

# RISK MANAGEMENT AND RISK FACTORS

## 1. Overall Risk Management

To provide a full range of financial services, KASIKORNBANK operates using the concept of a 'financial conglomerate', which includes subsidiary and associated companies offering other types of financial services, or support functions, respectively. In doing so, the Bank adheres to service principles that are the utmost in responsibility and accountability to all stakeholders and customers with regards to proper risk evaluation. The Bank's risk management policy consists of the following main elements:

- **Risk Management Principles**

The Bank's risk management includes credit, market, liquidity, operational, and other risk management. The principles of Risk-adjusted Return on Capital (RAROC) and Economic Profit are also used to measure risk management performance. The Bank operates under the following Risk Management principles:

- **Business Lines Accountable for Risk**

Business units own the risks assumed, and are responsible for continuous and active management of all risk exposures, so that risks and returns are optimally managed in line with the risk appetite. Meanwhile, support units, which provide services to core business units and share common business goals, are accountable for managing business-derived operational risks.

- **Independent Risk Controls**

An independent risk control process is implemented with the establishment of control functions responsible for providing an independent and objective view of risk-taking activities to safeguard the integrity of the entire risk process. In addition, these control functions are set to ensure that the risk level is in line with the risk appetite.

- **Defined Risk Management Policy**

The Risk Management Committee determines risk management policy under guidelines from the Bank's Board of Directors.

- **Integrated Risk Management**

The management of various kinds of risks incurred from all aspects of the Bank's business transactions is carried out in an integrated framework at all levels within the organization.

- **Risk-adjusted Performance Measurement**

The performance of business units is measured and evaluated on a risk-adjusted basis.

- **Risk Management Process**

To ensure effective risk management, the Bank has outlined a risk management process, which includes the following key steps:

- **Risk Identification**

Key risks are proactively identified in detail, including types and sources of risks, as well as other risk-related factors, both internal and external. Assessments and projections of the Bank's current and expected risks are also in place.

- **Risk Measurement**

Various models and methodologies for risk measurements suitable for different business characteristics are utilized. These models and methodologies are verified, approved and reviewed regularly.

- **Risk Monitoring and Control**

Risk measurement policies and appetites designated by the Bank's Board of Directors, which are implemented through various guidelines, procedures and risk limits, are continuously monitored.

- **Risk Reporting**

Timely and adequate risk reports covering all aspects of operations are required to ensure highest effectiveness in risk management.

Besides this, in order to avoid large financial losses, and to ensure continuity in business operations, the risk management process also takes into account both normal and crisis conditions.

- **Risk Management Structure**

The Bank's organization has been structured to facilitate all aspects of risk management, while each business unit's responsibilities and segregation of duties have been clearly identified in accordance with good internal-control practices. The Bank's overall risk management framework encompasses the following organizational structure:



- **The Bank's Board of Directors** has the ultimate responsibility for approving all risk management policies and guidelines, setting risk limits and risk appetites, and ensuring the establishment of effective risk management systems and procedures in line with international standards.

- **The Audit Committee** is responsible for reviewing risk management processes and the internal risk control system, ensuring their adequacy and effectiveness.

Furthermore, the Bank's Board of Directors has assigned the following committees and sub-committees to assist in managing various risks.

- **The Risk Management Committee** is responsible for overseeing and monitoring risk management policies and overall risk profile per the policies and guidelines approved by the Bank's Board of Directors.

- **The Asset and Liabilities Management Sub-Committee** is responsible for managing interest rate, liquidity and foreign exchange risks.

- **The Credit Policy Sub-Committee** is responsible for establishing credit policies that are in line with the Bank's strategies and credit risk appetite.

The day-to-day responsibility for measuring and monitoring all related risks has been delegated to the Internal Risk Management Department. This department is accountable for developing sophisticated risk management tools by converting all related risks into a single comparable term of capital. This concept enables the Bank to estimate and control the magnitude of various types of risks, set pricing that reflects the risk level of different customers and businesses, and allocate capital to properly reflect returns and risk levels.

## 2. Risk Management

### • Credit Risk Management

Credit risk refers to the risk that a counterparty or borrower may default on contractual obligations or agreements. Such a default may be caused by the counterparty's inability to pay because of financial encumbrances, or their intention not to abide by the agreements, resulting in a loss to the Bank.

### Credit Risk Management Guidelines

In managing credit risk, the Bank has adhered to international guidelines for compliance through the centralization of credit approval processes and separation of sales and credit decisions to promote the Bank's transparency, as well as checks-and-balances in credit processes. Credit-related staff all share the goals of attaining good credit quality and business development.

Furthermore, emphasis has been placed on credit operational efficiency via proper monitoring and control processes. Clear roles and responsibilities have been defined and disseminated to all staff levels, while clear guidelines and principles are used to add value in credit operations, improve the credit culture, and foster a common credit language. In addition, staff members have steadily received credit skills training to better serve customers, while automated operational and support systems of the highest standards and efficiency have been developed.

### Credit Policies and Credit Risk Management Tools

In order to define clear operational targets for staff, the Bank has established business strategies based on an acceptable risk appetite. These business strategies have been translated into a consistent set of credit policies and action plans that cover all customer segments and product lines. Proper qualifications for credit eligibility have been established within these policies and guidelines, which comply with, and go beyond, BOT rules and regulations.

In addition to the Bank's constant improvements in our credit risk management tools, especially in the aspect of customers' risk assessment and loan portfolio diversification, credit policies are regularly reviewed and updated to ensure that they are in line with the guiding principles and rationale, and are always available as a reference for staff through the Bank's online information systems. Customer risk rating tools have been developed and utilized to support credit underwriting and set appropriate pricing for each customer. As for performing business customers, their credit ratings are classified into twelve different ratings. Three additional ratings are set specifically for non-performing business customers. Regarding retail customers, credit scoring is in place to improve credit approval standards and efficiency. When calculating the return



on capital, the cost of funds and related operating expenses are included, as well as the expected loss component from the credit risk. In so doing, prices are set in accordance with each individual customer and customer segment, depending on the credit portfolio management of each business group.

Significant attention has also been given to the control of loan limit concentrations in different dimensions, i.e., industry, product type, customer characteristic and geographical location. Each credit limit dimension is continuously monitored on a monthly basis to make certain that loan portfolio quality is in line with the Bank's business plans.

In 2007, the Bank placed considerable emphasis on enforcement of credit policies among subsidiaries of KASIKORNBANKGROUP under the uniform standard of the Bank, in line with the consolidated supervision policy of the Bank of Thailand. This included continuing effort for development of tools for credit risk management, as evidenced from cooperation between the Bank and KASIKORN LEASING CO., LTD., in developing a credit scoring system for retail hire purchase credit approvals. These new tools should result in higher quality and more efficient credit approval procedures in light of a larger volume of transactions, as well as better asset quality controls.

