

Capital Fund

Item 1: Capital structure

Unit: THB

Items	30/Sep/2011	31/Mar/2011
1 Assets required to be maintained under Section 32	30,177,401,530.95	27,828,913,389.96
2 Sum of net capital for maintenance of assets under Section 32 and net balance of inter-office accounts (2.1+2.2)	53,371,891,237.58	56,321,686,339.29
2.1 Capital for maintenance of assets under Section 32	29,195,169,013.37	27,828,913,389.96
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	24,176,722,224.21	28,492,772,949.33
3 Total regulatory capital (3.1-3.2)	29,195,169,013.37	27,828,913,389.96
3.1 Total regulatory capital before deductions (The lowest amount among item 1 item 2 and item 2.1)	29,195,169,013.37	27,828,913,389.96
3.2 Deductions	-	-

Item 2: Capital adequacy

Table 1: Minimum capital requirement for credit risk classified by type of assets under the Standardized Approach (SA)

Unit: THB

Minimum capital requirement for credit risk classified by type of assets under the SA	30/Sep/2011	31/Mar/2011
Performing claims		
1 Claims on sovereigns and central banks, multilateral development banks (MDBs), and non-central government public sector entities (PSEs) treated as claims on sovereigns	1,076,170,486.92	1,156,925,719.28
2 Claims on financial institutions, non-central government public sector entities (PSEs) treated as claims on financial institutions, and securities firms	893,420,430.59	671,238,154.30
3 Claims on corporate, non-central government public sector entities (PSEs) treated as claims on corporate	9,606,982,938.64	9,167,627,695.73
4 Claims on retail portfolios	592,747.08	616,242.58
5 Claims on housing loans	-	-
6 Other assets	23,054,189.57	24,008,706.36
Non-performing claims	984,520.36	1,860,765.67
First-to-default credit derivatives and Securitizations	-	-
Total minimum capital requirement for credit risk under the SA	11,601,205,313.15	11,022,277,283.92

Table 2: Minimum capital requirement for market risk for positions in the trading book (Standardized measurement approach)

Unit: THB

Minimum capital requirement for market risk (positions in the trading book)	30/Sep/2011	31/Mar/2011
Calculate by Standardized approach	310,163,027.50	259,292,755.94
Total minimum capital requirement for market risk	310,163,027.50	259,292,755.94

Table 3: Minimum capital requirement for operational risk (BIA)

Unit: THB

Minimum capital requirement for operational risk	30/Sep/2011	31/Mar/2011
Calculate by Basic Indicator Approach	598,589,382.34	613,231,968.91
Total minimum capital requirement for operational risk	598,589,382.34	613,231,968.91

Table 4: Total risk-weighted capital ratio

Unit: %

Ratio	30/Sep/2011	31/Mar/2011
Total capital to risk-weighted assets	17.50%	17.55%

Market risk exposures

Market risk under the Standardized Approach

Unit: THB

Minimum capital requirements for market risk under the Standardized Approach	30/Sep/2011	31/Mar/2011
Interest rate risk	280,988,942.36	238,312,029.58
Equity position risk	-	-
Foreign exchange rate risk	29,174,085.14	20,980,726.36
Commodity risk	-	-
Total minimum capital requirements	310,163,027.50	259,292,755.94

Location of Basel II disclosures of Sumitomo Mitsui Financial Group

Risk Management :	http://www.smfg.co.jp/english/investor/library/annual/h2303annu_pdf/h2303_e_14.pdf
Capital Ratio Information : SMFG	http://www.smfg.co.jp/english/investor/library/annual/h2303annu_pdf/h2303_e_43.pdf
Capital Ratio Information : SMBC	http://www.smfg.co.jp/english/investor/library/annual/h2303annu_pdf/h2303_e_44.pdf



**SUMITOMO MITSUI
BANKING CORPORATION**
Bangkok Branch

**Pillar III Disclosures
2010**

as at March 31, 2011



Introduction	1
Disclosure A : Scope of application	2
Disclosure B : Capital	
<hr/>	
1. Capital Structure	2
2. Capital Adequacy	4
Disclosure C : Risk exposure and assessment	
<hr/>	
1. General Qualitative Disclosure	6
2. Qualitative and Quantitative Disclosures for each type of risk	8
Credit Risk	
<hr/>	
Qualitative Disclosure	
Item 1 : General information on credit risk	8
Item 2 : Credit risk exposures classified by credit risk-weighted assets calculation approach chosen by commercial banks	13
Item 3 : Credit risk mitigation under the SA	14
Quantitative Disclosure	15
Market risk	
<hr/>	
Qualitative Disclosure	25
Quantitative Disclosure	27
Operational Risk	
<hr/>	
Qualitative Disclosure	27
Quantitative Disclosure	28
Equity Exposure in banking book	28
<hr/>	
Interest Rate Risk in the banking book	
<hr/>	
Qualitative Disclosure	29
Quantitative Disclosure	30
Tables	
<hr/>	
Table 1 Capital of Foreign Bank Branches	3
Table 2 Minimum capital requirement for credit risk classified by type of assets under the SA	4

Table 3	Minimum capital requirement for market risk for positions in the trading book (SA)	5
Table 4	Minimum capital requirement for operational risk (BIA)	5
Table 5	Total risk-weighted capital ratio	5
Table 6	Outstanding amounts of significant on-balance sheet assets and off-balance sheet items before adjusted by credit risk mitigation	15
Table 7	Outstanding amounts of on-balance sheet assets and off-balance sheet items before adjusted credit risk mitigation classified by country or geographic area of debtor	16
Table 8	Outstanding amounts of on-balance sheet assets and off balance sheet items before credit risk mitigation classified by residual maturity	17
Table 9	Outstanding amounts of loans including accrued interest receivables and investment in debt securities before adjusted by credit risk mitigation classified by country or geographical area of debtor and asset classification as prescribed by the Bank of Thailand	18
Table10	Provisions (General provision and Specific provision) and bad debt written-off during period for loan including accrued interest receivables and investment in debt securities classified by country or geographic area	19
Table11	Outstanding amount of loans including accrued interests before adjusted by credit risk mitigation classified by type of business and by asset classification specified by the Bank of Thailand	20
Table12	Provisions (General provision and Specific provision) and bad debt written-off during period for loans including accrued interest receivables classified by types of business	21
Table13	Reconciliation of change in provisions (General provision and Specific provision) for loans including accrued interest receivables	21
Table14	Outstanding amounts of on-balance sheet assets and off-balance sheet Items classified by type of assets under the SA	22
Table15	Outstanding amount of net on-balance sheet assets and off-balance sheet items after adjusted by credit risk mitigation for each type of asset, classified by risk weight under the SA	23
Table16	Part of outstanding that is secured by collateral under SA classified by type of assets and collateral	24
Table17	Minimum capital requirements for each type of market risk under the Standardized Approach	27
Table18	Equity exposures in banking book	29
Table19	The effect of changes in interest rates to net earnings	30



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

Introduction

The ongoing capital requirements for international banks are now governed on an overall basis by a capital accord formulated by the Basel committee on Banking Supervision, known as Basel II. The Basel II framework describes a more comprehensive measure and minimum standards for capital adequacy to ensure that a bank hold capital reserves appropriate to the risk. This requirement involves a three-pillar approach, with each individual Pillar being an important and mutually reinforcing element in determining the overall capital which an institution needs to have in place.

- Pillar I is **Minimum Capital requirement**, deals with maintenance of regulatory capital calculated for three major components of risk which is credit risk, market risk and operational risk.
- Pillar II is **Supervisory Review**, deals with the regulatory response to the first pillar and all other risks that bank face. This enables capture of other wider general risks to ensure the bank management is exercising sound judgment and has set aside adequate capital for these risks.
- Pillar III is **Market Discipline**, to promote transparency in disclosing information on capital fund maintenance and risk management, enabling outsiders or market participants to use such information in assessing the risk profile of each bank to build up a sound risk management system,

In the case of banks in Thailand, the Bank of Thailand (BOT) introduced a new capital management framework in 2006. Sumitomo Mitsui Banking Corporation, Bangkok Branch adopted these new guidelines (Pillar I) with effect from 31 December 2008.

