of hedges or risk mitigation**

The Bank employs a number of structures and techniques to mitigate credit risk:

- Netting of debtor and creditor balances is utilized in accordance with relevant regulatory and internal policies and requires a formal agreement with the customer to net the balances and a legal right of set-off.
- The Bank enhances its position as a lender in a range of transactions by structuring a security interest in a physical or financial asset.
- Credit derivatives including credit default swaps are used to mitigate credit risk.

- Guarantees and similar instruments (for example, credit insurance) from related and third parties are used in the management of credit portfolios. The use and approach to credit risk mitigation varies by product type, customer and business strategy.

To recognize credit mitigations, following minimum standards apply under relevant policy guidelines:

- General requirements, including acceptable credit risk mitigation types and any conditions or restrictions applicable to those mitigants.
- The maximum loan-to-value (LTV) percentages, minimum haircuts or other volatility adjustments applicable to each type of mitigant including, where appropriate, adjustments for currency mismatch, obsolescence and any time sensitivities on asset values.
- The means by which legal certainty is to be established, including required documentation and all necessary steps required to establish legal rights.
- Acceptable methodologies for the initial and any subsequent valuations of collateral and the frequency with which they are to be revalued.
- Actions to be taken in the event the current value of mitigation falls below required levels.
- Management of the risk of correlation between changes in the credit risk of the customer and the value of credit risk mitigation, for example, applying a haircut or recovery value adjustment which reflects the potential correlation risk.
- Management of concentration risks, for example, setting thresholds and controls on the acceptability of credit risk mitigants.
- Collateral management to ensure that credit risk mitigation is legally effective and enforceable.

### **Guidelines for setting credit risk limits**

- A credit risk assessment of the customer and credit facilities is undertaken prior to approval of credit exposure. Typically, this includes both quantitative and qualitative elements including, the purpose of the credit and sources of repayment, compliance with affordability tests; repayment history, ability to repay; sensitivity to economic and market developments, and risk-adjusted return

based on credit risk measures appropriate to the customer and facility type. The assessment includes assignment of risk parameter estimates (PD, LGD and EAD) using approved models.

- Credit risk limits are aggregated at the counterparty level to determine the level of credit approval required and to facilitate consolidated credit risk management. In addition, the single name concentration framework includes specific approval requirements; additional reporting and monitoring; and the requirement to develop plans to address and reduce excess exposures.

### **Definitions of default and impaired**

A financial asset is considered impaired and an impairment Loss would be recognized as soon as it is determined that there is:

- Objective, observable evidence that one or more Loss Events have occurred after initial recognition of an asset; and
- As a result of that event(s), the amount or timing of estimated future cash flows is adversely affected resulting in the expected recoverable amount being less than the Carrying Value; and
- It is no longer expected that the principal and interest due will be recovered in full or in accordance with the original terms and conditions.

Impairment losses are recognized as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held. These estimates take into account the customer's debt capacity and financial flexibility; the level and quality of its earnings; the amount and sources of cash flows; the industry in which the counterparty operates; and the realizable value of any security held. Estimating the quantum and timing of future recoveries involves significant judgment. The size of receipts will depend on the future performance of the borrower and the value of security, both of which will be affected by future economic conditions; additionally, collateral may not be readily marketable. The actual amount of future cash flows and the date they are received may differ from these estimates and consequently actual losses incurred may differ from those recognized in financial statement.

In some cases, the impairment loss assessment will not result in the need to raise an impairment loss e.g. where the value of Credit Risk Mitigation is more than sufficient to amounts due.

## **Guidelines used to calculate general provision and specific provision**

Provisions for impairment losses are individually assessed on a case by case basis, taking into account the financial condition of the counterparty and any guarantee and other collateral held after being stressed for downside risk. This incorporates an estimate of the discounted value of any recoveries and realization of security or collateral. The asset continues to be assessed on an individual basis until it is repaid in full, transferred to the performing portfolio or written-off. The elements used in provision calculation are reviewed at least on annual basis to ensure that impairment provision is adequately provided.

For local regulatory reporting/disclosure, assets are classified according to the Bank of Thailand's Notifications on Classification and Provision of the Financial Institutions.

