



**RHB BANK THAILAND OPERATIONS  
BASEL II – PILLAR III DISCLOSURES**

**FOR THE YEAR ENDED**

**31<sup>st</sup> DECEMBER 2010**

**RHB BANK THAILAND OPERATIONS  
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**RHB BANK THAILAND OPERATIONS  
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**1.0 Disclosure A  
Scope of Application**

The Basel II – Pillar III Disclosures contained in this document relate to RHB Bank Thailand Operations for the year ended 31<sup>st</sup> December 2010, and is the annual disclosure prepared in compliance with the requirements set forth in Bank of Thailand’s Notification No. SorNorSor 25/2552 Re: Disclosure of Information on Capital Fund Maintenance for Commercial Banks, dated 14<sup>th</sup> December 2010.

RHB Bank Berhad in Thailand is a branch office of the RHB Banking Group with its Head Office in Malaysia.

The quantitative disclosure herein relates to RHB Bank Thailand Operations only (Standalone basis) whereas the general qualitative aspect in Disclosure C contains the RHB Banking Group Risk Management Framework, Policies & Guidelines which are also applicable to RHB Bank Thailand Operations.

Other details pertaining to the RHB Banking Group are available under the Corporate Profile: Investor Relations of the Bank’s official website at [www.rhb.com.my](http://www.rhb.com.my).

**2.0 Disclosure B: Capital**

**2.1 Capital Structure**

**2.1.1 Qualitative Disclosure**

Total capital of RHB Bank Thailand Operations consists of assets maintained under Section 32 of the Financial Institutions Businesses Act B.E. 2551, as set forth by Bank of Thailand Notification’s No. SorNorSor 89/2551 Re: Components of Capital of Branches of Foreign Commercial Banks, dated 27<sup>th</sup> November 2008.

As of 31<sup>st</sup> December 2010, total regulatory capital of RHB Bank Thailand Operations was THB 2,000 million.

Total assets maintained under Section 32 amounted to THB 2,000 million, and comprised two primary components, i.e. Treasury Bills and Central Bank bonds.

Treasury Bills are short-term discounted government debt securities backed by the Thai Government, whereas Central Bank bonds are short-term debt securities issued by the Bank of Thailand.

## 2.1.2 Quantitative Disclosure

**Table 1: Capital of RHB Bank Thailand Operations**

		Unit: THB
Items		31-Dec-10
1.	Assets Required to be Maintained under Section 32	2,000,000,000.00
2.	Sum of Net Capital for Maintenance of Assets under Section 32 and Net Balance of Inter-office Accounts (2.1 + 2.2)	2,126,687,142.30
2.1	Capital for Maintenance of Assets under Section 32	2,000,000,000.00
2.2	Net Balance of Inter-office Accounts which the branch is the Debtor (the creditor) to the Head Office and Other Branches Located in Other Countries, the Parent Company and Subsidiaries of the Head Office	126,687,142.30
3.	Total Regulatory Capital (3.1 – 3.2)	2,000,000,000.00
3.1	Total Regulatory Capital Before Deduction (the lowest amount among item 1, item 2 and item 2.1)	2,000,000,000.00
3.2	Deductions	-

## 2.2 Capital Adequacy

### 2.2.1 Qualitative Disclosure

RHB Bank Thailand Operations calculates and reports its capital adequacy ratio for regulatory reporting purposes to Bank of Thailand on a monthly basis. In view of its small portfolio compared relatively to that of the overall bank's, RHB Bank Thailand Operations has adopted the Standardised Approach (SA) for the calculation of its credit and market risks, and the Basic Indicator Approach (BIA) for its operational risk.

Under Bank of Thailand's Notification No. SorNorSor 87/2551 Re: Supervisory Guidelines on Capital Provision for Commercial Banks, dated 27<sup>th</sup> November 2008, and as a foreign bank branch, RHB Bank Thailand Operations is required to maintain a minimum capital adequacy ratio of 7.5%.

## 2.2.2 Quantitative Disclosures

### Minimum Capital Requirement for Credit Risk Classified By Type of Assets Under The Standardised Approach

RHB Bank Thailand Operations subscribes to the Bank of Thailand's Notification No. SorNorSor. 90/ 2551 Re: Regulations for Credit Risk Asset Calculations for Commercial Banks Using the Standardised Approach (SA Approach) for classification of its assets into the various asset categories for capital adequacy purposes.