In compliance with the BOT guidelines, Pillar III, banks shall disclose qualitative and quantitative information regarding the supervisory on capital funds, risk level, risk assessment processes, and capital adequacy of the bank. Disclosure report will be regularly prepared on semi-annual basis which is 30 September and 31 March, starting from September 2009.

This annual disclosure report provides more explanatory details on the branch's risk management and the measures adopted to monitor and report within this framework. Detailed in this report are the major components of capital structure, the key risk exposures and the associated capital requirements. The qualitative disclosures in this report will be updated on an annual basis and more frequently if there are significant changes in risk management policy of the bank during the disclosure period.

It is important to note that some quantitative figures have been prepared in accordance with the new regulatory capital requirement framework as per the BOT guidelines, rather than in accordance with Thai Accounting Standards (TAS). Therefore, information in the disclosure is not directly comparable with information in the Annual Report.



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

Disclosure A: Scope of application

The information disclosures of SMBC, Bangkok Branch as of March 31, 2011 are available on a standalone basis within four month from the end of accounting period on the SMBC website at URL: <http://www.smbc.co.jp/global/bangkok/index.html>, whereas the Pillar III disclosure of Sumitomo Mitsui Financial Group on a consolidated basis are available on website at <http://www.smfg.co.jp/english/investor/library/annual.html>.

The bank has adopted the Standardized Approach (SA) for measuring credit risk and market risk and Basic Indicator Approach (BIA) for operational risk in order to compute its regulatory capital requirements.

Disclosure B: Capital

1. Capital Structure

Qualitative Disclosure: As of March 31, 2011, the total regulatory capital was THB 27,829 million which consist of assets or securities maintain according to Section 32 of Financial Institutions Businesses Act B.E.2551.

The total assets maintained under Section 32 of the branch were comprised of Thai government securities, bonds issued by the Bank of Thailand, deposits and debt instruments with state organizations or state enterprises established under a specific law or other state enterprises as approved by the bank of Thailand



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

Capital

Capital Structure

Table 1 : Capital of Foreign Bank Branches

Unit : THB

Item	31-Mar-2011	30-Sep-2010
1. Assets required to be maintained under Section 32	27,828,913,389.96	29,452,405,960.38
2. Sum of net capital for maintenance of assets under Section 32 and net balance of inter-office accounts (2.1+2.2)	56,321,686,339.29	33,419,564,574.50
2.1 Capital for maintenance of assets under Section 32	27,828,913,389.96	27,877,931,408.73
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	28,492,772,949.33	5,541,633,165.77
3. Total regulatory capital (3.1-3.2)	27,828,913,389.96	27,877,931,408.73
3.1 Total regulatory capital before deductions (The lowest amount among item 1 item 2 and item 2.1)	27,828,913,389.96	27,877,931,408.73
3.2 Deductions	-	-



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

2. Capital Adequacy

Qualitative Disclosure: The Bank has always understood the fundamental role of capital in supporting the risks that arising from its business activities. The Bank will at all times ensure the sufficiency of levels of capital adequacy according to the local authorities.

Regulatory capital is monitored by the Basel II team and daily information is provided to the management and relevant departments. The current regulatory capital is included in the Assets & Liabilities Management Committee (ALM) meeting on monthly basis.

Besides of the above, SMBC Bangkok Branch also conducts daily monitoring of deduction items from the capital funds according to Bank of Thailand's notification i.e. assess fair values at end of day of prior working day of all derivatives transactions and securities, monitor net inter-office balance as well as assess estimated capital adequacy of the bank before undertaking additional derivatives transactions.

Capital

Capital adequacy

Table 2 Minimum capital requirement for credit risk classified by type of assets under the SA

Unit : THB

Minimum capital requirement for credit risk classified by type of assets under the SA	31-Mar-2011	30-Sep-2010
Performing claims		
1. Claims on sovereigns and central banks, multilateral development banks (MDBs), and non-central government public sector entities (PSEs) treated as claims on sovereigns	1,156,925,719.28	1,148,567,061.78
2. Claims on financial institutions , non-central government public sector entities (PSEs) treated as claims on financial institutions, and securities firms	671,238,154.30	429,203,542.49
3. Claims on corporates , non-central government public sector entities (PSEs) treated as claims on corporate	9,167,627,695.73	8,939,899,794.16
4. Claims on retail portfolios	616,242.58	493,789.95
5. Claims on housing loans	-	-
6. Other assets	24,008,706.36	23,109,130.49
Non-performing claims	1,860,765.67	1,157,751.83
First-to-default credit derivatives and Securitisation	-	-
Total minimum capital requirement for credit risk under the SA	11,022,277,283.92	10,542,431,070.70



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

Table 3 Minimum capital requirement for market risk for positions in the trading book (SA)

Unit : THB

Minimum capital requirement for market risk (positions in the trading book)	31-Mar-2011	30-Sep-2010
Calculate by SA	259,292,755.94	295,409,432.32
Total minimum capital requirement for market risk	259,292,755.94	295,409,432.32

Table 4 Minimum capital requirement for operational risk (BIA)

Minimum capital requirement for operational risk	31-Mar-2011	30-Sep-2010
Calculate by BIA	613,231,968.91	631,750,104.46
Total minimum capital requirement for operational risk	613,231,968.91	631,750,104.46

Table 5 Total risk-weighted capital ratio

Ratio	31-Mar-2011	30-Sep-2010
Total regulatory capital	27,828,913,389.96	27,877,931,408.73
Risk-weighted assets :		
Credit Risk	146,963,697,118.88	140,565,747,609.33
Market Risk	3,457,236,745.86	3,938,792,430.80
Operational Risk	8,176,426,252.17	8,423,334,726.08
Total risk-weighted assets	158,597,360,116.91	152,927,874,766.21
Total capital to risk-weighted assets	17.55%	18.23%



Disclosure C: Risk exposure and assessment

1. General Qualitative Disclosure

Basic Policies for Risk Management: SMFG’s Groupwide basic policies for risk management stipulate the fundamental principles for risk management that must be followed, and spell out risk management procedures from various perspectives. These includes managing risks on a consolidated accounting basis, managing risk using quantification methods, ensuring consistency with business strategies, setting up a system of checks and balances, contingency planning for emergencies and serious situations. In addition, there are specific operational policies for implementing appropriate management of risk by all Group companies.

Type of Risk to be managed: SMFG classify risk into the following categories (1) credit risk, (2) market risk, (3) liquidity risk, (4) operational risk (including processing risk and systems risk). In addition, the groups provide individually tailored guidance to help Group companies identify categories of risk that need to be addressed. Risk categories are constantly reviewed, and new categories may be added in response to changes in the operating environment. The Corporate Risk Management department works with the Corporate Planning Department to comprehensively and systematically manage all these categories of risk across the entire Group.

Risk Management Framework

The types of risk subject to control		Departments in charge
Credit Risk		Credit & Investment Planning Dept.
Market Risk		Corporate Risk Management Dept.
Liquidity Risk		
Operational Risk		General Affair Dept
	Processing risk	Operations Planning Dept
	Systems risk	IT Planning Dept
Settlement risk		Operations Planning Dept
		Corporate Risk Management Dept.
		Credit & Investment Planning Dept.



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

Risk Management System: Top management plays an active role in determining SMFG's Groupwide basic policies for risk management. The basic policies for risk management are determined by the Management Committee before being authorized by the Board. The Management Committee, the designated Board members, and the relevant risk management department perform risk management according to the basic policies.