The Bank, furthermore, has revised our credit risk management policy to facilitate various business operations, the offering of new products and services, and complex capital market transactions. Of notes are revisions in conditions or qualifications of customers eligible for dealer financing, thus leading to greater flexibility in credit underwriting process under the Bank's accepted risk appetite. As for some complex credit derivative products that are rather new in Thailand, e.g., Credit Default Swap (CDS), Credit Linked Notes and Swap guaranteed by CDS, the Bank has enforced a credit policy and limits for capital markets products, as an operational guideline for all concerned parties, for common understanding among them. The policy covers some key features of the products, objectives, risk exposures, risk mitigation, the counterparty risk rating criteria, as well as roles and duties of all involved departments. The Bank, in the meantime, has revised the criteria for Credit Support Annex (CSA), as a tool for mitigation of risks associated with derivative transactions. A threshold amount showing a maximum acceptable risk level, along with a minimum transfer amount, are clearly set, according to risk rating by internationally recognized rating

agencies. These will help reflect effectively the level of risk associated with each counterparty.

#### **Credit Underwriting and Approval Procedures**

The Bank's credit underwriting and approvals have been based on up-to-date data and information to facilitate transparent and standardized credit procedures, while approval processes have been designed to fit customers' unique needs in different segments. For example, for large-scale corporate customers, relationship managers with solid understanding of corporate financial needs and risks are assigned to help structure loan facilities that will not only meet customers' complex financial needs, but also with pricing appropriately set according to their risk ratings as quantified by our tools. Relationship managers are also responsible for preparing credit risk reports submitted to underwriters for loan approvals, while underwriters have different levels of authority for credit approvals.

For institutional clients, a similar credit underwriting and approval process has been employed, but with additional considerations of country risk ratings and transactions in money and capital markets, such as derivatives and investment transactions.

In the underwriting and approval processes of retail lending, which includes credit card services, plus personal, housing and retail business loans, the Bank utilizes a credit scoring system, which is based on the Bank's customer credit history. Emphasis has been placed on verification of personal data and assessing income-liability consistency for each case, with a main reference being the National Credit Bureau Co., Ltd. We also make sure that our underwriting and approval processes are concise and swift, thus meeting customers' needs and achieving their satisfaction.

In 2007, the Bank developed a swifter credit underwriting process, but still adhered strictly to a prudent control of acceptable risks. The Bank, moreover, continued developing the higher quality and more efficient credit approval procedures among subsidiary companies, notably the centralization of credit approvals for the customers of upcountry offices of KASIKORN LEASING CO., LTD.

#### **Post-Credit Approval Operations**

As for post-credit approval operations, the Bank has set up credit process centers and units nationwide for post-



credit approval operations in order to promote standardized and efficient operations. These centralized units are responsible for consolidating all required contracts and setting up credit lines, as well as maintaining lending agreements and collateral documents, plus supporting some important credit data for effective monitoring of credit quality. As a result, credit support functions in upcountry branches have been transferred to credit process centers located in every region across the country.

In 2007, the Bank initiated an upgrade plan for our credit monitoring procedures, which are divided into three areas: first, credit usage behavior monitoring; second, customers' business performance monitoring and covenant follow-ups; and third, debt servicing ability monitoring. The Bank's relationship managers will monitor and evaluate individual customer status in these areas on a regular basis, and/or when there are unexpected events affecting customer credit quality, such as currency fluctuations, or natural disasters. Such customer credit monitoring will enable us to take proper steps to maintain sound credit quality.

In addition, an intranet platform, the Collateral Appraisal Tracking (CAT) system, has been in place since 2006 to assist various analytical management tasks, allowing faster and more cost-efficient tracking of customers' collateral and collateral appraisals. In 2007, the Bank refined our collateral-related credit policy in accordance with the Basel II Capital Accord, as a clear guideline with details about collateral aging was added to make sure that the value of collateral covers the length of loan contracts. Lists of undesirable collateral were also specified, including debt and equity securities that have a significant positive correlation to the credit customers, or obligors. For instance, the Bank will not accept debt or equity securities issued by the obligor company as collateral for a loan.

#### **Risk Asset and Credit Process Review**

The Bank considers the review and evaluation of asset quality and credit processes as crucial to our aim of achieving the highest standards in credit management. This is the responsibility of the Risk Asset Review Department, having been assigned to review quality of the Bank's credit policy and processes, from the credit write-up, to underwriting, contract preparation, and monitoring of credit quality. The above responsibility includes the credit processes and

procedures as applied to the KASIKORNBANKGROUP's subsidiaries as well.