External ratings provided by the eligible credit assessment institutions (ECAIs) are applied to assign risk weights to calculate the risk weighted asset of the exposures. These are Moody's, Standard & Poor's, Fitch, Fitch Thailand and TRIS. Exposures which are not rated by any of the eligible ECAIs are considered 'unrated exposures'.

As of 31<sup>st</sup> December 2010, the total credit risk weighted assets amounted to THB 3,579.42 million and credit risk capital requirement was THB 286.35 million

**Table 2: Minimum Capital Requirement for Credit Risk Classified by Type of Assets under The Standardised Approach**

		Unit: THB
Performing Assets		31-Dec-10
1.	Claims on sovereigns and central banks, multilateral development banks (MDBs), and non –central government public sector entities (PSEs) treated as claims on sovereigns	11,822,311.88
2.	Claims on financial institutions, non-central government public sector entities (PSEs) treated as claims on financial institutions, and securities firms	2,122,565.75
3.	Claims on corporates, non-central government public sector entities (PSEs) treated as claims on corporates	248,190,690.81
4.	Claims on retail portfolios	342,665.66
5.	Claims on housing loans	352,318.34
6.	Other assets	8,514,471.87
Non-performing Claims		15,008,704.48
First –to-default Credit Derivatives and Securitisation		-
<b>Total Minimum Capital Requirement for Credit Risk under the SA</b>		<b>286,353,728.79</b>

### Minimum Capital Requirement for Market Risk for Positions in the Trading Book (Standardized Approach)

RHB Bank Thailand Operations applies the Standardized Approach as per the Bank of Thailand's Notification No. SorNorSor 94/2551 Re: Guideline on Supervision of Market Risk and Capital Requirement for Market Risk of Financial Institutions dated 27<sup>th</sup> November 2008, for exposures in the trading book to measure the market risk capital charge.

As of 31<sup>st</sup> December 2010, the market risk capital requirement was THB 1,806,479.08. Total risk weighted assets are THB 22.58 million (determined by multiplying the capital charge arrived above by 12.5).

**Table 3: Minimum Capital Requirement for Market Risk**

		Unit: THB
Minimum Capital Requirement for Market Risk (positions in the trading book)		31-Dec-10
1.	Standardised Approach	1,806,479.08
2.	Internal Model Approach	-
<b>Total Minimum Capital Requirement for Market Risk</b>		<b>1,806,479.08</b>

### Minimum Capital Requirement for Operational Risk under BIA

RHB Bank Thailand Operations calculates its capital charge for operational risk by using the Basic Indicator Approach (BIA) as per Bank of Thailand's Notification No. SorNorSor. 95/2551 Re: Regulations on Minimum Capital Requirement for Operational Risk, dated 27<sup>th</sup> November 2008.

By applying the Basic Indicator Approach to measure operational risk, RHB Bank Thailand Operations uses its gross income, which includes net interest income and non-interest income, as a proxy. For year ended 31<sup>st</sup> December 2010, the operational risk capital requirement was THB 26.83 million, which accounted for 8.52% of the total capital requirement of THB 314.99 million.

**Table 4: Minimum Capital Requirement for Operational Risk**

		Unit: THB
Minimum Capital Requirement for Operational Risk		31-Dec-10
1.	Calculate by Basic Indicator Approach	26,832,404.32
2.	Calculate by Standardised Approach	-
3.	Calculate by Alternative Standardised Approach	-
<b>Total Minimum Capital Requirement for Operational Risk</b>		<b>26,832,404.32</b>

**Total Risk-Weighted Capital Ratio**

As of 31<sup>st</sup> December 2010, the Basel II – Capital Adequacy Ratio (CAR) of RHB Bank Thailand Operations was 50.79% on total risk weighted assets of THB 3,579.42 million, against a total regulatory capital of THB 2,000 million, and which was above the minimum CAR of 7.5% required of a foreign bank branch.

**Table 5: Total Risk-Weighted Capital Ratio**

Ratio		Unit: % 31-Dec-10
1.	Total Capital to Risk-Weighted Assets**	50.79
2.	Tier 1 Capital to Risk-Weighted Assets*	-

\* Disclosed only in case of locally incorporated commercial banks.