Risk management systems are in place at the individual Group companies in accordance with SMFG's Groupwide basic policies for risk management. Each risk category is managed taking into account the particular characteristics of that category. In addition, the Corporate Risk Management Department –independent of the operating units-comprehensively and systematically manages all categories of risk in cooperation with the Corporate Planning Dept. Furthermore, under our system top management plays an active role in the drafting of basic policies for risk management. The decision-making process for addressing credit, market and liquidity risks at the operating level is strengthened by the Credit Risk Management Committee and the Market Risk Management Committee. The Management Committee is also attended by the relevant department heads.

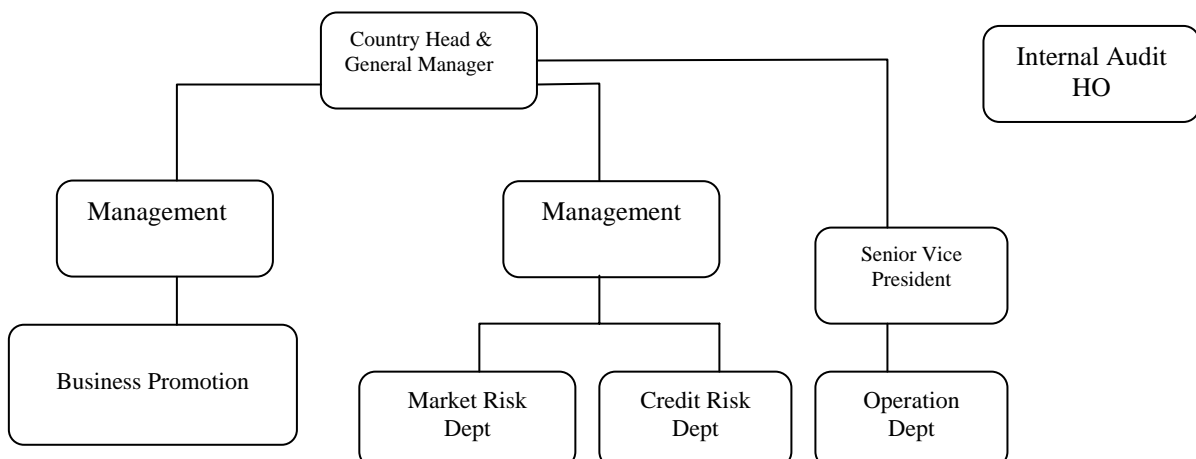
In Thailand, the branch has in place a structure to ensure responsibilities are clear for the management of all significant risks. The management is responsible for oversight the Risk Committees. As part of this responsibility, the committee reviews and monitors the most significant risk issues, reporting issues of the greatest significance to the Country Head & General Manager of the branch.

Risk Committees – The bank has established Risk Committees, which report to the Country Head & General Manager of the branch. These Committees have responsibilities for considering the risks to which the Bank is exposed.

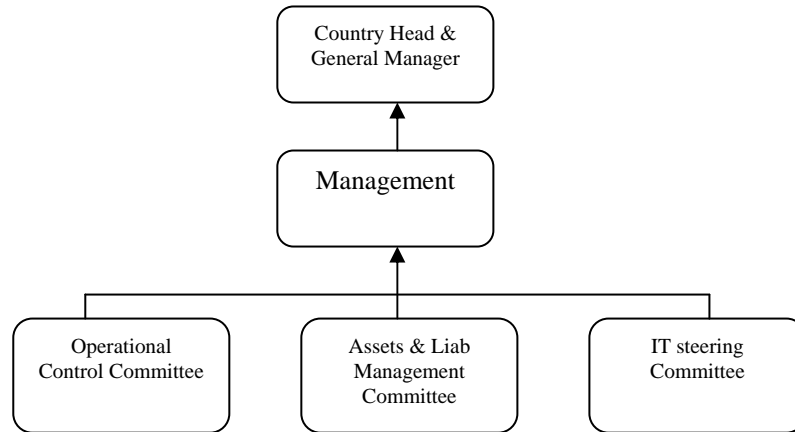
- Market Risk and Liquidity Risk issues are monitored at the Assets and Liability Management Committee.
- Operational Risk is monitored at the Operational Control Committee.

In addition to that, the branch also establish the IT Steering Committee, which is primarily responsible for examining IT projects and IT policies and strategics including global initiatives and how these apply to the Bank.

Organization Chart of Bangkok Branch



The Committee’s structure is represented in the diagram below



2. Qualitative and Quantitative disclosures for each type of risk

Credit Risk

Qualitative Disclosure :

Item 1: General information on credit risk

1. Basic Approach to Credit Risk Management

1.1 Definition of Credit Risk

Credit risk is the possibility of a loss arising from a credit event, such as deterioration in the financial condition of a borrower, that causes an asset (including off-balance sheet transactions) to lose value or become worthless.

Overseas credits also include an element of country risk, which is closely related to credit risk. This is the risk of loss caused by changes in foreign exchange, or political or economic situations.

1.2 Basic Framework of Credit Risk Management

Credit risk is the most significant risk to which SMBC is exposed. Without effective credit risk management, the impact of the corresponding losses on operations can be overwhelming.

The purpose of credit risk management is to keep credit risk exposure to a permissible level relative to capital, to maintain the soundness of Bank’s assets, and to ensure returns commensurate with risk. This leads to a loan portfolio that achieves high returns on capital and assets.



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

1.3 Credit Policy

SMBC's credit policy comprises clearly stated universal and basic operating concepts, policies, and standards for credit operations, in accordance with the business mission and rules of conduct.

SMBC is promoting the understanding of and strict adherence to its credit policy among all its managers and employees. By conducting risk-sensitive credit management, SMBC aims to enhance shareholder value and play a key part in society by providing high-value-added financial services.

2. Parties Involved in Credit Risk Management

At SMBC, the Credit & Investment Planning Department (**CIPD**) is responsible for the comprehensive management of credit risk. **CIPD** drafts and administers credit policies, the internal rating system, credit authority guidelines, credit application guidelines, and manages non-performing loans (NPLs) and other aspects of credit portfolio management. **CIPD** also cooperates with the Corporate Risk Management Department (**CPRMD**) in quantifying credit risk and controls the Bank's entire credit risk.

Further, the Credit Portfolio Management Department (**CPMD**) has been strengthening its active portfolio management function whereby loan securitization and other market transactions are used to stabilize the portfolio's credit risk for a more sophisticated portfolio.

The Corporate Research Department (**CRSD**) within the Corporate Services Unit performs research on industries as well as investigates the business situations of borrower enterprises to detect early signs of problems or growth potential.

The **Credit Departments** within each business unit conduct credit risk management along with branches, for loans handled by their units and manage their units' portfolios. The credit limits are based on the baseline amounts established for each grading category, with particular attention paid to evaluating and managing customers or loans perceived to have particularly high credit risk.

Credit Management Dept., Int'l Banking Unit (**CMDINB**) is in charge of Global exposure management of our non-Japanese credit portfolios, overseas credit portfolios management, and country risk management.

The **Internal Audit Unit**, operating independently of the business units, audits asset quality, accuracy of grading and self-assessment, and state of credit risk management, and reports the results directly to the Board of Directors and the Management Committee.

SMBC has established the Credit Risk Committee to round out its oversight system for undertaking flexible and efficient control of credit risk and ensuring the overall soundness of the Bank's loan operation.

At the branch level, the Bangkok Branch has been working closely with head office to ensure a sound credit risk management. In approving credit facilities, General Manager of the branch (GM) has approval authority, which is determined based on three set of standards, i.e.

(i) credit amount standard, (ii) obligor standards, and (iii) credit facility standards. Credit amount and obligors not under GM's approval authority require head office approval.

Departments in credit middle office are in charge of monitoring and controlling to ensure compliance of head office rules and the Bank of Thailand regulations, with activities such as credit review, covenant control, AML, periodic reporting, and etc.