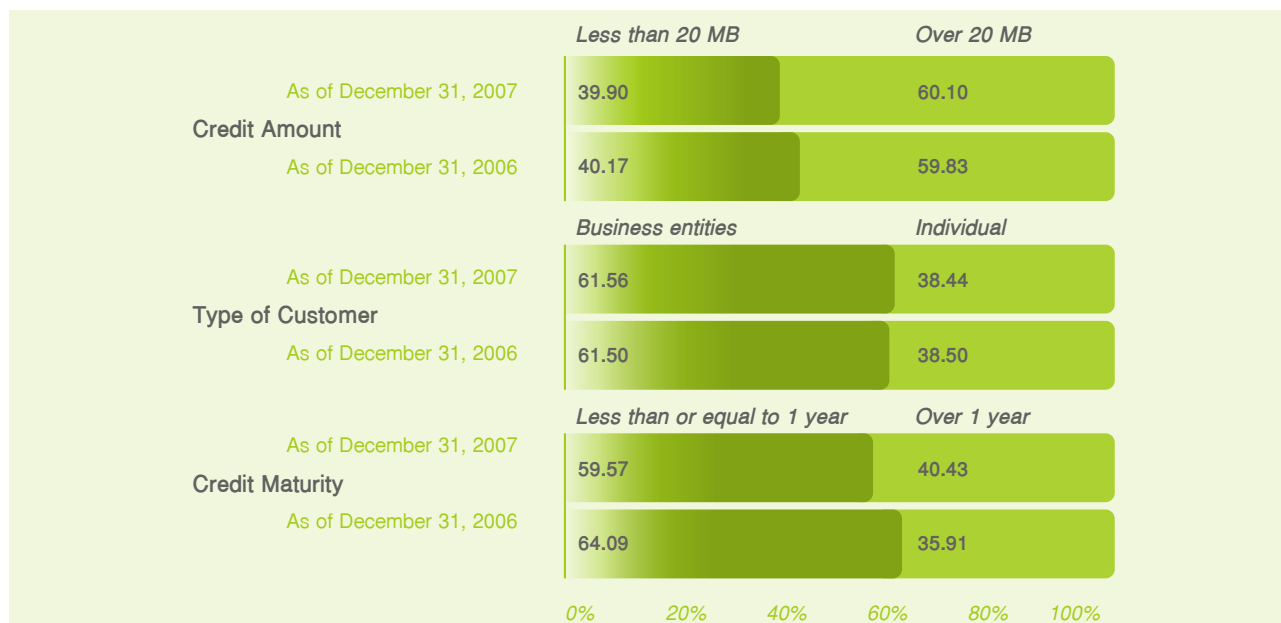
#### **• Outstanding Loans**

As of December 31, 2007, the Bank's consolidated outstanding loans stood at Baht 762,505 million, increasing by Baht 85,298 million, or 12.60 percent, over Baht 677,207 million at the end of 2006.

As of December 31, 2007, 60.10 percent of the Bank's outstanding loans to customers were loans exceeding Baht 20 million. Credit extended to the 20 largest borrowers, excluding Phethai Asset Management Company Limited and the companies in KASIKORNBANKGROUP, accounted for Baht 42,994 million, or 5.65 percent of the Bank's total loan portfolio, which is not high compared to total outstanding loans of the Bank. Classified by customer type, juristic persons accounted for Baht 468,697 million, or 61.56 percent of outstanding loans; while sole proprietorships and individual customer credit accounted for the remaining 38.44 percent. In terms of maturity, credit with maturities of less than or equal to 1 year accounted for 59.57 percent of the Bank's total loans.

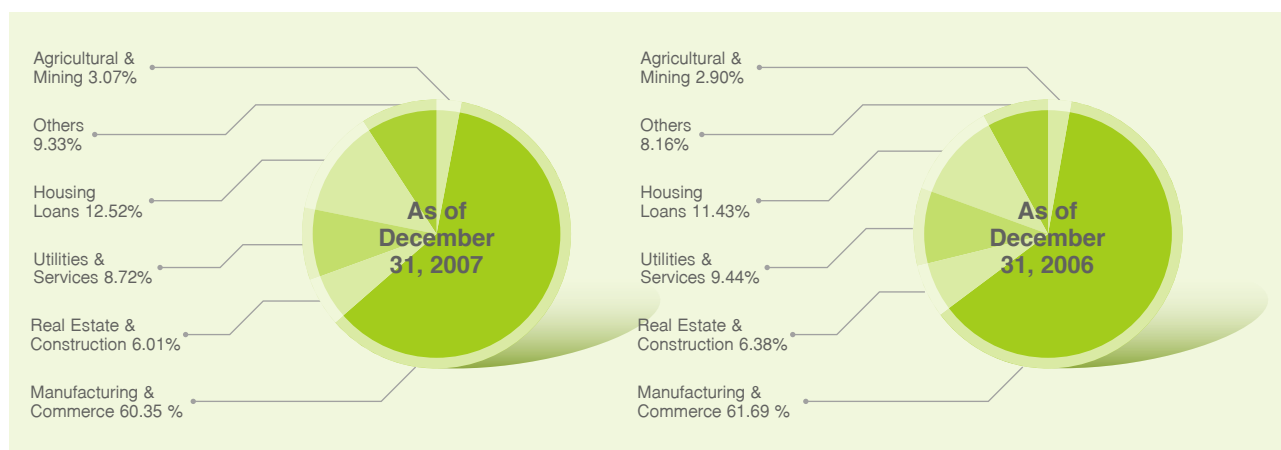


### The Bank's Consolidated Lending Portfolio - Profile



The Bank's consolidated lending portfolio, including accrued interest receivables, as of the end of 2007 and 2006, is depicted in the following:

### The Bank's Consolidated Lending Portfolio (including Accrued Interest Receivables)



#### • Non-performing Loans

As of December 31, 2007, the Bank's consolidated NPLs stood at Baht 34,980 million, equal to 4.44 percent of the total outstanding credit, including that of financial institutions. For Bank-only NPLs, the amount totaled Baht 31,915 million, accounting for 4.06 percent of the total outstanding credit, including that of financial institutions, which represented an over-year decline. These NPL figures are shown in the table below:



## Non-Performing Loans

( Units: Million Baht )

Year Ending	Dec. 31, 2007	Dec. 31, 2006
The Bank's consolidated NPLs	34,980	46,495
Percent of total outstanding credit, including that of financial institutions	4.44	6.85
The Bank-only NPLs	31,915	38,291
Percent of total outstanding credit, including that of financial institutions	4.06	5.67

The Bank of Thailand has required commercial banks to report additional information on NPLs, which includes:

- Net NPLs, which refer to non-performing loans after allowances are deducted.
- The ratio of net NPLs to total loans after deducting allowances for bad loans.

As of December 31, 2007, the Bank's consolidated net NPLs stood at Baht 17,600 million, equal to 2.29 percent of the total outstanding credit, including that of financial institutions. For the Bank-only net NPLs, the amount totaled Baht 15,776 million, accounting for 2.05 percent of the total outstanding credit, including that of financial institutions, which represents an over-year decrease. The net NPL figures are shown in the table below:

## Net Non-Performing Loans

( Units: Million Baht )

Year Ending	Dec. 31, 2007	Dec. 31, 2006
The Bank's consolidated net NPLs	17,600	27,282
Percent of total outstanding credit, including that of financial institutions	2.29	4.14
The Bank-only net NPLs	15,776	20,886
Percent of total outstanding credit, including that of financial institutions	2.05	3.18

In 2007, the Bank and our AMC entered into debt restructuring agreements with borrowers with pre-written-off outstanding debts totaling Baht 29,960 million. At the same time, the Bank-only pre-written-off outstanding debt amounted to Baht 28,944 million. The details of debt restructuring and losses from debt restructuring as of the end of 2007 and 2006 are shown in the following table:

## Debt Restructuring and Losses from Debt Restructuring

( Units: Million Baht )

Year Ending	Dec. 31, 2007	Dec. 31, 2006
Debt restructuring of the Bank and our AMC	29,960	31,830
Losses from debt restructuring	1,424	4,700
Debt restructuring of the Bank-only	28,944	28,536
Losses from debt restructuring	1,207	4,260

### • Allowance for Doubtful Accounts and Revaluation Allowance for Debt Restructuring

As of December 31, 2007, the Bank's consolidated allowances for doubtful accounts and revaluation allowance for debt restructuring totaled Baht 25,852 million. This amount was equivalent to 115.95 percent of the level required by the BOT. As for Bank-only allowances for doubtful accounts, the amount stood at Baht 24,247 million, which was equivalent to 113.34 percent of the level required by the BOT.