\*\* After final year end adjustments to financial statement

### **3.0 Disclosure C: Risk Exposures and Assessment**

The risk management objectives and policies of the RHB Banking Group also apply to RHB Bank Thailand Operations. However, since RHB Bank Thailand Operations is a local branch in Thailand, its operations are also subject to the regulatory requirements of Bank of Thailand, and these are indicated accordingly.

#### **3.1 RHB Banking Group Risk Management**

The RHB Banking Group Risk Management Framework governs the management of risks across the banking group. The framework operates on two interlocking layers:

- (i) It provides a holistic overview of the risk and control environment of the Group, with the risk management going towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and balances in the organisation, as well as deficiencies in risk management culture.
- (ii) It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is affected through building up capabilities and infrastructure in risk management sophistication, and using the improvement in risk quantification to optimise risk-adjusted (or economic) returns.

##### **3.1.1 Overarching Risk Management Principles**

The framework enshrines five fundamental principles that drive the philosophy of risk management in the Group. They are:

- (i) Risk governance from the Boards of Directors of companies in the Group;
- (ii) Clear understanding of risk management ownership;
- (iii) Institutionalisation of a risk focused organization;
- (iv) Alignment of risk management to business strategies; and
- (v) Optimisation of risk adjusted economic and financial returns

##### **Principle 1: Risk Governance from the Boards of Directors of Companies in the Group**

The ultimate responsibility of the Boards of Directors in the RHB Banking Group is to ensure that an effective risk management strategy is in place and uniformly understood across the Group.

The Group Risk Management Committee (GRMC) is delegated with risk management oversight authority by the Boards of the RHB Banking Group and serves as a consultative body to the Boards for areas pertaining to risk management.

## **Principle 2: Clear Understanding of Risk Management Ownership**

Risk awareness culture is instilled throughout the Group through proactive risk ownership. The business and functional units of the Group are primarily responsible for identifying, managing and reporting their risks. The business units manage certain defined risks through the use of facilities and services provided by the functional units.

Risk management processes are a collective responsibility and cooperation of business and functional units, risk management functions, top management and the Board.

## **Principle 3: Institutionalisation of a Risk Focused Organization**

Institutionalisation of a risk focused organization is progressed upon in the RHB Banking Group through a number of measures, two of which are:

- (i) Strengthening of the central risk coordination functions, and
- (ii) Continuous reinforcing of a risk and control environment within the Group.

There are key differences in perspectives (which are also strategically complementary) between Risk Management, Compliance and Internal Audit functions.

The Risk Management function in the Group reports to the Head of Group Risk Management. Amongst the roles and responsibilities are:

- Facilitating the setting of the strategic direction and overall policy on management and control of risk of the Banking Group;
- Ensuring industry best practice risk management disciplines are adopted across the Group, including the setting of risk management parameters and risk underwriting models;
- Developing a pro-active; balanced and risk attuned culture within the Group;
- Advising senior management, the GRMC and the Boards on risk issues of, and impacts on, the Banking Group;
- Administering the delegation of discretionary powers to management personnel within the Group.

The Compliance function is centrally managed and provides assurance to management that the Group's activities are in compliance with external requirements and internal policies and procedures.

The Audit function independently reviews and reports on the adequacy and integrity of the Group's internal control systems and information management systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

#### **Principle 4: Alignment of Risk Management to Business Strategies**

A statement of intent of the Group's Risk Management Framework is to align the Group's business strategy to risk strategy, and vice versa. This is articulated through the Group's annual business and financial budgetary plan, which is progressively facilitated by the integration of risk measures in economic capital management. It is also implemented through the Group's construction of a sustaining risk-focused organization as described in preceding sections where business and support units are required to be primarily responsible and accountable for risk management

#### **Principle 5: Optimisation of Risk Adjusted Economic and Financial Returns**

The medium to long term strategy and principle of risk management of the Group is to deepen the integration of economic capital management within the Group.

In 2009, the Group's management has approved for implementation in 2010, a risk-adjusted returns based framework for allocation of capital to business units and for performance measurement and management.

### **3.2 Credit Risk**

Credit risk is defined as the likelihood that a customer or counterparty is unable to meet the contracted financial or counterparty is unable to meet the contracted financial obligations resulting in a default situation and/or financial loss.