3. Credit Risk Management Methods

3.1 Credit Risk Assessment and Quantification

At SMBC, to effectively manage the risk involved in individual loans as well as the credit portfolio as a whole, SMBC first acknowledges that every loan entails credit risks, assesses the credit risk posed by each borrower and loan using an internal rating system, and quantifies that risk for control purposes.

3.1.1 Internal Grading System

There is an internal rating system for each asset control category set according to portfolio characteristics. For example, credits to commercial and industrial (C&I) companies, individuals for business purposes (domestic only), sovereigns, public sector entities, and financial institutions are assigned an "obligor grade," which indicates the borrower's creditworthiness, and/or "facility grade," which indicates the collectibility of assets taking into account transaction conditions such as guarantee/collateral, and tenor. An obligor grade is determined by first assigning a financial grade using a financial strength grading model and data obtained from the obligor's financial statements. The financial grade is then adjusted taking into account the actual state of the obligor's balance sheet and qualitative factors to derive the obligor grade. In the event that the borrower is domiciled overseas, internal ratings for credit are made after taking into consideration country rank, which represents an assessment of the credit quality of each country, based on its political and economic situation, as well as its current account balance and external debt. Self-assessment is the obligor grading process for assigning lower grades, and the borrower categories used in self-assessment are consistent with the obligor grade categories.

Obligor grades and facility grades are reviewed once a year, and, whenever necessary, such as when there are changes in the credit situation.

There are also grading systems for small-and medium-sized entity (SME) loans, loans to individuals, and project finance and other structured finance tailored according to the risk characteristics of these types of assets.

The Credit & Investment Planning Department centrally manages the internal rating systems, and properly designs, operates, supervises, and validates the grading models. It validates the grading models (including statistical validation) of main assets following the procedures manual once a year, to ensure their effectiveness and suitability.

3.1.2 Quantification of Credit Risk



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

Credit risk quantification refers to the process of estimating the degree of credit risk of a portfolio or individual loan taking into account not just the obligor's probability of default (PD), but also the concentration of risk in a specific customer or industry and the loss impact of fluctuations in the value of collateral, such as real estate and securities.

Specifically, first, the PD by grade, loss given default (LGD), credit quality correlation among obligors, and other parameter values are estimated using historical data of obligors and facilities stored in a database to calculate the credit risk. Then, based on these parameters, SMBC run a simulation of 10,000 iterations of simultaneous default using the Monte Carlo method to calculate our maximum loss exposure to the estimated amount of the maximum losses that may be incurred. Based on these quantitative results, SMBC allocates risk capital. Please note that the PD and LGD values are, in principle, the same values as those used for calculating the capital ratio.

3.2 Framework for Managing Individual Loans

3.2.1 Credit Assessment

At SMBC, credit assessment of corporate loans involves a variety of financial analyses, including cash flow, to predict an enterprise's capability of loan repayment and its growth prospects. These quantitative measures, when combined with qualitative analyses of industrial trends, the enterprise's R&D capabilities, the competitiveness of its products or services, and its management caliber, result in a comprehensive credit assessment. The loan application is analyzed in terms of the intended utilization of the funds and the repayment schedule. Thus, SMBC is able to arrive at an accurate and fair credit decision based on an objective examination of all relevant factors.

Increasing the understandability to customers of loan conditions and approval standards for specific borrowing purposes and loan categories is a part of SMBC's ongoing review of lending practices, which includes the revision of loan contract forms with the chief aim of clarifying lending conditions utilizing financial covenants.

3.2.2 Credit Monitoring System

At SMBC, in addition to analyzing loans at the application stage, the Credit Monitoring System is utilized to reassess obligor grades and review self-assessment and credit policies so that problems can be detected at an early stage, and quick and effective action can be taken. The system includes periodic monitoring carried out each time an obligor enterprise discloses financial results, as well as continuous monitoring performed each time credit conditions change.

3.3 Framework for Credit Portfolio Management

In addition to managing individual loans, SMBC applies the following basic policies to the management of the entire credit portfolio to maintain and improve its soundness and profitability over the mid to long term.

Risk-Taking within the Scope of Capital To keep credit risk exposure to a permissible level relative to capital, SMBC sets credit risk capital limits for internal control purposes. Under these limits, separate guidelines are issued for



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

each business unit and marketing unit, such as for real estate finance, fund investment, and investment in securitization products. Regular monitoring is conducted to make sure that these guidelines are being followed, thus ensuring appropriate overall management of credit risk.

Controlling Concentration Risk

Because the concentration of credit risk in an industry or corporate group has the potential to substantially impair capital, SMBC implements measures to prevent the excessive concentration of loans in an industry and to control large exposure to individual companies or corporate groups by setting guidelines for maximum loan amounts.

To manage country risk, SMBC also has credit limit guidelines based on each country's creditworthiness.

Researching Borrowers More Rigorously and Balancing Risk and Returns

Against a backdrop of drastic change in the business environment, SMBC rigorously researches borrower companies' actual conditions. It runs credit operations on the basic principle of earning returns that are commensurate with the credit risk involved, and makes every effort to reduce credit and capital costs as well as general and administrative expenses.

Prevention and Reduction of Non-Performing Loans

On NPLs and potential NPLs, SMBC carries out regular loan reviews to clarify handling policies and action plans, enabling it to swiftly implement measures to prevent deterioration of borrowers' business situations, support business recoveries, collect on loans, and enhance loan security.

Active Portfolio Management

SMBC makes active use of credit derivatives, loan asset sales, and other instruments to proactively and flexibly manage its portfolio to stabilize credit risk.

3.4 Self-Assessment and Provisions

3.4.1 Self-Assessment

SMBC conducts rigorous self-assessment of asset quality using criteria based on the Financial Inspection Manual of the Financial Services Agency and the Practical Guideline published by the Japanese Institute of Certified Public Accountants. Self assessment is the latter stage of the obligor grading process for determining the borrower's ability to fulfill debt obligations, and the obligor grade criteria are consistent with the categories used in self-assessment.

At the same time, self assessment is a preparatory task for ensuring SMBC's asset quality and calculating the appropriate level of write-offs and provisions. Each asset is assessed individually for its security and collectibility. Depending on the borrower's current situation, the borrower is assigned to one of five categories: Normal Borrowers, Borrowers Requiring



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

Caution, Potentially Bankrupt Borrowers, Virtually Bankrupt Borrowers, and Bankrupt Borrowers. Based on the borrower's category, claims on the borrower are classified into Classification I, II, III, and IV assets according to their default and impairment risk levels, taking into account such factors as collateral and guarantees. As part of our efforts to bolster risk management throughout the Group, our consolidated subsidiaries carry out self-assessment in substantially the same manner.

3.4.2 Asset Write-Offs and Provisions

In cases where claims have been determined to be uncollectible, or deemed to be uncollectible, write-offs signify the recognition of losses on the account books with respect to such claims. Writeoffs can be made either in the form of loss recognition by offsetting uncollectible amounts against corresponding balance sheet items, referred to as a direct write-off, or else by recognition of a loan loss provision on a contra-asset account in the amount deemed uncollectible, referred to as an indirect write-off. Recognition of indirect write-offs is generally known as provision for the reserve for possible loan losses.

SMBC make provisions for loan losses by estimating future expected losses on exposures in a timely and appropriate manner based on the borrower category, resulted from self – assessment. At the same time, SMBC also take into account and abide by the Bank of Thailand's notification on classification and provision, under which the classification of assets is primarily based on cumulative overdue period and financial status of the borrower.

As for the borrowers classified as “acceptable” and “special mentioned”, SMBC sets up provisions, based on the regulatory minimum percentage requirement. As for borrowers classified as “substandard” and lower (NPLs), the provisions are subject to the difference between the debt outstanding and the present value of expected cashflow to be received, as well as, proceeds from disposal of collateral. The provisions for NPLs, at final stage, are subject to head office guidelines (depending on self-assessment result) and the Bank of Thailand's guidelines, whichever is higher.