- **Foreclosed Properties**

As of December 31, 2007, the Bank's consolidated foreclosed properties had a cost value of Baht 17,343 million, accounting for 1.74 percent of total assets. At the same time, Bank-only foreclosed properties had a cost value totaling Baht 12,720 million, accounting for 1.28 percent of total assets.

Meanwhile, consolidated allowances for impairment of foreclosed properties stood at Baht 1,978 million, equivalent to 11.41 percent of the cost value of those foreclosed

properties. As for Bank-only figures, allowances for the impairment of foreclosed properties totaled Baht 1,467 million, representing 11.53 percent of the cost value of foreclosed properties. Current allowances, both consolidated and Bank-only, are believed to be sufficient to cover holding, maintenance and disposal expenses, as well as losses on the liquidation of foreclosed properties. The details of foreclosed properties and their associated allowances, as of the end of 2007 and 2006, are shown below:

#### Foreclosed Properties

( Units: Million Baht )

Year Ending	Dec. 31, 2007	Dec. 31, 2006
Consolidated foreclosed properties	17,343	18,727
Percent of total assets	1.74	2.00
Allowances for impairment of consolidated foreclosed properties	1,978	2,232
Percent of consolidated foreclosed properties	11.41	11.92
Bank-only foreclosed properties	12,720	13,435
Percent of total assets	1.28	1.43
Allowances for impairment of Bank-only foreclosed properties	1,467	1,796
Percent of Bank-only foreclosed properties	11.53	13.37

- **Phethai Asset Management Company Limited**

As of December 31, 2007, Phethai AMC had resolved and/or restructured NPLs amounting to Baht 70,262 million, or 95.00 percent of the total initial unpaid principal balance,

with an expected recovery rate of 48.00 percent. The details of NPL resolution and/or restructuring over the past five quarters are shown in the table below.

#### Loans Resolved/ Restructured at Phethai Asset Management Company Limited

( Units: Million Baht )

Quarter Ending	Dec. 31, 2007	Sep. 30, 2007	Jun. 30, 2007	Mar. 31, 2007	Dec. 31, 2006
<b>Phethai Asset Management Company Limited</b>					
Cumulative loans resolved/restructured	70,262	66,759	65,702	59,774	55,794
Percent of the total initial unpaid principal balance	95.00	90.00	89.00	80.76	75.44

- **Thai Asset Management Corporation (TAMC)**

The Bank has transferred the sub-quality debts of borrowers, who all had characteristics matching those in the Emergency Decree on the Thai Asset Management Corporation (B.E. 2544) and the Asset Transfer Agreement, to TAMC.

In exchange for the transferred assets, TAMC issued the Bank a 10-year, non-transferable, callable note, guaranteed by the Financial Institution Development Fund (FIDF). The notes' yields include an annual coupon, reset

quarterly, at the weighted average of deposit rates of five major Thai commercial banks, paid for by a 1-year, extendable, non-transferable, FIDF-guaranteed note.

Despite the asset transfer to TAMC, the Bank remains exposed to a proportion of risk in our share of TAMC's potential losses. According to the Emergency Decree on the Thai Asset Management Corporation (B.E. 2544) and the Asset Transfer Agreement, at the end of the fifth and tenth years dating from July 1, 2001, TAMC and the Bank would share





gains or losses arising from the resolution of the Bank's transferred assets.

During the year ending December 31, 2007, the Bank did not transfer any additional assets to TAMC. As a result, the total transferred assets, with a gross book value of Baht 14,557 million as of December 31, 2007, were priced at Baht 10,123 million. Meanwhile, the Bank recorded FIDF notes in payment, totaling Baht 10,123 million.

According to primary information as suggested by TAMC, the Bank had Baht 29 million losses arising from these sub-quality debt accounts.

- **Market Risk Management**

Market risk stems from changes in interest rates and exchange rates, as well as in securities and commodity prices, which can cause volatility in the Bank's income or the economic value of assets and liabilities of the Bank and K Companies, either at present or in the future.

#### **Market Risk Management Guidelines**

The Bank adheres to market risk management principles that are efficient and suitable for the changing environment, while asset and liability structures are properly managed, and market risk is controlled in accordance with the risk appetite. Also, the Bank's market risk management is set to comply with the BOT's requirements and related regulations, and with the policies controlled by the Risk Management Committee. In addition, transparency in our market risk management structure has continually been maintained, reflecting segregation of duties, while independence of risk control functions has been emphasized.

#### **Market Risk Management Procedures and Tools**

Core banking operations that are exposed to market risk can be divided into two major groups: asset and liability management activities, and trading book activities.

- **Market Risk in Asset and Liability Management Activities**

- **Interest Rate Risk Management**

The Assets and Liabilities Management Sub-committee (ALCO) is responsible for monitoring and controlling interest rate risk stemming from mismatches between the interest rate and the asset and liability structures of the Bank.

ALCO's objective is to generate the highest returns to the Bank, while maintaining risk within levels approved by the Risk Management Committee and the Board of Directors.

The Bank analyzes mismatches of repricing periods in assets and liabilities to evaluate the interest rate risk level. These sensitivity analyses are used to analyze the effect of changes in deposit, lending, money market and capital market rates on the Bank's interest income over the next twelve months, as well as on our financial position and off-balance-sheet items. With results obtained from these sensitivity analyses, the Bank's asset and liability structures, which are linked to various types of interest rates, are properly managed.

The Value-at-Risk (VaR) concept, a statistical tool that attempts to specify the probability distribution of risks by using historical data on relevant variables, is also employed to measure market risk. This helps forecast the potential maximum loss to the Bank at specified confidence levels. Furthermore, the Bank conducts stress testing, supplementing the VaR method, to enhance the thoroughness of risk measurement. Meanwhile, the Bank's interest rate risk management process has been developed in accordance with the BOT's interest rate risk supervision policy applied to financial institutions' banking books, enacted in 2006.