Credit risk management in the RHB Banking Group is conducted in a holistic manner. During the assessment of credit risk at transactional level, credit underwriting standards are dictated in approved credit risk policies which are developed for the assurance of asset quality that are in line with the Group's risk appetite. Industry best practices are instilled in the continual updating of credit risk policies.

#### **3.2.1 Risk Models**

In model development efforts, the internal ratings based (IRB) standards of the Basel II capital accord are applied and rigorous statistical methodologies are employed. The exceptions are sub-portfolios for which sufficient historical data is unavailable for use in modeling or for which statistical modeling is not practical given the nature of the business. In these cases, generic models or standard prudential underwriting policies and rules are applied. In addition, independent validations of the risk models are being performed in the Group's pursuit of compliance to Basel II IRB standards.

### 3.2.2 Economic Returns Framework

The Group has also implemented an economic returns/profitability framework for differentiation and pricing of credit spreads. This profitability framework incorporates risk elements to ensure that credit pricing is guided by risk-adjusted economic returns. The risk elements include (i) a funds transfer pricing framework to better reflect term value of money and market interest rate / profit rate sensitivities, and (ii) methodologies to compute credit risk premiums in accordance with expected returns / losses that is derived based on the aforesaid risk models.

### 3.2.3 Credit Concentration Risk

Analysis of large customer group exposures is regularly conducted and the lending units undertake intensive account updates, monitoring and management of these exposures. Industry and sectoral analysis are also incorporated within the overall credit risk management regiment. This facilitates the better management of credit concentration risks.

RHB Bank Thailand Operations is guided by the lending direction and internal management action triggers limits, as well as the Bank of Thailand's Notification No. SorNorSor. 35/2551 Re. Supervisory Guidelines on Large Exposure (Single Lending Limit) dated 3<sup>rd</sup> August 2008.

### 3.2.4 Credit Risk Mitigation

RHB Bank Thailand Operations uses a wide variety of techniques to reduce credit risk on its lending; one important credit risk mitigation technique is accepting guarantee and collateral with appropriate coverage, sufficiently liquid, legally effective and regularly valued. The main types of collateral / security support accepted are:

- i) Landed properties
- ii) Cash collateral
- iii) Corporate and Bank Guarantees

In accordance with the RHB Banking Group's Credit Policies, banks, creditworthy companies and individuals with high net worth are accepted as guarantor counterparties, subject to credit assessment. From the above collaterals, only cash collateral and corporate guarantors with good external ratings are recognized for capital adequacy purposes. In cases of corporate guarantees, a simple substitution of the risk weight is applied.

### 3.2.5 Non-Performing Loans and Provisioning

RHB Bank Thailand Operations follows the general guidelines on the management of non-performing loans and potential non-performing loans as prescribed in the RHB Banking Group's NPL Policy. For asset classification, classification for case of debt restructuring, making provision and write-offs of impaired assets, the Bank of Thailand's Notification No. SorNorSor. 31/2008 Re: Classification and Provision of the Financial Institutions, dated 3<sup>rd</sup> August 2008, is being adhered to.

RHB Bank Thailand Operations categorises its loan portfolio into six categories, i.e. Loss, Doubtful of Loss, Doubtful, Sub-Standard, Special Mentioned and Acceptable.

Allowance for provision for loans classified as normal and special mentioned are calculated based on the minimum percentage of 1% and 2% respectively in accordance with the Bank of Thailand's Guidelines. For loans classified as substandard, doubtful and doubtful loss, the allowance rate is 100% of the difference between the outstanding loan value and present value of expected cash flow from proceeds of collaterals.

### 3.2.6 Quantitative Disclosures

**Table 6: Outstanding Amounts of Significant On-balance Sheet Assets and Off-Balance Sheet Items Before Adjusted by Credit Risk Mitigation**

Item		Unit: THB 31-Dec-10
1.	On-balance Sheet Items (1.1 + 1.2 + 1.3)	<b>2,601,224,670.47</b>
1.1	Net Loans	2,492,733,944.42
1.2	Net investment in Debt Securities	108,490,726.05
1.3	Deposits (Including accrued interest receivables)	-
2.	Off-balance Sheet Items (2.1 + 2.2 + 2.3)	<b>3,061,819,159.28</b>
2.1	Aval of Bills, Guarantees, and Letter of Credits	1,087,521,064.32
2.2	OTC Derivatives	47,323,546.57
2.3	Undrawn Committed Line	1,926,974,548.39