Item 2: Credit risk exposures classified by credit risk-weighted assets calculation approach chosen by commercial banks

Calculation of Credit Risk Assets

SMBC Bangkok Branch applies Standardised Approach (SA) to calculate credit risk assets, under which risk weight for claims on corporate debtors is assigned at 100%, except for NPLs, whereby risk weight of each debtor is subject to the provision level and overdue period.

As for claims on financial institutions, the Bank applies the Local Currency Rating or Foreign Currency Rating given by the following External Credit Assessment Institutions (ECAIs) in assigning risk weight.

- Standard & Poor's;
- Moody's Investors Services; and
- Fitch Ratings.



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

Item 3: Credit risk mitigation under the SA

In addition, SMBC has not applied Credit Risk Mitigation, which the Bank of Thailand allows commercial banks to use financial collateral, on-balance sheet netting, and, guarantees and credit derivative to mitigate the credit risk. As such, when calculating credit risk assets, the debtor's risk weight solely applies.



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

Quantitative Disclosure :

Table 6 Outstanding amounts of significant on-balance sheet assets and off-balance sheet items before adjusted by credit risk mitigation
(Show outstanding at the end of the period and at the end of the previous period)

Unit : THB

Item	31-Mar-2011	31-Mar-2010
1. On-balance sheet assets (1.1 + 1.2 + 1.3)	225,354,981,343.40	207,553,979,183.32
1.1 Net loans ^{1/}	141,674,400,061.49	133,730,907,971.98
1.2 Net Investment in debt securities ^{2/}	63,601,136,442.60	54,473,718,660.96
1.3 Deposits (including accrued interest receivables)	20,079,444,839.31	19,349,352,550.38
2. Off-balance sheet items ^{3/} (2.1 + 2.2 + 2.3)	312,680,297,650.51	294,014,566,273.99
2.1 Aval of bills, guarantees, and letter of credits	1,462,679,795.73	1,457,414,219.14
2.2 OTC derivatives ^{4/}	303,406,978,627.95	281,416,577,550.38
2.3 Undrawn committed line	7,810,639,226.83	11,140,574,504.47

^{1/} Including accrued interest receivables and net of deferred incomes, allowances for doubtful accounts and allowances for revaluation from debt restructuring and including net loans of interbank and money market.

^{2/} Excluding accrued interest receivables and net of allowances for revaluation of securities and allowances for impairment of securities

^{3/} Before multiplying credit conversion factor

^{4/} Including equity-related derivatives



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

Table 7 Outstanding amounts of on-balance sheet assets and off-balance sheet items before adjusted credit risk mitigation classified by country or geographic area of debtor

Unit : THB

31-Mar-2011								
Country or geographic area of debtor	On-balance sheet assets				Off-balance sheet items ^{3/}			
	Total	Net loans ^{1/}	Net Investment in debt securities ^{2/}	Deposits (including accrued interest receivables)	Total	Aval of bills, guarantees of borrowings, and letter of credits	OTC derivatives	Undrawn committed line
1. Thailand	212,341,801,692.53	134,340,269,952.25	63,601,136,442.60	14,400,395,297.68	132,738,497,209.75	1,462,679,795.73	124,121,080,983.23	7,154,736,430.79
2. Asia Pacific (exclude Thailand)	2,698,008,699.54	2,678,251,763.13	-	19,756,936.41	82,038,216,894.87	-	81,382,314,098.83	655,902,796.04
3. North America and Latin America	6,207,047,800.51	654,946,291.31	-	5,552,101,509.20	35,799,240,570.29	-	35,799,240,570.29	-
4. Africa and Middle East	-	-	-	-	-	-	-	-
5. Europe	4,108,123,150.82	4,000,932,054.80	-	107,191,096.02	62,104,342,975.60	-	62,104,342,975.60	-
Total	225,354,981,343.40	141,674,400,061.49	63,601,136,442.60	20,079,444,839.31	312,680,297,650.51	1,462,679,795.73	303,406,978,627.95	7,810,639,226.83

Unit : THB

31-Mar-2010								
Country or geographic area of debtor	On-balance sheet assets				Off-balance sheet items ^{3/}			
	Total	Net loans ^{1/}	Net Investment in debt securities ^{2/}	Deposits (including accrued interest receivables)	Total	Aval of bills, guarantees of borrowings, and letter of credits	OTC derivatives	Undrawn committed line
1. Thailand	183,730,756,821.43	128,242,872,008.87	54,473,718,660.96	1,014,166,151.60	124,357,147,482.17	1,457,414,219.14	111,759,158,758.56	11,140,574,504.47
2. Asia Pacific (exclude Thailand)	9,935,367,143.13	1,488,035,963.11	-	8,447,331,180.02	78,694,323,357.21	-	78,694,323,357.21	-
3. North America and Latin America	2,366,513,180.33	-	-	2,366,513,180.33	35,858,699,951.32	-	35,858,699,951.32	-
4. Africa and Middle East	-	-	-	-	-	-	-	-
5. Europe	11,521,342,038.43	4,000,000,000.00	-	7,521,342,038.43	55,104,395,483.29	-	55,104,395,483.29	-
Total	207,553,979,183.32	133,730,907,971.98	54,473,718,660.96	19,349,352,550.38	294,014,566,273.99	1,457,414,219.14	281,416,577,550.38	11,140,574,504.47

^{1/} Including accrued interest receivables and net of deferred incomes, allowances for doubtful accounts and allowances for revaluation from debt restructuring and including net loans of interbank and money market.

^{2/} Excluding accrued interest receivables and net of allowances for revaluation of securities and allowances for impairment of securities

^{3/} Before multiplying credit conversion factor



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

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-Mar-2011			31-Mar-2010		
	Maturity not exceeding 1 year	Maturity exceeding 1 year	Total	Maturity not exceeding 1 year	Maturity exceeding 1 year	Total
1. On-balance sheet assets (1.1 + 1.2 + 1.3)						
1.1 Net loans ^{1/}	94,343,767,969.68	47,330,632,091.81	141,674,400,061.49	90,413,201,194.92	43,317,706,777.06	133,730,907,971.98
1.2 Net Investment in debt securities ^{2/}	33,107,788,312.74	30,493,348,129.86	63,601,136,442.60	30,633,133,575.16	23,840,585,085.80	54,473,718,660.96
1.3 Deposits (including accrued interest receivables)	19,276,157,168.08	803,287,671.23	20,079,444,839.31	18,546,064,879.15	803,287,671.23	19,349,352,550.38
2. Off-balance sheet items ^{3/} (2.1 + 2.2 + 2.3)						
2.1 Aval of bills, guarantees of borrowings , and letter of credits	1,234,542,695.57	228,137,100.16	1,462,679,795.73	1,168,449,557.58	288,964,661.56	1,457,414,219.14
2.2 OTC derivatives	200,815,460,436.10	102,591,518,191.85	303,406,978,627.95	171,980,625,762.78	109,435,951,787.61	281,416,577,550.38
2.3 Undrawn committed line	6,168,795,000.00	1,641,844,226.83	7,810,639,226.83	7,579,153,779.05	3,561,420,725.42	11,140,574,504.47

^{1/} Including accrued interest receivables and net of deferred incomes, allowances for doubtful accounts and allowances for revaluation from debt restructuring and including net loans of interbank and money market.