Analyses of financial assets and liabilities based on contractual repricing periods, as of the end of 2007 and 2006, are shown below:





Consolidated Financial Statement as of December 31, 2007

( Units: Million Baht )

	Immediate Repricing	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Non- interest bearing	Stop accrued	Total
<b>Financial Assets</b>								
Cash	-	-	-	-	-	18,051	-	18,051
Interbank and money market items	4,952	50,398	62	-	-	2,996	-	58,408
Securities purchased under resale agreements	-	10,700	-	-	-	-	-	10,700
Investment	18,432	1,633	16,737	31,112	17,763	12,176	1,469	99,322
Loans	552,810	85,304	1,087	34,624	27,711	8,945	52,024	762,505
Accrued interest receivables	-	-	-	-	-	1,263	-	1,263
Customers' liability under acceptances	-	-	-	-	-	1,462	-	1,462
Other assets	-	-	-	-	-	5,293	-	5,293
<b>Total</b>	<b>576,194</b>	<b>148,035</b>	<b>17,886</b>	<b>65,736</b>	<b>45,474</b>	<b>50,186</b>	<b>53,493</b>	<b>957,004</b>
<b>Financial Liabilities</b>								
Deposits	392,692	313,778	33,832	1,839	-	41,681	-	783,822
Interbank and money market items	1,677	8,763	600	343	-	2,802	-	14,185
Liabilities payable on demand	-	-	-	-	-	11,117	-	11,117
Borrowing	-	38,198	877	301	18,724	-	-	58,100
Bank's liability under acceptances	-	-	-	-	-	1,462	-	1,462
Other liabilities	-	-	-	-	-	6,107	-	6,107
<b>Total</b>	<b>394,369</b>	<b>360,739</b>	<b>35,309</b>	<b>2,483</b>	<b>18,724</b>	<b>63,169</b>	<b>-</b>	<b>874,793</b>
<b>Repricing gap of on-balance sheet items</b>	<b>181,825</b>	<b>(212,704)</b>	<b>(17,423)</b>	<b>63,253</b>	<b>26,750</b>	<b>(12,983)</b>	<b>53,493</b>	<b>82,211</b>



# Consolidated Financial Statement as of December 31, 2006

( Units: Million Baht )

	Immediate Repricing	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Non- interest bearing	Stop accrued	Total
<b>Financial Assets</b>								
Cash	-	-	-	-	-	18,411	-	18,411
Interbank and money market items	3,003	74,267	3,219	-	-	2,368	-	82,857
Securities purchased under resale agreements	-	22,200	-	-	-	-	-	22,200
Investment	10,538	17,160	3,686	30,895	23,727	16,577	2,041	104,624
Loans	490,824	89,540	11,558	19,909	4,706	1,365	59,304	677,206
Accrued interest receivables	-	-	-	-	-	1,813	-	1,813
Customers' liability under acceptances	-	-	-	-	-	525	-	525
Other assets	-	-	-	-	-	6,535	-	6,535
<b>Total</b>	<b>504,365</b>	<b>203,167</b>	<b>18,463</b>	<b>50,804</b>	<b>28,433</b>	<b>47,594</b>	<b>61,345</b>	<b>914,171</b>
<b>Financial Liabilities</b>								
Deposits	345,864	181,094	172,834	5,452	-	41,016	-	746,260
Interbank and money market items	2,246	11,271	1,067	800	-	2,305	-	17,689
Liabilities payable on demand	-	-	-	-	-	6,757	-	6,757
Borrowing	-	27,615	1,811	1,864	19,174	-	-	50,464
Bank's liability under acceptances	-	-	-	-	-	525	-	525
Other liabilities	-	-	-	-	-	9,389	-	9,389
<b>Total</b>	<b>348,110</b>	<b>219,980</b>	<b>175,712</b>	<b>8,116</b>	<b>19,174</b>	<b>59,992</b>	<b>-</b>	<b>831,084</b>
<b>Repricing gap of on-balance sheet items</b>	<b>156,255</b>	<b>(16,813)</b>	<b>(157,249)</b>	<b>42,688</b>	<b>9,259</b>	<b>(12,398)</b>	<b>61,345</b>	<b>83,087</b>



- **Equity Risk Management**

The Bank has no policy of adding to our equity investments, and has plans to reduce the size of these investments that are unrelated to our core financial business. In this endeavor, we will analyze relevant information and timing to ensure maximum benefit to the Bank.

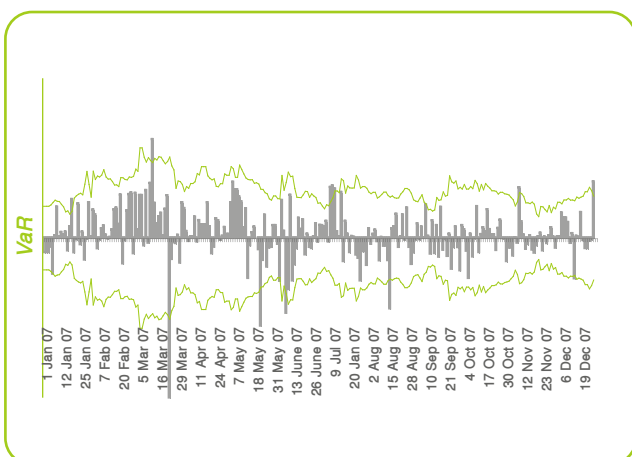
- **Market Risk in Trading Book Activities**

Trading book activities are handled under the guidance of the Bank's policy set particularly for activities that involve the purchase and sale of currencies, fixed-income securities and derivative instruments, as well as bond underwriting. The Capital Markets Business Division is responsible for managing risk status as a result of changes in interest rates, exchange rates and derivatives embedded under these transactions. In addition, the trading book activities include equity underwriting, whose risk status is under management by K Companies. All trading book activities are under the close supervision of the Internal Risk Management Department and the Risk Management Committee to ascertain that the aggregate risk of trading book activities is within limits. These limits are constantly monitored through the use of the Value-at-Risk Limit and Sensitivity Limit methods.

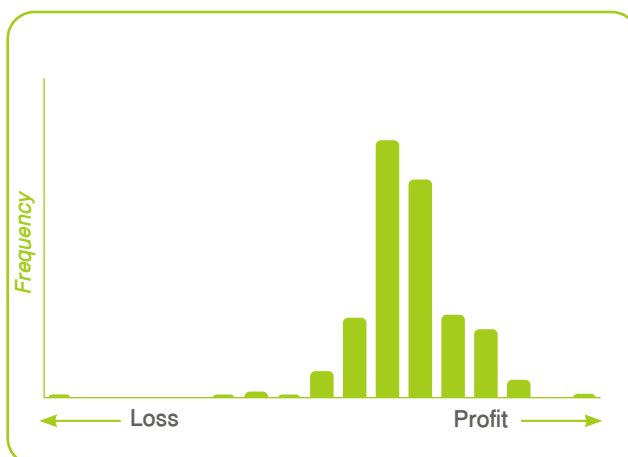
Furthermore, a stress-testing system has been developed to estimate potential losses caused by various shocks on the Bank's financial positions not captured in VaR calculations. In the stress-testing procedure, due attention is also paid to some 'Past Crisis Scenarios' and the adverse consequences thereof, e.g., the Asian economic crisis in 1997, and the 9/11 attacks in the U.S., etc. This stress-testing procedure also includes 'Hypothetical Crisis Scenarios', such as different change patterns of yield curves, etc. A testing procedure for the Bank's VaR model, known as 'Back Testing', has also been improved and implemented for sounder market risk measurement. In two charts below, the chart on the left shows a comparison between estimated results using the VaR method and hypothetical profits and losses. It was found that the differences between the two series were within a satisfactory range. In the meantime, the Bank also monitors the distribution of daily market risk-related gains and losses, as shown in the chart on the right, to complement our routine risk analyses. All of these analytical assessments confirm the efficiency of the Bank's risk management tools, thereby promoting efficient market risk management as being in line with international standards.