**Table 7: Outstanding Amounts of Significant On-balance Sheet Assets and Off-balance Sheet Items Before Credit Risk Mitigation Classified by Country or Geographic Area of Debtor**

31-Dec-10

Unit: THB

Country or Geographic Area of Debtor	On-balance Sheet Assets			Off-balance Sheet Items			
	Total	Net Loans	Net Investment in Debt Securities	Total	Undrawn committed Lines	OTC Derivatives	Aval of bills, Guarantees of Borrowings, and Letter of Credits
1. Thailand	<b>2,601,224,670.47</b>	2,492,733,944.42	108,490,726.05	<b>3,061,819,159.28</b>	1,926,974,548.39	47,323,546.57	1,060,230,625.63
2. Asia Pacific (exclude Thailand)	-	-	-	-	-	-	27,290,438.69
3. North America & Latin America	-	-	-	-	-	-	-
4. Africa & Middle East	-	-	-	-	-	-	-
5. Europe	-	-	-	-	-	-	-
<b>Total</b>	<b>2,601,224,670.47</b>	2,492,733,944.42	108,490,726.05	<b>3,061,819,159.28</b>	1,926,974,548.39	47,323,546.57	1,087,521,064.32

**Table 8: Outstanding Amounts of On-balance Sheet Assets and Off-balance Sheet Items Before Credit Risk Mitigation Classified by Residual Maturity**

Unit: THB

Item	31-Dec-10		
	Maturity Not Exceeding 1 year	Maturity Exceeding 1 year	Total
<b>1. On-balance Sheet Assets (1.1 + 1.2 + 1.3)</b>			
1.1 Net Loans (include inter-bank and money market item)	1,074,127,884.82	1,527,096,785.65	<b>2,601,224,670.47</b>
1.2 Net Investment in Debt Securities	56,250,000.00	52,240,726.05	<b>108,490,726.05</b>
1.3 Deposit (include accrued interest receivables)	-	-	-
<b>2. Off-balance Sheet Items (2.1 + 2.2 + 2.3)</b>			
2.1 Aval of Bills, Guarantees of Borrowings, and Letter of Credits	1,087,521,064.32	-	<b>1,087,521,064.32</b>
2.2 OTC Derivatives	47,323,546.57	-	<b>47,323,546.57</b>
2.3 Undrawn Committed and Uncommitted Lines	1,926,974,548.39	-	<b>1,926,974,548.39</b>

**Table 9: Loans & Accrued Interest Receivables 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**

31-Dec-10

Unit: THB

Country or Geographic Area of Debtor	Loans and Accrued Interest Receivables							Investment in Debt Securities Classified as Doubtful loss
	Normal	Special Mentioned	Substandard	Doubtful	Doubtful Loss	Loss	Total	
1. Thailand	2,381,986,911.99	4,119,887.97	-	-	-	235,645,819.21	<b>2,621,752,619.17</b>	4,000,000.00
2. Asia Pacific (excluding Thailand)	-	-	-	-	-	-	-	-
3. North America & Latin America	-	-	-	-	-	-	-	-
4. Africa & Middle East	-	-	-	-	-	-	-	-
5. Europe	-	-	-	-	-	-	-	-
<b>Total</b>	<b>2,381,986,911.99</b>	<b>4,119,887.97</b>	-	-	-	<b>235,645,819.21</b>	<b>2,621,752,619.17</b>	<b>4,000,000.00</b>

**Table 10 : Provisions (General Provisions & Specific Provisions) and Bad Debts Written-off During the Period For Loans Including Accrued Interest Receivables & Investments in Debt Securities Classified by Country or Geographic Area**

Unit: THB

Country or Geographic Area of Debtor	Loans and Accrued Interest Receivables			Specific Provision for Investment in Debt Securities
	General Provision	Specific Provision	Bad Debt Written-Off During Period	
1. Thailand	37,700,827.64	91,459,560.81	11,829,435.78	4,000,000.00
2. Asia Pacific (exclude Thailand)	-	-	-	-
3. North America & Latin America	-	-	-	-
4. Africa, Middle East & Europe	-	-	-	-
<b>Total</b>	<b>37,700,827.64</b>	<b>91,459,560.81</b>	<b>11,829,435.78</b>	<b>4,000,000.00</b>