^{2/} Excluding accrued interest receivables and net of allowances for revaluation of securities and allowances for impairment of securities

^{3/} Before multiplying credit conversion factor



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

Table 9 Outstanding amounts of loans including accrued interest receivables and investment in debt securities before adjusted by credit risk mitigation classified by country or geographical area of debtor* and asset classification as prescribed by the Bank of Thailand

Unit : THB

31-Mar-2011							
Country or geographic area of debtor	Loans including accrued interest receivables ^{1/}						Securities Classified as Doubtful Loss
	Normal	Special mentioned	Substandard	Doubtful	Doubtful loss	Total	
1. Thailand	134,210,540,266.93	129,729,685.32	168,959,626.03	665,039,334.00	689,274,714.44	135,863,543,626.72	-
2. Asia Pacific (exclude Thailand)	2,678,251,763.13					2,678,251,763.13	-
3. North America and Latin America	654,946,291.31					654,946,291.31	-
4. Africa and Middle East	-					-	-
5. Europe	4,000,932,054.80					4,000,932,054.80	-
Total	141,544,670,376.17	129,729,685.32	168,959,626.03	665,039,334.00	689,274,714.44	143,197,673,735.96	-

Unit : THB

31-Mar-2010							
Country or geographic area of debtor	Loans including accrued interest receivables ^{1/}						Securities Classified as Doubtful Loss
	Normal	Special mentioned	Substandard	Doubtful	Doubtful loss	Total	
1. Thailand	127,175,269,521.21	1,067,602,487.67	38,617,355.79	459,220,000.00	1,342,617,593.45	130,083,326,958.12	-
2. Asia Pacific (exclude Thailand)	1,488,035,963.11					1,488,035,963.11	-
3. North America and Latin America						-	-
4. Africa and Middle East						-	-
5. Europe	4,000,000,000.00					4,000,000,000.00	-
Total	132,663,305,484.32	1,067,602,487.67	38,617,355.79	459,220,000.00	1,342,617,593.45	135,571,362,921.23	-

^{1/} Including outstanding amounts of loans and interest receivable receivables of interbank and money market



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

Table 10 Provisions (General provision and Specific provision) and bad debt written-off during period for loan including accrued interest receivables and investment in debt securities classified by country or geographic area

31-Mar-2011

Unit : THB

Country or geographic area of debtor	Loans including accrued interest receivables ^{1/}			Specific provision for Investment in Debt Securities
	General provision ^{2/}	Specific provision	Bad debt written-off during period	
1. Thailand		1,525,857,674.47		57,829,726.16
2. Asia Pacific (exclude Thailand)				
3. North America and Latin America				
4. Africa and Middle East				
5. Europe				
Total	1,232,189,677.09	1,525,857,674.47	-	-

31-Mar-2010

Unit : THB

Country or geographic area of debtor	Loans including accrued interest receivables ^{1/}			Specific provision for Investment in Debt Securities
	General provision ^{2/}	Specific provision	Bad debt written-off during period	
1. Thailand		1,862,852,610.88		140,450,628.35
2. Asia Pacific (exclude Thailand)				
3. North America and Latin America				
4. Africa and Middle East				
5. Europe				
Total	1,095,400,517.30	1,862,852,610.88	-	-

^{1/} Including provision and bad debt written-off during period of loans including accrued interest receivables of interbank and money market

^{2/} Disclosed in total amount



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

Table 11 Outstanding amount of loans including accrued interests* before adjusted by credit risk mitigation classified by type of business and by asset classification specified by the Bank of Thailand

Unit : THB

31-Mar-2011						
Type of business	Normal	Special mentioned	Substandard	Doubtful	Doubtful loss	Total
- Agriculture and mining	5,697,718,911.43					5,697,718,911.43
- Manufacturing and commerce	60,010,076,779.61	129,729,685.32	168,959,626.03	665,039,334.00	239,948,726.34	61,213,754,151.30
- Real estate business and construction	685,776,043.53				12,212,157.00	697,988,200.53
- Public utilities and services	10,341,477,603.23				413,552,919.20	10,755,030,522.43
- Housing loans	6,807,431.74					6,807,431.74
- Others (Commercial banks shall use their owns discretion to dertermine materiality)						
- Interbank and Money Market	34,005,134,947.86					34,005,134,947.86
- Other financial intermediation	30,796,289,522.81				23,560,911.90	30,819,850,434.71
- Others	1,389,135.96					1,389,135.96
Total	141,544,670,376.17	129,729,685.32	168,959,626.03	665,039,334.00	689,274,714.44	143,197,673,735.96

Unit : THB

31-Mar-2010						
Type of business	Normal	Special mentioned	Substandard	Doubtful	Doubtful loss	Total
- Agriculture and mining	108,221,905.84					108,221,905.84
- Manufacturing and commerce	45,109,890,583.44	26,020,547.94	38,617,355.79	459,220,000.00	891,591,605.35	46,525,340,092.52
- Real estate business and construction	346,718,517.78				13,912,157.00	360,630,674.78
- Public utilities and services	12,775,791,996.77				413,552,919.20	13,189,344,915.97
- Housing loans	4,902,880.96					4,902,880.96
-Others (Commercial banks shall use their owns discretion to dertermine materiality)						
- Interbank and Money Market	38,489,038,596.46					38,489,038,596.46
- Other financial intermediation	35,826,843,077.05	1,041,581,939.73			23,560,911.90	36,891,985,928.68
- Others	1,897,926.03					1,897,926.03
Total	132,663,305,484.33	1,067,602,487.67	38,617,355.79	459,220,000.00	1,342,617,593.45	135,571,362,921.24

* Including outstanding amount of loans including accrued interest receivables of interbank and money market



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

Table 12 Provisions (General provision and Specific provision) and bad debt written-off during period for loans including accrued interest receivables* classified by types of business

Unit : THB

Type of business	31-Mar-2011			31-Mar-2010		
	General provision ^{1/}	Specific provision	Bad debt written-off during period	General provision ^{1/}	Specific provision	Bad debt written-off during period
- Agriculture and mining		1,076,531,686.37			1,391,026,622.78	
- Manufacturing and commerce		12,212,157.00			13,912,157.00	
- Real estate business and construction		413,552,919.20			413,552,919.20	
- Public utilities and services						
- Housing loans						
- Others (Commercial banks shall use their own discretion to determine significance)		23,560,911.90			44,360,911.90	
-						
Total	1,232,189,677.09	1,525,857,674.47	-	1,095,400,517.30	1,862,852,610.88	-

* Including outstanding amount of loans including accrued interest receivables of interbank and money market

1/ Disclosed in total amount

Table 13 Reconciliation of change in provisions (General provision and Specific provision) for loans including accrued interest receivables*

Unit : THB

Item	31-Mar-2011			31-Mar-2010		
	General provision	Specific provision	Total	General provision	Specific provision	Total
Provisions at the beginning of the period	1,095,400,517.30	1,862,852,610.88	2,958,253,128.18	1,125,857,519.96	2,016,602,953.92	3,142,460,473.88
Bad debts written-off during the period			-		-	-
Increases or Decreases of provisions during the period	136,789,159.79	(336,994,936.41)	(200,205,776.62)	(30,457,002.66)	(153,750,343.04)	(184,207,345.70)
Other provisions (provisions for losses from foreign exchange, provisions for merger and sale of businesses)			-		-	-
Provisions at the end of the period	1,232,189,677.09	1,525,857,674.47	2,758,047,351.56	1,095,400,517.30	1,862,852,610.88	2,958,253,128.18

* Including outstanding amount of loans including accrued interest receivables of interbank and money market



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

Table 14 Outstanding amounts of on-balance sheet assets and off-balance sheet items* classified by type of assets under the SA

Unit : THB

Type of asset	31-Mar-2011			31-Mar-2010		
	On balance sheet assets	Off balance sheet item **	Total	On balance sheet assets	Off balance sheet item **	Total
1. Performing claims						
1.1 Claims on sovereigns and central banks, multilateral development banks (MDBs), and non-central government public sector entities (PSEs) treated as claims on sovereigns	65,104,377,816.24		65,104,377,816.24	78,229,144,587.98		78,229,144,587.98
1.2 Claims on financial institutions , non-central government public sector entities (PSEs) treated as claims on financial institutions, and securities firms	26,110,618,452.85	31,109,498,082.82	57,220,116,535.67	32,480,614,844.42	5,965,118,608.76	38,445,733,453.18
1.3 Claims on corporates , non-central government public sector entities (PSEs) treated as claims on corporate	108,139,871,816.33	14,095,164,126.70	122,235,035,943.03	96,957,920,453.94	17,268,362,202.56	114,226,282,656.50
1.4 Claims on retail portfolios	8,196,567.70	20,000.00	8,216,567.70	6,800,806.99	20,000.00	6,820,806.99
1.5 Housing loans			-	-	-	-
1.6 Other assets	5,358,731,883.46		5,358,731,883.46	5,742,457,616.51		5,742,457,616.51
2. Non-performing claims		16,540,139.30	16,540,139.30	-	17,451,038.10	17,451,038.10
3. First-to-default credit derivatives and Securitisation			-			-
Total	204,721,796,536.58	45,221,222,348.82	249,943,018,885.40	213,416,938,309.84	23,250,951,849.42	236,667,890,159.26