In 2007, the Bank planned to adopt the Capital Markets Business System for booking and the efficient management of risk.

**Back Testing for Trading Portfolio**



**Daily Market Risk-Related Gains and Losses**



In the purchase and sale of derivative products in 2007, the Bank entered more complex derivative transactions to meet the diverse demand of customers, such as Interest Rate Option, Foreign Exchange Option, Structured Notes, Credit Derivatives and Commodity Derivatives, etc. New, more sophisticated products have been developed, especially 'Exotic Derivatives', for which the Bank has to develop necessary platforms and procedures continuously for timely and suitable management of risks incurred from these new, more sophisticated products. We also plan to upgrade calculations of capital adequacy with respect to these complex derivatives and other financial instruments.

As for bond and equity underwriting, under management by KASIKORNBANKGROUP, in 2007, there was some large equity underwriting in property, as well as information and communication technology sectors. We, in this regard, have adopted the procedures for risk measurement and control, according to the limits as specified, under oversight and control by the Internal Risk Management Department and Risk Management Committee.

- **Interest Risk Management**

The Bank has entered transactions, such as Interest Rate Swap, to satisfy customer demand for interest rate risk management. Interest Rate Risk has been controlled under limits, by the Internal Risk Management Department and Risk Management Committee. Risk analysis, under the 'Value-at-Risk' method has also been adopted for effective management of interest rate risk.

- **Foreign Exchange Risk Management**

The Capital Markets Business Division manages the purchase and sale of foreign currencies on a daily basis, which can induce exchange rate risk, thereby affecting the Bank's profit and loss and financial status. The Bank has a policy of maintaining this risk at a low level by setting limits on foreign currency positions in accordance with the Bank's business and requirements of the BOT. These limits are kept under the close supervision of the Internal Risk Management Department and the Risk Management Committee. In addition, the Value-at-Risk (VaR) method is used to manage foreign exchange risk.

- **Liquidity Risk Management**

Liquidity Risk arises from a failure to meet obligations when they come due, because of an inability to convert assets into cash, or to obtain sufficient funds to meet cash needed with appropriate costs within a limited time period, which may then result in a loss to the Bank.

**Liquidity Risk Management Guidelines**

The Central Treasury Department is responsible for managing liquidity in order to meet cash needed by the Head Office and branches by managing highly liquid Baht and foreign currency assets, as well as balancing short-term and long-term funding alternatives. The Asset and Liability Management Sub-Committee (ALCO) is responsible for setting up policies and guidelines for managing liquidity, which must be complied with liquidity risk standards approved by the Risk Management Committee and the Board of Directors.

**Liquidity Risk Management Procedures and Tools**

In managing liquidity risk, the Bank has established appropriate levels of liquid assets that should be maintained to sufficiently meet cash needed when demand arises, and in line with the BOT guidelines. As of December 31, 2007, the Baht 183,001 million of liquid assets held by the Bank and subsidiaries consists of cash, interbank and money market items, securities purchased under resale agreements, and net investments in securities. This amount had decreased by Baht 42,439 million from the level as of December 31, 2006.

Future liquidity requirements are assessed by estimating expected cash inflows and outflows in different currencies based on both normal and crisis conditions, while relevant factors related to assets and liabilities, as well as contingent obligations, are also taken into account in this estimate. In addition, emergency funding plans mentioning processes for dealing with liquidity shortages during crises have been established to ensure that the problems are instantly solved without interrupting business operations.



Additionally, constant monitoring of changes in the balance sheet structure is another important procedure for liquidity risk management. Calculations and analyses of various liquidity ratios are conducted, as they are used as early-warning indicators to facilitate liquidity management and related decision-making. An important liquidity ratio is the Loan-to-Deposit Ratio, which stood at 97.28 percent as of December 31, 2007, increasing over 90.75 percent at the end of 2006.

Following the development of liquidity management tools for measurement and assessment of the current risk level, and for projection of risk from change in the future business environment and expansion since 2006, the Bank has put the tools in use from the second quarter of 2007 onward. These have enabled the Bank to manage more complex liquidity risks with a higher degree of precision, in line with the international standard. For 2008, the Bank has set a plan to review assumptions used for balance sheet management and to develop treasury product information, following the introduction of a new database system to replace the existing one, which is scheduled to be phased out within 2008.

The Bank has also more closely monitored changes in the operating environment, which, to a certain extent, might affect efficiency in liquidity risk management, especially the BOT's new monetary policy framework, enforced since January 17, 2007. The BOT, in this regard, would have to gradually open other liquidity windows, and to plan for shutdown of the central bank's repurchase market on February 12, 2008. To cope with possible changes more effectively, the Bank has redefined our risk management procedure in compliance with the new regulatory requirements in 2007. This includes preparation to cope with changes in market liquidity conditions as a result of an expanded limit for BOT bond issuances, including the possibility of a sizable issuance of debt instruments by other government agencies for funding mobilization. In addition, the government has planned for enactment of the Deposit Protection Agency Act in 2008, which might generate considerable impacts on the distribution of deposits between financial institutions and/or capital markets. The Bank, in this regard, has to develop some products and services under our Saving & Investing domain, in line with possible changes in customer demand in the future.

To seek out new tools for liquidity management, and to minimize concentration of funding sources, while providing saving alternatives for customers, the Bank issued bill of exchange (B/E) for retail customers during 2007. This included an ongoing issuance of short-term debentures under limits approved in shareholders' meetings.