**Table 11: Loans & Accrued Interest Receivables Before Credit Risk Mitigation Classified by Type of Business**

Unit: THB

Type of Business	Normal	Special Mentioned	Substandard	Doubtful	Doubtful Loss	Loss	Total
Agriculture & Mining	-	-	-	-	-	-	-
Manufacturing & Commerce	282,404,050.55	-	-	-	41,258,834.23	-	<b>323,662,884.78</b>
Property and Construction	501,998,814.53	-	-	-	191,334,412.34	-	<b>693,333,226.87</b>
Public Utilities & Services	651,043,674.23	-	-	-	-	-	<b>651,043,674.23</b>
Housing	10,052,474.01	2,530,323.93	-	-	-	-	<b>12,582,797.94</b>
Others	936,487,898.67	1,589,564.04	-	-	3,052,572.64	-	<b>941,130,035.35</b>
<b>Total</b>	<b>2,381,986,911.99</b>	<b>4,119,887.97</b>	-	-	<b>235,645,819.21</b>	-	<b>2,621,752,619.17</b>

**Table 12: Provisions (General Provisions and Specific Provisions) and Bad Debt written-off During Period of Loans Including Accrued Interest Receivables Classified by Types of Business**

Unit: THB

Type of Business	31-Dec-10		
	General Provision	Specific Provision	Bad Debt Written-off During Period
Agriculture and Mining		-	-
Manufacturing and Commerce		16,839,928.66	11,829,435.78
Property and Construction		72,204,272.98	-
Public Utilities and Services		-	-
Housing		-	-
Others		2,415,359.17	-
<b>Total</b>	<b>37,700,827.64</b>	<b>91,459,560.81</b>	<b>11,829,435.78</b>

**Table 13: Reconciliation of Changes in Provisions for Classified Assets**

Unit: THB

Item	General Provision	Specific Provision	Total
Provisions at the beginning of the period	57,117,571.10	86,231,132.50	143,348,703.60
Bad Debts written-off during the period	-	11,110,860.10	11,110,860.10
Increases or decreases of provisions during the period	(19,416,743.46)	16,339,288.41	(3,077,455.05)
Other provisions (provisions for losses from foreign exchange, provisions for merger and sale of businesses)	-	-	-
Provisions at the end of the period	<b>37,700,827.64</b>	<b>91,459,560.81</b>	<b>129,160,388.35</b>

**Table 14: Outstanding Amounts of On-balance Sheet Assets and Off-balance Sheet Items By Type of Assets Under the Standardised Approach**

Unit: THB

Type of Asset	31-Dec-10		
	On-balance Sheet Assets	Off-balance Sheet Item	Total
<b>1. Performing Claims</b>			
1.1 Claims on sovereigns and central banks	3,093,660,049.05	-	3,093,660,049.05
1.2 Claims on non-central government public sector entities	295,557,797.00	-	295,557,797.00
1.3 Claims on multilateral development banks	-	-	-
1.4 Claims on banks	32,091,539.37	162,020.00	32,253,559.37
1.5 Claims on securities companies	-	20,000,000.00	20,000,000.00
1.6 Claims on corporate	2,451,413,696.57	902,221,721.14	3,353,635,417.71
1.7 Claims on retail portfolios	10,499,325.94	2,560,180.25	13,059,506.19
1.8 Residential mortgage exposures	12,582,797.94	-	12,582,797.94
1.9 Other assets	111,956,636.33		111,956,636.33
<b>2. Non-Performing Claims</b>	129,889,485.77	1,056,153.49	130,945,639.26
<b>3. First -to- default Credit Derivatives and Securitizations</b>			
<b>Total</b>	6,137,651,327.97	906,000,074.88	7,043,651,402.85

**Table 15: Outstanding of On-balance Sheet Assets and Off-balance Sheet Items After Credit Risk Mitigation for Each Type of Assets Classified by Risk Weight**