**Quantitative Disclosure**

**Table 19 Outstanding of on-balance sheet assets and off-balance sheet items\*\* after credit risk mitigation for each type of assets classified by risk weight under the SA approach**

Unit : Thousand Baht

Type of Assets	31.12.2009										
	Rated outstanding					Unrated outstanding					
Risk weight (%)	0	20	50	100	150	0	20	50	35	75	100
<b>Performing assets</b>											
1.Claims on sovereigns and central banks and multilateral development banks (MDBs)	8,050,477	5,450,000									
2.Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	19,161	2,911,938	2,034	1,095,006							
3.Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate		47,281		8,396,493							
4.Claims on retail portfolios											
5.Residential mortgage exposures											
6.Other assets											
Risk weight (%)			50	100	150						
<b>Non-performing assets 1/</b>				158,419							
<b>Items which BOT allows to deduct from capital of FIs</b>											

\* Apply for non-significant portfolios calculated by the SA approach of FIs that use the IRB approach as well.

\*\* After multiplying by CCF.

1/ For the part with no CRM whose risk weights depend on the ratio of provisions to total exposures.

## **Market Risk for Trading books Position**

### **Item 4.2 Market Risk Exposures**

#### ***Qualitative Disclosure***

Market risk arises from changes in interest rates, foreign currency and risk related factors such as market volatilities. The Group manages market risk centrally within its trading and treasury portfolios through a comprehensive market risk management framework. This framework contains limits based on, but not limited to: value-at-risk (VaR), scenario analysis, position and sensitivity analyses. The implementation of the market risk policy statement is facilitated and overseen by Group Risk Committee, with Group Internal Audit providing independent evaluation of control framework.

Trading risk limits are set in a top-down process and organised in a hierarchy representing a combination of organisational and geographical levels. The limit setting process can be summarised as follows:

- Group Asset & Liability Committee sets overall VaR limits for trading books and delegates the responsibility to manage the bank's market risk exposures (within these limits) to Market Risk Control Committee (MRCC).
- MRCC sets high-level VaR and stress limits and delegates certain limit setting authority to Risk Management Committees (RMCs).
- RMCs set lower-level VaR and other limits, as necessary, under their delegated authority.
- Local representatives of the business and Market Risk Management (MRM) may agree local limits where there is a need to do so from a regulatory or management perspective.

Market Risk limits are reviewed annually. The VaR and Stress limits are considered as primary limits which are set based on allocated capital for the business and thus constraints the risk taking activities. These primary limits are set based on the business strategy and available/allocated capital. The other limits such as interest rate delta, FX Open position, credit spread and greeks are set based on market liquidity. Another important factor considered in limit setting is the historical utilisation of limits. The Stress test limits are set at a higher level as compared to VaR.

#### **Risk control**

The main practical tools to affect hedging and mitigating risk are the delegated authorities, the limits and discussion triggers, independent model valuation, a robust and efficient risk system and timely and accurate management information.

The principal trading book market risk factors for the branch are interest rates and foreign exchange. The branch has no equity or commodity positions.

Limits form part of the dealing authorities and constitute one of the cornerstones of the market risk management framework. Their breach must be followed by appropriate action, as specified in detail in the market risk policy statement.

Upon notification of a limit breach, the appropriate body must take one of the following actions:

- instruction can be given to reduce positions to be within the agreed limits.
- a temporary increase in the limit (for instance, in order to allow orderly unwinding of positions) can be granted.
- a permanent increase in the limit can be granted.

The branch discloses market risk in VaR terms. VaR is a measure that produces estimates of the potential change in the market value of a portfolio over a specified time horizon at given confidence levels. The branch uses a historical simulation methodology with 400 time horizon, decay factor of 0.995, one day holding period and a 99% confidence level.

## **Stress testing**

### Scenario Analysis

The branch calculates a range of market risk stress test each day. The objective of stress testing is to identify the loss that the branch's current portfolio of trading book exposure would generate in plausible but adverse market events. This Stress test limit is set independent of VaR.

### Sensitivity of net interest income

The branch calculates profit/loss incurred as a result of the stress testing of trading book's position exposed to interest rate risk in Baht (exclude option position) under the scenario set out by the Bank of Thailand.

The projection shows how the projected net interest income would change in response to an immediate parallel shift to all market rates.

The scenarios used which is as per Bank of Thailand's notification, are simplified in that they assume all interest rates for all currencies and maturities move at the same time and by the same amount and therefore do not reflect the potential effect on net interest income of some rates changing whilst others remain the same. The scenarios also do not incorporate actions that would be taken by the business units to mitigate the effect of this interest rate risk.

### Currency risk

The branch calculates profit/loss incurred as a result of the stress testing of trading book's position exposed to foreign exchange risk of 7 major currencies (exclude option position) under the scenario set out by the Bank of Thailand.

The projection shows how the foreign exchange exposure would change in response to an immediate parallel shift to all 7 major currencies.

The scenarios used which is as per Bank of Thailand's notification, are simplified in that they assume foreign exchange risk of 7 major currencies and maturities move at the same time and by the same amount and therefore do not reflect the potential effect on gain/loss on one currency whilst others remain the same. The scenarios also do not incorporate actions that would be taken by the business units to mitigate the effect of this currency risk.