Financial assets and liabilities, as of the end of 2007 and 2006, based on their contractual maturities, are shown below:



# Consolidated Financial Statement as of December 31, 2007

( Units: Million Baht )

	At call	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Non- maturity Items	Total
<b>Financial Assets</b>							
Cash	-	-	-	-	-	18,051	18,051
Interbank and money market items	8,214	50,194	-	-	-	-	58,408
Securities purchased under resale agreements	-	10,700	-	-	-	-	10,700
Investment	172	14,359	21,985	37,817	18,463	6,526	99,322
Loans	173,842	269,735	8,299	157,722	152,907	-	762,505
Accrued interest receivables	12	1,220	-	13	18	-	1,263
Customers' liability under acceptances	-	1,462	-	-	-	-	1,462
Other assets	-	1,086	-	-	-	4,207	5,293
<b>Total</b>	<b>182,240</b>	<b>348,756</b>	<b>30,284</b>	<b>195,552</b>	<b>171,388</b>	<b>28,784</b>	<b>957,004</b>
<b>Financial Liabilities</b>							
Deposits	434,373	313,778	33,812	1,859	-	-	783,822
Interbank and money market items	4,615	8,127	-	1,143	300	-	14,185
Liabilities payable on demand	11,117	-	-	-	-	-	11,117
Borrowing	-	38,198	877	301	18,724	-	58,100
Bank's liability under acceptances	-	1,462	-	-	-	-	1,462
Other liabilities	121	2,481	234	80	-	9,023	11,939
<b>Total</b>	<b>450,226</b>	<b>364,046</b>	<b>34,923</b>	<b>3,383</b>	<b>19,024</b>	<b>9,023</b>	<b>880,625</b>
<b>Liquidity-net</b>	<b>(267,986)</b>	<b>(15,290)</b>	<b>(4,639)</b>	<b>192,169</b>	<b>152,364</b>	<b>19,761</b>	<b>76,379</b>



# Consolidated Financial Statement as of December 31, 2006

( Units: Million Baht )

	At call	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Non- maturity Items	Total
<b>Financial Assets</b>							
Cash	-	-	-	-	-	18,411	18,411
Interbank and money market items	5,594	75,009	2,164	-	-	-	82,857
Securities purchased under resale agreements	-	22,200	-	-	-	-	22,200
Investment	446	18,243	8,812	41,800	30,582	4,741	104,624
Loans	157,919	262,247	7,867	120,895	128,278	-	677,206
Accrued interest receivables	40	1,525	-	100	148	-	1,813
Customers' liability under acceptances	-	525	-	-	-	-	525
Other assets	-	2,188	-	-	-	4,347	6,535
<b>Total</b>	<b>163,999</b>	<b>382,027</b>	<b>18,843</b>	<b>162,795</b>	<b>159,088</b>	<b>27,499</b>	<b>914,171</b>
<b>Financial Liabilities</b>							
Deposits	386,880	177,733	174,645	7,002	-	-	746,260
Interbank and money market items	4,588	10,734	1,067	1,100	200	-	17,689
Liabilities payable on demand	6,757	-	-	-	-	-	6,757
Borrowing	-	27,614	1,811	1,865	19,174	-	50,464
Bank's liability under acceptances	-	525	-	-	-	-	525
Other liabilities	109	2,944	520	78	-	5,738	9,389
<b>Total</b>	<b>398,334</b>	<b>219,550</b>	<b>178,043</b>	<b>10,045</b>	<b>19,374</b>	<b>5,738</b>	<b>831,084</b>
<b>Liquidity-net</b>	<b>(234,335)</b>	<b>162,477</b>	<b>(159,200)</b>	<b>152,750</b>	<b>139,634</b>	<b>21,761</b>	<b>83,087</b>





## ● Operational Risk Management

Operational risk refers to the risk of direct or indirect losses, resulting from inadequate or failed internal processes, people, operating and IT systems, or external events.

### Operational Risk Management Framework

Operational risk exists in all banking products, procedures, business units and IT systems, which can potentially incur losses to the Bank, as well as to our customers and shareholders. The Bank has placed great emphasis on effective operational risk management, and has continually improved our risk management framework to control and mitigate operational risk proactively. The objective of this framework is to implement effective operational risk management practices with a single standard that is systematically implemented across the entire KASIKORNBANK FINANCIAL CONGLOMERATE. In so doing, our management teams also gain an overall-operational risk profile as essential information for their decision-making and maintaining compliance with BOT regulations, as well as other relevant laws and international standards.

### Operational Risk Management Structure

All of our staff are accountable for operational risk management according to framework and policies established by the Internal Risk Management Department, which is overseen by the Risk Management Committee that also reviews and approves the operational risk management framework and guidelines for implementation within the Bank, plus at subsidiaries and associated companies that operate in financial or support businesses. Meanwhile, the Internal Audit Department, which is under the Audit Committee, is responsible for reviewing and validating the operational risk management framework to ensure the effectiveness, propriety and transparency of risk management within all of our units.

## Operational Risk Management Procedures and Tools

The Bank's procedures for operational risk management include risk identification, assessment, control and monitoring, as well as reporting. All of these processes are carried out periodically for accurate risk assessment and effective control to ensure that risk is within acceptable levels. Operational risk management tools and IT systems have been installed and improved upon continuously to effectively assess and monitor operational risk management. These tools include:

- **Risk and Control Self-Assessment (RCSA)**

The Bank employs self-assessment tools within our business to identify significant operational risk, as well as to effectively control and prevent losses. Risk management expertise is disseminated to employees to create awareness and aid in efficient management of day-to-day operations, while a great emphasis has been placed upon proactive management of operational risk before any loss incurs. In addition, the results of our risk assessments and controls are regularly reported to the Risk Management Committee to present an overall operational risk profile.

- **Operational Risk Event Database (RED)**

The Bank has implemented a database system and developed procedures to collect and report on operational risk events, along with analyses of the actual causes of a given risk and prevention of them. This helps avoid repetitions of such events and is essential to developing situational models for operational risk capital maintenance. The operational risk event database is also used as an important input for Risk and Control Self-Assessment.

- **Key Risk Indicators (KRI)**

In addition to indicators used by almost a hundred leading banks worldwide, the Bank has put into place various KRIs to effectively reflect the levels of risk arising from operational systems, employees and processes. In cooperation with business units that are susceptible to the risk, operational risk management staff identify KRIs and collect related information at regular intervals in order to monitor and track changes in the risk level over time, as well as serve as an early warning tool.



- **Business Continuity Management (BCM)**

Throughout 2007, the Bank has worked continuously on implementation of the Business Continuity Management (BCM) project, which we consider to potentially be a major tool to mitigate the severity and impacts of undesirable incidents or factors that could cause interruptions to our main operational systems – examples of such emergencies include flooding, storms, fire, terrorist attacks, epidemics and political unrest. We have established the “BCM Taskforce”, with members representing all relevant departments to monitor progress in BCM activities. This taskforce ascertains that the BCM project is effective and appropriate for handling any incidents that could occur. Although such incidents could cause suspension of our normal operations, we have to ensure that all critical business functions can be carried out uninterrupted, and the normal functions can be resumed in a timely manner.