* After multiplying with credit conversion factor and specific provision

** Including all Repo-style transactions (including Reverse repo transactions)



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

Credit risk exposures classified by method the commercial bank uses for maintaining minimum capital fund

Credit risk exposures under the SA*

Table 15 : Outstanding amount of net on-balance sheet assets and off-balance sheet items** after adjusted by credit risk mitigation for each type of asset, classified by risk weight under the SA

Unit: THB

Type of asset	31-Mar-2011														
	Risk weight (%)	Rated outstanding amount					Unrated outstanding amount								
		0	20	50	100	150	0	20	50	35	75	100	625	937.5	100/8.5% ^{2/}
Performing claims															
1. Claims on sovereigns and central banks, multilateral development banks (MDBs), and non-central government public sector entities (PSEs) treated as claims on sovereigns		61,275,482,103.85		3,828,895,712.39											
2. Claims on financial institutions, non-central government public sector entities (PSEs) treated as claims on financial institutions, and securities firms			43,321,966,693.13	202,945,445.99	9,244,775,244.85										
3. Claims on corporates, non-central government public sector entities (PSEs) treated as claims on corporate											126,685,465,094.72				
4. Claims on retail portfolios											8,216,567.70				
5. Claims on housing loans															
6. Other assets											5,358,731,883.46				
	Risk weight (%)			50	100	150				75					
Non-performing claims^{1/}						16,540,139.30									
Capital deduction items prescribed by the Bank of Thailand															

Unit: THB

Type of asset	31-Mar-2010														
	Risk weight (%)	Rated outstanding amount					Unrated outstanding amount								
		0	20	50	100	150	0	20	50	35	75	100	625	937.5	100/8.5% ^{2/}
Performing claims															
1. Claims on sovereigns and central banks, multilateral development banks (MDBs), and non-central government public sector entities (PSEs) treated as claims on sovereigns		74,609,154,010.14		3,619,990,577.84											
2. Claims on financial institutions, non-central government public sector entities (PSEs) treated as claims on financial institutions, and securities firms			26,295,855,416.26	68,771,889.94	10,136,985,276.21						1,944,120,870.75				
3. Claims on corporates, non-central government public sector entities (PSEs) treated as claims on corporate											114,226,282,656.49				
4. Claims on retail portfolios											6,820,806.99				
5. Claims on housing loans											-				
6. Other assets											5,742,457,616.51				
	Risk weight (%)			50	100	150				75					
Non-performing claims^{1/}						17,451,038.10									
Capital deduction items prescribed by the Bank of Thailand															

** After multiplying credit conversion factor

^{1/} For the portion claims with no credit risk mitigation of which risk weight are determined by the proportion of provision to total amount of claims

^{2/} For foreign bank branches, the risk weight shall be equal to 100 divided by 7.5%



Quantitative and Qualitative Disclosures about Credit, Market and Other Risk

Table 16 Part of outstanding that is secured by collateral under SA classified by type of assets and collateral**

Unit : THB

Type of asset	31-Mar-2011		31-Mar-2010	
	Eligible financial collateral ^{1/}	Guarantee and credit derivatives	Eligible financial collateral ^{1/}	Guarantee and credit derivatives
Performing assets				
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	Nil		Nil	
4. Claims on retail portfolios				
5. Claims on housing loans				
6. Other assets				
Substandard assets				
Total				

* Excluding securitisation.

** Values after on-balance sheets and off-balance sheets netting

^{1/} Eligible financial collateral that the Bank of Thailand allows to use for risk mitigation. Commercial banks applying the comprehensive approach shall disclose the value after haircut.



Market Risk

Qualitative Disclosure:

Market risk Management

Market risk is the risk of adverse deviation of the mark-to-market value of either an investment portfolio or a trading portfolio during the period required to liquidate the transactions. Decline in portfolio value is due to the change in value of the market risk factors such as stock prices, interest rates, foreign exchange rates, and commodity prices.

SMBC, Bangkok branch manage market risk in line with Head Office risk management policy authorized by SMBC's Board of Directors. The management of market risk is performed appropriately according to the business strategy. Bangkok branch is defined in the category of Customer Dealer Type (CD) who enable to trade with customers and hedge its own ALM positions.

To meet customer needs, SMBC provide various type of financial products including derivatives such as FX (spot, outright, swap), Currency option (plain and structure), Interest rate related products (IRS, CCS, Cap Loan), and Interest rate option.

Therefore, tools and organization design have been implemented to measure, monitor and control market risk.

Market Risk Management System

Risk management systems are in place at SMBC, Bangkok branch. The framework has been strengthened and prevented from unforeseen processing errors. We segregate responsibility and roles between front, middle, back according to the principle of separation between those who take risks and those who supervise them. Internal Audit Unit periodically performs comprehensive internal audit to verify that the risk management system is functioning properly.

Control and monitoring are conducted against approved limits which are reviewed periodically by Corporate Risk Management Department in Head Office. The market risk limits for instance, Value at Risk (VaR) guideline, Position limits and Stop Loss limits are considered by various factors such as capital, historical data, current market situations, products and business type.

In Bangkok branch, there is local ALM committee consist of General Manager, and other core members from the highest ranking in Risk management area / Front office area / Business Promotion area / Planning area, Department head of Front office, Middle office and Planning dept. The meeting is conducted once a month to discuss on relative market / liquidity risk related including the result of ALM operation and policy.

Framework and responsibility

In order to maintain a balance between risk and return



Quantitative and Qualitative Disclosures about Credit, Market and Other

The General Manager of SMBC, Bangkok Branch is responsible for monitoring and controlling all activities on the premises through various management reports, and for confirming enforcement of all risk management rules. The General Manager has the authority to order relevant officers to correct any breach of such rules.

Market Risk Control Department as the function of the middle office performs its duty of assessing, controlling, monitoring and reporting of market risk both in Trading and Banking book position within the risk management framework and the risk limits to the Management and Corporate Risk Management Dept., Head Quarter.

Measurement and monitoring

Sumitomo Mitsui Banking Corporation, Bangkok Branch undertakes substantial measurements including Basis Point Values, VaR, Net Open Positions, Stop Loss Limit, Position Limit and Option Limit. Market risk measurement and monitoring are performed daily by Middle office.

The global limit structure and risk management rules are identified by Tokyo Head Office and must be approved by Board of Directors. The bank manages market risk by setting maximum limits for VaR and maximum loss. These limits are set within the “market risk capital limit” which is determined taking into account the bank’s shareholders’ equity and other principal indicators of the bank’s financial and management resources.

SMBC, Bangkok branch prepare interest rate risk stress test on a monthly basis consisting of 3 rate shift scenarios applied to the Banking and Trading book. Foreign exchange stress tests are also conducted on a monthly basis to measure the impact from unfavorable change of US dollar to open currency positions. The maximum loss on each book is calculated and reported to ALM committee.

Capital Charge for Market risk

SMBC, Bangkok branch measure the exposure to market risk and maintain capital in respect of that exposure in the bank’s Trading book. We apply Standardized method to measure market risk derived from changes in interest rate and foreign exchange rates. On the other hand we apply Delta-Plus method to assess the risk inherent in options. The calculation model in Delta-Plus method subject to be oversight by the authority and we have obtained the approval from Bank of Thailand to calculate capital charge with this method. The capital charge is calculated as the total capital requirement in respect of each risk separately and reported to Bank of Thailand on monthly basis.