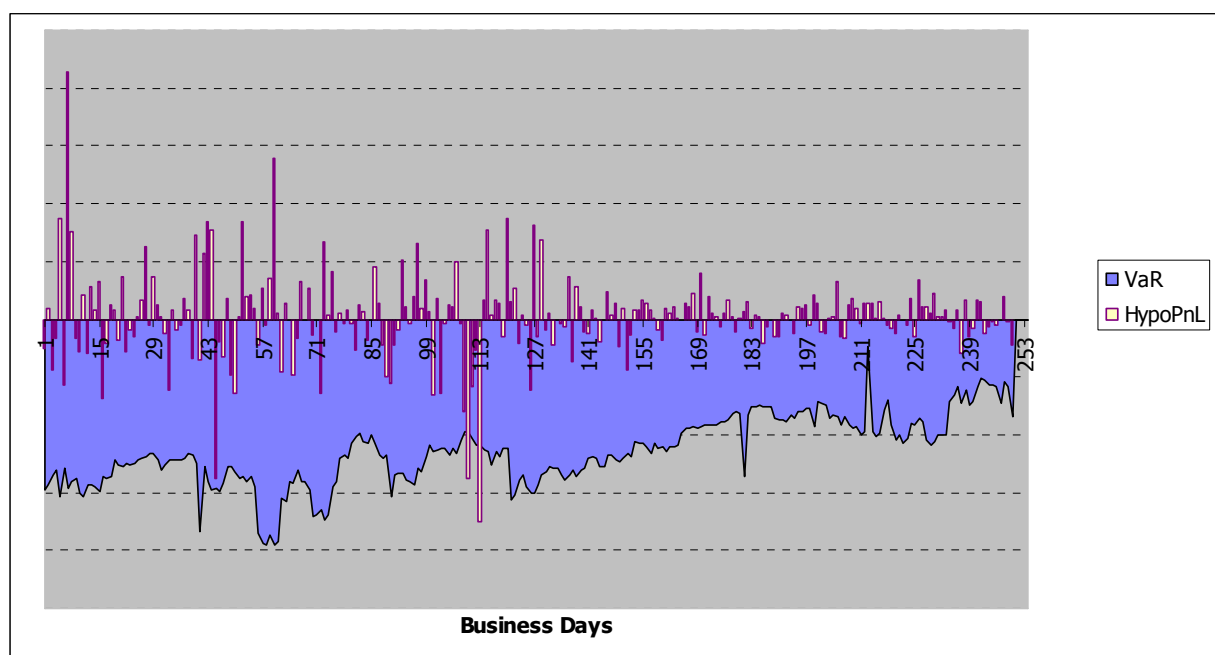
### **Backtesting**

Hypothetical backtesting is done by multiplying the each of risk factor sensitivities positions with the daily changes to obtain the hypothetical PnL which is used to compared against VaR.

The VaR measure is backtested on a monthly basis. Days on which a hypothetical loss is greater than the 99% 1-day risk are known as 'exceptions', and the cause of such losses are investigated by the local MRM.

### **The scope of model that BOT allows to use for minimum capital calculation**

Bank of Thailand has approved the branch to use VaR data produced by the VaR calculation engine, as inputs for the calculation of market risk regulatory capital.



## Results of Back-testing Exercise for December 2009

### Summary of Results

The back testing exercise was conducted on ABN Amro Thailand portfolio for 250 working days ending on 31 December 2009. The portfolio included all positions in FX, Interest Rate, Credit and Exotics. During this period of 250days, the portfolio had 2 outliers in the Hypo PnL.

The details of the outliers are attached below:

	Business Date	HypoPnL over VaR	Comments
1	141	142%	<ul style="list-style-type: none"><li>• Main volatile Risk Factor in VaR Model is Interest Rate</li><li>• VaR Model (99%) can sustain fluctuation of THB IRS and government yield curve (parallel shift in rate while other risk factors having small changes) approximately 17 bps. vs actual rate up by 18-25 bps in yield curve and IRS curve up by 16 – 21 bps.</li><li>• Major impact is in both IRS and Government Bond position.</li></ul>
2	138	161%	<ul style="list-style-type: none"><li>• Main volatile Risk Factor in VaR Model is Interest Rate</li><li>• VaR Model (99%) can sustain fluctuation of THB IRS and government yield curve (parallel shift in rate while other risk factors having small changes) approximately 18.3 bps. vs actual rate up by 18.8-23.3 bps in yield curve and IRS curve up by 26-39 bps</li><li>• Major impact is in both IRS and Government Bond position.</li></ul>

\* delta or PV01 is the present value impact of 0.01% (1 basis point) move up in an interest rate.