Unit: THB

Type of Asset	31-Dec-10							
	Rated Outstanding					Unrated Outstanding		
Risk Weight (%)	0	20	50	100	150	35	75	100
<b>Performing Claims</b>								
Claims on sovereigns and central banks	3,093,660,049.05	-	-	-	-	-	-	-
Claims on non-central government public sector entities (PSEs)	-	-	295,557,797.00	-	-	-	-	-
Claims on multilateral development banks	-	-	-	-	-	-	-	-
Claims on banks	-	32,151,859.37	-	101,700	-	-	-	-
Claims on securities companies	-	-	-	-	-	-	-	20,000,000.00
Claims on corporate	-	-	-	570,057,144.52	-	-	-	2,671,068,999.24
Claims on retail portfolios	-	-	-	-	-	-	4,629,902.43	250,080
Claims on housing loans	-	-	-	-	-	12,582,797.94	-	-
Other assets	5,525,737.99 <sup>Note 1</sup>	0 <sup>Note 2</sup>	-	-	-	-	-	132,351,641.01
<b>Non-Performing Claims</b>	-	-	-	-	-	-	-	130,945,639.26
<b>Items which BOT allows to deduct from capital of FIs</b>	-	-	-	-	-	-	-	-

Note<sup>1</sup> Cash in THB and foreign currency

Note<sup>2</sup> Cash in process of collection

**Table 16: Part of Outstanding that is Secured by Collateral under Standardised Approach Classified by Type of Assets and Collateral**

Unit: THB

Type of Asset		31-Dec-10	
		Eligible Financial Collateral	Guarantee and Credit Derivative
<b>Performing Assets</b>			
1.	Claims on sovereigns and central banks, multilateral development banks (MDBs), and non-central government public sector entities (PSEs) treated as claims on sovereigns	-	-
2.	Claims on financial institutions , non-central government public sector entities (PSEs) treated as claims on financial institutions, and securities firms	-	-
3.	Claims on corporates, non-central government public sector entities (PSEs) treated as claims on corporate	194,997,145.60	689,233,789.52
4.	Claims on retail portfolios	8,891,712.67	-
5.	Claims on housing loans	-	-
6.	Other Assets	-	-
<b>Substandard Assets</b>		-	-
<b>Total</b>		<b>203,888,858.27</b>	<b>689,233,789.52</b>

### 3.3 Market Risk

#### 3.3.1 Qualitative Disclosure

Market risk refers to risk of losses arising from changes in both on and off balance sheet positions as a result of any movement in market risk factors: exchange rates, interest rates, equity prices, credit spreads, and commodity prices. Market risk is derived from both banking book and trading book. The trading book comprises positions in financial instruments held for a short period, with the intention to sell to benefit from changes in prices.

Market risk management is the process by which the RHB Banking Group identifies, measures, monitors, controls and reports its market risk exposure.

The Group's Asset and Liabilities Committee (ALCO) performs a critical role in the management of market risks. The ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of market risks.

RHB Bank Thailand Operations' Treasury Head is responsible for managing all trading activities on a day-to-day basis within established trading limits.

For effective control of operations, defined management action triggers and risk limits are established and actively monitored. Market risk measures include conventional risk quantification methodologies such as risk factor sensitivity analysis and value-at-risk (VaR) measures.

#### 3.3.2 Quantitative Disclosure

**Table 17: Minimum Capital Requirement for Each Type of Market Risk Under The Standardised Approach**

Unit: THB	
Minimum Capital Requirement for Each Type of Market Risk Under The Standardised Approach	31-Dec-10
Interest Rate Risk	1,201,085.54
Equity Position Risk	-
Foreign Exchange Rate Risk	605,393.54
Commodity Risk	-
<b>Total Minimum Capital Requirements</b>	<b>1,806,479.08</b>

RHB Bank Thailand Operations did not have equity or commodity position as at 31<sup>st</sup> December 2010.

### 3.4 Interest Rate Risk in Banking Book

Interest rate risk in the banking book arises mainly from mismatches in re-pricing dates of interest sensitive assets and liabilities. In line with the RHB Banking Group Policy to achieve a balance between profitability from banking activities and minimizing risk to earnings and capital from changes in interest rates, RHB Bank Thailand Operations' exposure to interest rate risk is managed with the objective that profits will not be unduly impacted by the volatility of the interest rates.

Analysis of interest rate risk is performed by applying the re-pricing gap model to evaluate assets, liabilities, and off-balance sheet positions affected by interest rate movements based on the remaining contractual duration until maturity (for fixed interest rates) or until the subsequent interest rate adjustment (for floating interest rates).