In addition, other preparations include risk assessment, identification of critical business functions, business impact analyses, maximum allowable outage, business continuity management strategies selection, and business continuity plans. We have also tested all contingency plans to ascertain that critical business functions will continue to perform normally, even during unexpected catastrophes.

- **IT Systems for Operational Risk Management**

The Bank’s IT infrastructure has received continuous upgrades to support the development of our operational risk management framework, with the aim of enhancing our efficiency in risk management procedures and tools. In particular, these IT systems are important for recording data for later analysis and reporting on operational risk events.

Aside from this, the Bank has also undertaken assessments of operational risk in regards to new products and working procedures, to ensure that they have acceptable risk levels and that there are appropriate controls in place before they are introduced to the Bank’s customers. As for external fraud, the Bank has placed great importance on implementing security system to guard against risks inherent to major products such as credit cards, ATM cards and cheques, etc., for which the Bank has a special unit tasked with investigating irregular transactions and risk factors. The Bank has also installed state-of-the-art IT equipment and systems to thwart, recover from and/or reduce losses incurred by such crime.

Overall operational risk reports on the Bank’s products, together with reports on operational risk events, are regularly presented to the Risk Management Committee to keep the Committee abreast of current operational risk profiles, ensuring that our work in risk management is in line with the Bank’s related policies and international practices. Furthermore, in order to meet Basel II standards on capital reserves for operational risk, the Bank has collected data and prepared situational modeling to facilitate computations of the necessary capital reserves against this form of risk in the future. In addition, the Bank continues to develop, improve and upgrade our operational risk management tools, procedures and systems.

- **Other Risk Management**

- **Risks associated with Guarantees and Avals**

Certain transactions with customers are in the form of guarantees on their borrowing or performance, letters of credit, or avals on notes. Such transactions are considered to be lending, which requires submission of collateral. Regarding risk control in this area, the Bank uses the same criteria as used in the Bank’s normal credit approval processes. As of December 31, 2007, the Bank’s contingent obligations were Baht 93,921 million, compared to Baht 75,481 million at the end of December 2006.

- **Risks Incurred from Contractual Obligations on Derivative Instruments**

The Bank conducts various derivative transactions as tools for risk hedging, including exchange rate, interest rate, as well as the Bank’s securities price risks. To increase our income, the Bank also provides derivative instrument trading services to customers and business allies, as well as conducting our own derivative instrument trading in accordance with the Bank’s policies. As of December 31, 2007, the Bank had foreign exchange contracts on the purchase side of Baht 338,139 million, with Baht 372,471 million on the sales side, compared to Baht 199,041 million and Baht 308,301 million, respectively, at the end of December 2006. In addition, the Bank had interest rate contracts on the purchase side of Baht 386,792 million and Baht 402,904 million on the sales side, compared to Baht 228,869 million and Baht 212,955 million, respectively, at the end of December 2006.



- **Risks Related to Capital Adequacy**

As of December 31, 2007, the Bank's capital adequacy ratio, including the risk assets of Phethai AMC, was at 14.62 percent, which is significantly above the BOT minimum requirement of 8.50 percent. To ensure that our current capital level is fairly sufficient to absorb possible impacts from any change in the economic situation and BOT's regulations, for the present and future, the Bank continues to manage and monitor capital adequacy closely.

- **Preparations for the 'Basel II' Capital Accord**

In order to ensure that financial institutions' capital reserves adequately cover and better reflect risks, the BOT has designated that Basel II standards on capital adequacy, comprising Pillar 1 (Minimum Capital Requirements), Pillar 2 (Supervisory Review Processes) and Pillar 3 (Market Discipline), shall be implemented at banking institutions in Thailand as of 2008 year-end.

The Basel II project has proceeded as planned under the responsibility of the Basel II Project Taskforce, which is composed of representatives from all relevant divisions. This is under the supervision of the Bank's Risk Management Committee. The Bank has continuously enhanced both our organizational structure and information systems to ensure compliance with the Basel II standards. Capital per Basel II criteria has been reported to the Risk Management Committee for internal management on a monthly basis since January 2007, and starting in 2008, the Bank will submit parallel-run reports on capital using current criteria along with the Basel II-type report to the BOT on a quarterly basis for one-year in advance of full implementation effective by the end of 2008.

Also, in 2007, the Bank has representatives participating in a working team established by the Thai Bankers' Association in cooperation with the Bank of Thailand. This team has been an important channel for sharing information and experiences about Basel II preparations among commercial banks and the BOT, paving the way for a smooth transition to the new capital standards.

For 2008, the Bank will continue our project to ensure ongoing development, whereas for Pillar 1 - the Minimum Capital Requirements - we will continue to enhance our risk management tools and ensure other preparations for advance criteria. For Pillar 2 - Supervisory Review Processes - the Bank will ensure continuing improvements in our risk management systems and procedures. And for Pillar 3

- Market Discipline - we encourage transparency in informational disclosures to investors and all related parties concerning risk assessments associated with our banking operations. All these steps have been taken into consideration for compliance with other international standards, such as International Accounting Standard No. 39 (IAS 39), to ensure regulatory compliance and, moreover, best practice in risk management.

- **Performance Measurement using Risk-adjusted Return on Capital (RAROC) and Economic Profit**

Throughout 2007, the Bank continued with development of the Value-based Management (VBM) framework and efforts to put it into practice. With the VBM framework, the Bank is confident that the highest value creation will be achieved for our shareholders through the adoption of Risk-adjusted Return on Capital (RAROC) and Economic Profit (EP). Economic Profit shows net profit after adjusting for both the risk charge and the cost of capital. We have developed both tools and procedures for the more accurate measurement of EP and value-added. This work included adjustments in our core internal management procedures, such as strategic planning, value-based business targeting, business planning, and resource allocation, appropriate for and consistent with growth strategies for attainment of long-term value-added and risk-based pricing strategy. Also, the Bank has started measuring our performance and analyzing our value-based profits expressed in the dimensions of customer segments, product domains and individual products, by continually promoting common understanding towards key value drivers among all concerned. Meanwhile, related business units have adopted the value-based analysis for assessment of business viability of products and investment projects, for the measurement of returns at appropriate risk levels considered acceptable to the Bank. Next, we will move on to the adoption of VBM principles across the whole KASIKORNBANKGROUP.