## Quantitative Disclosure

**Table 31A Information on each type of market risk under the Internal Model Approach**

**For the period as of 31 December and 30 June 2009**

Unit : Thousand Baht

Type of market risk	31.12.2009	30.06.2009
<b>Interest rate risk</b>		
Maximum VaR during the reporting period	227,883	282,959
Average VaR during the reporting period	152,228	192,972
Minimum VaR during the reporting period	65,064	147,522
VaR at the end of the period	122,819	227,642
<b>Equity position risk</b>		
Maximum VaR during the reporting period		
Average VaR during the reporting period		
Minimum VaR during the reporting period		
VaR at the end of the period		
<b>Foreign exchange rate risk</b>		
Maximum VaR during the reporting period	102,371	152,610
Average VaR during the reporting period	13,218	26,294
Minimum VaR during the reporting period	1,761	3,336
VaR at the end of the period	12,512	4,380
<b>Commodity risk</b>		
Maximum VaR during the reporting period		
Average VaR during the reporting period		
Minimum VaR during the reporting period		
VaR at the end of the period		
<b>Total Market Risk</b>		
Maximum VaR during the report period	227,029	297,135
Average VaR during the report period	153,495	195,256
Minimum VaR during the report period	67,293	147,708
Period end VaR	125,710	228,213

## **Operational Risk**

### **Item 5 Operation risk Exposure**

#### ***Qualitative Disclosure***

Operational risk is the potential for financial loss, damage to reputation, or impact upon customers resulting from fraud; human error ineffective or inadequately designed processes or systems; improper behavior or external events. Operational risk is an integral and unavoidable part of the RBS Group's business as it is inherent in the processes it operates to provide services to customers and generate profit for shareholders.

To ensure appropriate responsibility is allocated for the management, reporting and escalation of operational risk, the Group operates a three lines of defence model which outlines principles for the roles, responsibilities and accountabilities for operational risk management.

Operational risk – three lines of defence model

#### **1<sup>st</sup> line of defence**

**The Business:** Accountable for the ownership and day-to-day management and control of operational risk. Responsible for implementing processes in compliance with Group policies and for testing key controls and monitoring compliance with Group policies.

#### **2<sup>nd</sup> line of defence**

**Operational Risk:** Responsible for the implementation and maintenance of the operational risk framework, tools and methodologies. Responsible for oversight and challenge on the adequacy of the risk and control processes operating in the business.

#### **3<sup>rd</sup> line of defence**

**Group Internal Audit:** Responsible for providing independent assurance on the design, adequacy and effectiveness of the Group's system of internal controls.

The Operational Risk Policy Standards provide the direction for delivering effective operational risk management. They comprise principles and processes that enable the consistent identification, assessment, management, monitoring and reporting of operational risk across the Group. The objectives of the standards are to protect the Group from financial loss or damage to its reputation, its customers or staff and to ensure that it meets all necessary regulatory and legal requirements.

The standards are supported by several key operational risk management techniques of which ABNBKK applies the following techniques:

- Risk and control assessments: business units identify and assess operational

risks to ensure that they are effectively managed, prioritized, documented and aligned to risk appetite;

- Loss data management: each business unit's internal loss data management process captures all operational risk loss events above certain minimum thresholds. The data is used to enhance the adequacy and effectiveness of controls, identify emerging themes, enable formal loss event reporting and inform risk and control assessments and scenario analysis.

Escalation of individual events to senior management is determined by the seriousness of the event. Operational loss events are categorized under the following headings:

- Clients, products and business practices;
  - Technology and infrastructure failures;
  - Employment practices and workplace safety;
  - Internal fraud;
  - External fraud;
  - Execution, delivery and process management;
  - Malicious damage; and
  - Disaster and public safety
- Key risk indicators: business units monitor key risk indicators (usually operational) against their material risks. These indicators are used to monitor the operational risk profile and exposure to losses against thresholds which trigger risk management actions;
- New products approval process: this process ensures that all new products or significant variations to existing products are subject to a comprehensive risk assessment. Products are evaluated and approved by specialist areas and are subject to executive approval prior to launch; and
- Self certification process: This requires management to monitor and report regularly on the internal control framework for which they are responsible, confirming its adequacy and effectiveness. This includes certifying compliance with the requirements of Group policies.

### **Scope and nature of reporting and measurement systems**

Reporting forms an integral part of operational risk management. The Group's risk management processes are designed to ensure that issues are identified, escalated and managed on a timely basis. Exposures for each division are reported through monthly risk and control reports, which provide detail on the risk exposures and action plans.