Under the RHB Banking Group's Interest Rate Risk / Rate of Return & Risk Policy, interest rate risk to earnings is controlled using Management Action Triggers (MATs) and identified escalation procedures.

RHB Bank Thailand Operations is closely guided by the Bank of Thailand's Notification No. SorNorSor. 42/2008 Re. Supervision Guideline on Interest Rate Risk for Banking Book of the Financial Institutions dated 3<sup>rd</sup> August 2008, for the management of the interest rate risk in its banking book.

The effect of changes in interest rates to net earnings for position 31<sup>st</sup> December 2010 is shown below:

**Table 18 : The Effect of Changes in Interest Rates to Net Earnings**

Unit: %

Currency	31-Dec-10
	Effect to net earnings
Baht	1.19
USD	-0.27
EURO	-
Others (JPY)	-0.31
<b>Total effect</b>	<b>0.62</b>

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

### **3.5 Liquidity Risk**

Liquidity risk is the risk that arises primarily when the bank fails to meet its funding commitments due to its inability to convert its assets to cash, failure to find sufficient funding, or unavailability of funds at acceptable funding costs.

The RHB Banking Group's Asset and Liabilities Committee (ALCO) performs a critical role in the management of liquidity risks. The ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of liquidity risks and the Group's balance sheet profile.

RHB Bank Thailand's Liquidity Policy Statement sets out the framework for liquidity risk management and control, whereas the Liquidity Incident Management Plan covers contingency plans to address its liquidity incidents.

Liquidity is managed both quantitatively and qualitatively, involving monitoring of depositors' behavior, economic conditions, financial markets and competitive environments. The responsibility to manage liquidity risk on day-to-day basis rests on the Thailand Operations Treasury Head, under Head of Group Treasury's oversight.

RHB Bank Thailand Operations is guided by the Bank of Thailand's Notification No. SorNorSor. 41/2008 Re. Liquidity Risk Management of the Financial Institutions dated 3<sup>rd</sup> August 2008, for its liquidity risk management.

### **3.6 Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, and external events.

Each business and support unit of the RHB Banking Group owns and is responsible for understanding the operational risks inherent in its products, activities, processes and systems. They are aided in this function by the central risk coordination units which include the operational risk management function, the compliance function and the internal audit function.

The Operational Risk Management Framework of the RHB Banking Group comprises a broad range of activities and elements, broadly classified into:

(i) Analysis and Enhancement - The Group has implemented a Basel II compliant operational risk management system to support its workflow and analytical capabilities.

- (ii) Education and Awareness - This is aligned with the principle and requirement that the front-line business and support units of the Group are, by nature of their direct involvement in interfacing with customers and in operating the business, responsible for managing operational risk and acting as the first line of defense against operational losses.
- (iii) Monitoring and Intervention is where the principal head office risk control units actively manage operational non-compliances, incidents, and undertake recovery actions, including business continuity measures in cases of incidences causing disruption to business activities.

In this respect, RHB Bank Thailand Operations is also closely guided by the Bank of Thailand's Policy Statements on Operational Risk Management, and Business Continuity Management and Business Continuity Plans dated 3<sup>rd</sup> August 2008.

### **3.7 Reputational Risk**

The RHB Banking Group has developed and implemented a Reputational Risk Management Framework. The key elements for management of reputational risk include:

- Prompt and effective communication with all stakeholders,
- Strong and consistent enforcement of controls relating to governance, business compliance and legal compliance,
- Continuous monitoring of threats to reputation,
- Ensuring ethical practices throughout the organization,
- Establishing and continually updating crisis management plans.

### **3.8 Basel II Pillar II Internal Capital Assessment & Adequacy Process (ICAAP)**

The RHB Banking Group is also working towards adoption of the second pillar of Basel II, part of which involves the set up of an internal capital assessment process (ICAAP). The ICAAP will assess the levels of capital that the Group needs to hold in order to mitigate risk both in normal and critical conditions. Other type of risks that the Group is exposed to include beyond the Pillar I risks, the Group has to consider and mitigate for other risks that can affect its capital requirements, which includes credit concentration risk, interest rate risk on the banking book, liquidity risk, strategic risk, and reputational risk.

For RHB Bank Thailand Operations, the ICAAP Report for 2010 expected to be completed by 1<sup>st</sup> quarter 2011 required by the Bank of Thailand.

**End of Document**