All items in Trading book are marked-to-market to meet with the relevant base for measuring the market risk pertaining to interest rate-related instrument and foreign exchange which are currently in Trading book

For the treatment of options, the capital charge is calculated based upon Delta-Plus method. The Delta-Plus method uses the sensitivity parameters or “Greek letters” associated with options to measure market risk and capital requirements. Under this method, the delta-equivalent position for each option becomes part of standardized methodology. Since delta



Quantitative and Qualitative Disclosures about Credit, Market and Other

does not sufficiently cover the risks associated with options positions, this approach also require to measure gamma (which measures the rate of change of delta) and vega (which measure the sensitivity of the value of an option with respect to a change in volatility).

Quantitative Disclosure :

Market Risk Exposures and Assessment

The table below represents minimum capital requirements for each type of market risk under the Standardized approach (SA) as of 31 March 2011.

Market risk exposures

Market risk under the Standardised Approach

Table 17 Minimum capital requirements for each type of market risk under the Standardised Approach

Unit: THB

Minimum capital requirements for market risk under the Standardized Approach	31-Mar-2011	30-Sep-2010
Interest rate risk	238,312,029.58	277,860,453.76
Equity position risk	-	
Foreign exchange rate risk	20,980,726.36	17,548,978.56
Commodity risk		
Total minimum capital requirements	259,292,755.94	295,409,432.32

Operational Risk

Qualitative Disclosure

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. In addition to processing risk and system risk, also covering legal risk, personnel risk, and physical assets risk defines the following seven types of events that may lead to the risk of loss ; (1) internal fraud, (2) external fraud, (3) employment practices and workplace safety, (4) clients, products and business practices, (5) damage to physical assets, (6) business disruption and system failures, and (7) execution, delivery and process management.

Measurement and Monitoring

The bank has drawn up the “Regulations on Operational Risk Management” to define the basic rules to be observed in the conduct of operational risk management.

The department heads are responsible for maintaining an acceptable level of internal controls. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls.



Quantitative and Qualitative Disclosures about Credit, Market and Other

To ensure that operational risk losses can be monitored at a Group level, branches and other group companies are requested to report individual losses when the expected loss over JPY 1 million on monthly basis and all other operational risk losses shall be reported on a quarterly basis and registered into the Loss Database (Loss DB).

The branch calculates capital charge for operational risk by using the Basic Indicator Approach, utilizes the average of three year gross income multiplied by a predefined factor.

Quantitative Disclosure

Minimum capital requirement for operational risk (BIA)

Minimum capital requirement for operational risk	31-Mar-2011	30-Sep-2010
Calculate by BIA	613,231,968.91	631,750,104.46
Total minimum capital requirement for operational risk	613,231,968.91	631,750,104.46

Risk Control Assessment

Risk Control Assessment is defined as “risk management methodology to (a) identify material operational risks, and describe them in terms of risk scenarios, (b) assess the risks and the effectiveness of controls, and (c) estimate the frequency and severity of risk scenarios. In this regard, the branch is required to regularly conduct Risk Control Self Assessment (RCSA) by identifying the risk involved in their own operating unit and to assess at what levels those risks are, both in respect to the chance of occurrence and the probable impact of these risks. In addition, loss data should be posted in the Loss Data Base system.

The organizational structure of SMBC Bangkok Branch, the branch organizes Operational Control Committee meeting to monitor the operational risk profiles of each division and prioritize actions to be taken to mitigate these risks as appropriate.

Moreover, the Internal Audit Department conducts periodic audits to ensure that operational risk management system is functioning properly.

Equity Exposure in banking book

As at 31 March 2011, the bank had investment in non-marketable equity securities, which are classified as general investments, is carried at cost less allowance for impairment in value (if any).

The table below shows equity exposures in banking book.

Equity exposures in banking book

Table 18 Equity exposures in banking book

Unit : THB

Equity exposures	31-Mar-2011	31-Mar-2010
1. Equity exposures		
1.1 Equities listed and publicly traded in the Stock Exchange		
- Book value	-	-
- Fair value	-	-
1.2 Other equities (both within the country and abroad)	140,000,004.00	140,000,004.00
2. Gains (losses) of sale of equities in the reporting period	-	-
3. Net surplus (deficit) from revaluation of available for sale equities	-	-
4. Minimum capital requirements for equity exposures classified by the calculation methods		
- SA	10,500,000.30	10,500,000.30
- IRB		
5. Equity values for commercial banks applying IRB which the Bank of Thailand allows to use SA		

Interest Rate Risk in the Banking Book (IRRBB)

Qualitative Disclosure:

The interest rate risk is the risk of declines of earning due to the movements of interest rate. Sources of interest rate risk are as follow :

Repricing risk or Maturity mismatch risk is resulted from the difference in the timing of rate changes and the timing of cash flows that occur in the pricing and maturity of bank's assets, liabilities, and off-balance sheet instruments.

Basis risk arises from a shift in the relationship of the rates in different financial markets or different financial instruments. Basis risk occurs when market rates for different financial instruments or the indices used to price assets and liabilities changes at different time or by different amounts.

Yield curve risk arises from variations in the movement of interest rates across the maturity spectrum. It involves changes in the relationship between interest rates of different maturities of the same index or market.

Option risk arises when a bank or a bank's customers have the right to alter the level and timing of the cash flows of an asset, liability or off-balance sheet instrument.

Risk assessment and monitoring for IRRBB

1. Objective

To evaluate the potential impact of interest rate risk, we consider the effect on both its earning (the earning or accounting perspective) and underlying economic value (the economic or capital perspective). Both viewpoints are assessed to determine the full scope of a bank's interest rate risk exposure.

The earning perspective captures the timing of income effects to the change of interest rate. This is an analysis of the effects in the short term within 1 year.



Quantitative and Qualitative Disclosures about Credit, Market and Other

The economic perspective focuses on the value of the banks in today's interest rate environment and the sensitivity of the value to changes in interest rates. It also captures future exposure by evaluating the impact of potential rate changes on market values of all assets, liabilities and off-balance sheet contracts.

2. Measuring tools

To assess the impact of interest rate risk in Banking book, the bank uses the simplest technique, the "Static repricing gap" to measure the effect of interest rate changes on the earnings and economic value. When it is used for assessing the interest rate risk on earnings, it is called "Repricing gap analysis". The "Static repricing gap" is also used to evaluate the basic effects on the economic values by applying sensitivity weights to each time band and multiplying the gap and interest rate changes in the respective time band to obtain duration weighted gap. By summing up of all time bands a rough estimate of the change in the economic value will be obtained. Such technique is called the "Duration-base gap analysis".

3. Stress testing

To emphasize on a good risk management, we perform stress testing for interest risk in Banking book on a quarterly basis and reflect the results in Bank of Thailand in DS_IRR report.

However, in order to comply with the Bank of Thailand's notification, re: Supervisory Guidelines on Interest Rate Risk in the Banking Book for Financial Institution", Sumitomo Mitsui Banking Corporation, Bangkok Branch calculates net earnings assuming upward 100 basis point (bps) changes in the interest rate.

Interest Rate Risk in the Banking Book

Quantitative Disclosure:

Interest rate risk in the banking book

Table 19 The effect of changes in interest rates* to net earnings

Unit: THB

Currency	31-Mar-2011	31-Mar-2010
	Effect to net earnings	Effect to net earnings
Baht	17,371,619.91	(93,824,582.85)
USD	155,337,015.24	169,816,827.70
EURO		
Others	49,258,134.01	14,803,066.59
Total effect of interest rate changes	221,966,769.15	90,795,311.44

* Use the percentage changes in interest rates of 100 bps .