Events that have a material, actual or potential impact on the branch's finances, reputation or customers, are escalated and reported to divisional and Group executive.

### **Policies for mitigating**

An objective of operational risk management is not to remove operational risk altogether, but to manage the risk to an acceptable level, taking into account the cost of minimising the risk with the resultant reduction in exposure. Strategies to manage operational risk include avoidance, transfer, acceptance and mitigation by controls.

Each business unit must manage its operational risk exposure within an acceptable level, testing the adequacy and effectiveness of controls and other risk mitigants regularly and documenting the results. Where unacceptable control weaknesses are identified, action plans must be produced and tracked to completion.

ABNBKK is using the Standardized Approach for operational risk as measured according to Basel II.

As of December 31, 2009, the operational risk capital requirement was THB 1,767 million, which was 39.26 % of the total capital requirement of THB 4,500 million.

## **Interest rate risk in the banking books**

### **Item 7 Interest rate exposure in the banking book**

#### ***General Qualitative Disclosure***

ABNBKK manages interest rate risk in banking books to be in line with regional Alco concept

The following definitions are used in this document:

- **Trading book**  
Profit centers with a trading book treatment from a regulatory perspective. Normally mark to market treatment for accounting will apply.
- **Banking book**  
Portfolios which do not qualify for a trading book treatment from a regulatory perspective. Normally accrual treatment for accounting purposes will apply. Banking books consist of clients assets/liabilities, investment books, money market banking books etc
- **Money Market Banking book**  
Treasury function which provides the following activities:
  - external party in inter-bank market; funding of trading positions;
  - funding of large transactions on product by product basis;
  - net funding of other activities within the bank;
  - arranges cash reserves with central banks; provider of intraday liquidity
  - running of short term interest rate mismatch within limits set by RBU ALCO

The salient features of the new Regional ALCO governance that are applicable to BU Asia are:

- All banking books, including money market, will be part of the RBU balance sheet and are managed within the RBU ALCO limits set by Group ALCO.  
*For Asia this governance has been detailed as follows. Smaller size assets and liabilities and “modeled exposures” or “non-contractually defined assets and liabilities” (mortgages, saving account etc) on the consumer balance sheet will be funded within the consumer client activity. The resulting net position will be funded with the GM Local Markets Banking Book within the RBU. Commercial activity and large size exposures will be match funded on a product by product by the GM Local Markets Banking Book (Regional ALCO will have the mandate to change this in the future to a net funding of the consumer client activity if deemed appropriate). P&L of GM Local Markets Banking Book is to be reflected in global market p&l and commercial client segment p&l.*
- The limits of the RBU ALCO will be adjusted (increased) to take the potential exposures of the money markets into account. RBU ALCO is responsible for setting sub-limits on these books.
- Trading books fall outside the RBU ALCO scope for market/interest rate risk purposes and will continue to be monitored through GRC - Group Risk Committee (actual funding will continue to be provided by the money market desk).

The changes to our existing mandate for BU Asia ALCO have been highlighted in the table below :

### **Interest Rate Risk Framework for Accrual books in BU Asia**

	<b>Commercial</b>	<b>Alco Portfolio</b>
Balance Sheet Framework	Product by product	Portfolio with each segment
Execution	Global Markets	Global Markets
Steering actions for Full balance sheet	Local Alco / BU Asia Alco	Local Alco / BU Asia Alco
P&L Responsibility	Commercial	Local Alcos

### **Limit structure for Full balance sheet**

Group ALCO will set overall Earnings Risk limits for BU Asia. BU Asia ALCO will set limits for the individual countries. These positions will be managed within the PV01 framework. Limits will be set on PV01 and VaR. The utilisations will be monitored by Market Risk on a daily basis and reported through MRTK.

### **Steering actions**

Local ALCO will be responsible for managing the balance sheet and can do this through taking funds from or placing funds with Global Markets. These deals should be identified and excluded for external reporting (and reporting to head office). The interest amounts on these deals will be settled, but no principal cash flows will be exchanged.

The steering actions can not be attributed to a specific client segment and will therefore have to be reported separately. The allocation of revenue or cost to the client segments will be decided by the Local ALCO.

**Quantitative Disclosure**

**Table 33 The effect of changes in interest rates\* to earnings (net)**

Unit : Thousand Baht

Currency	31.12.2009
	Shock 1 (+ 100bsp)
Baht	(50,634)
USD	(9,697)
EURO	0
Others	2,729
Total	(57,605)

\* FIs shall use the percentage changes in interest rates of 100 bps .

