

JPMORGAN CHASE BANK, N.A. - BANGKOK BRANCH

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2008

AUDITOR'S REPORT

To the Board of Directors of JPMorgan Chase Bank, N.A.

I have audited the accompanying balance sheets as of 31 December 2008 and 2007, and the related statements of income, changes in Head Office's equity and other branches under the same entity and cash flows for the years then ended of JPMorgan Chase Bank, N.A. - Bangkok Branch. The Bank's management is responsible for the correctness and completeness of information in these financial statements. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position as of 31 December 2008 and 2007, and the results of operations and cash flows for the years then ended of JPMorgan Chase Bank, N.A. - Bangkok Branch, in accordance with generally accepted accounting principles.



Boonlert Kamolchanokkul
Certified Public Accountant (Thailand) No. 5339
PricewaterhouseCoopers ABAS Limited

Bangkok
20 April 2009

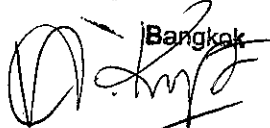
JPMorgan Chase Bank, N.A. - Bangkok Branch

Balance Sheets

As at 31 December 2008 and 2007

	Notes	2008 Baht	2007 Baht
Assets			
Cash		7,087,092	7,730,479
Interbank and money market items	3		
Domestic items - interest bearing		13,320	8,262
- non-interest bearing		291,922,732	218,187,197
Foreign items - interest bearing		110,056,876	982,909,676
- non-interest bearing		4,137,490	4,155,111
Total interbank and money market items		406,130,418	1,205,260,246
Investments	4		
Short-term investments, net		25,639,529,215	26,721,906,080
Long-term investments, net		6,294,745,317	2,026,845,377
Total investments, net		31,934,274,532	28,748,751,457
Loans and interest receivables, net			
Loans	5	677,788,997	1,445,625,615
Accrued interest receivables		8,686,655	28,318,751
Total loans and interest receivables		686,475,652	1,473,944,366
Less Allowance for doubtful accounts	6	(8,888,370)	(18,374,552)
Total loans and accrued interest receivables, net		677,587,282	1,455,569,814
Accounts receivable from securities trading		1,004,276,159	-
Financial derivative assets		38,345,215,854	12,473,696,686
Equipment, net	8	35,026,760	39,270,212
Other assets, net	9	287,195,373	912,383,419
Total assets		72,696,793,470	44,842,662,313

JPMorgan Chase Bank, N.A.

 Bangkok

(Mr. Kittiphun Anutarasoti)

Branch Manager

The notes to financial statements on pages 9 to 37 form an integral part of these financial statements.

JPMorgan Chase Bank, N.A. - Bangkok Branch
Balance Sheets (Cont'd)
As at 31 December 2008 and 2007

	<u>Notes</u>	<u>2008 Baht</u>	<u>2007 Baht</u>
Liabilities and Head Office's equity and balances with other branches under the same entity			
Liabilities			
Deposits	10		
Thai Baht		6,881,338,894	4,425,534,771
Foreign currencies		<u>241,804,748</u>	<u>898,976,282</u>
Total deposits		<u>7,123,143,642</u>	<u>5,324,511,053</u>
Interbank and money market items	11		
Domestic items - interest bearing		12,605,795,257	14,464,353,100
- non-interest bearing		100,190	14,335,369
Foreign items - interest bearing		-	1,687,350,000
- non-interest bearing		<u>113,431</u>	<u>5,242</u>
Total interbank and money market items		<u>12,606,008,878</u>	<u>16,166,043,711</u>
Accounts payable from securities trading		1,371,992,200	983,811,580
Demand liabilities		71,303,152	122,546,527
Borrowings	12		
Short-term borrowings		950,000,000	99,528,900
Long-term borrowings		<u>1,525,704,716</u>	<u>1,770,084,639</u>
Total borrowings		<u>2,475,704,716</u>	<u>1,869,613,539</u>
Financial derivative liabilities		36,467,637,749	9,730,240,534
Other liabilities	13	<u>566,643,241</u>	<u>931,288,542</u>
Total liabilities		<u>60,682,433,578</u>	<u>35,128,055,486</u>

The notes to financial statements on pages 9 to 37 form an integral part of these financial statements.

JPMorgan Chase Bank, N.A. - Bangkok Branch
Balance Sheets (Cont'd)
As at 31 December 2008 and 2007

	Notes	2008 Baht	2007 Baht
Head Office's equity and balances with other branches under the same entity			
Fund remitted into Thailand for maintaining assets under law	15	9,112,616,000	9,112,616,000
Net balance of inter-office accounts with Head Office and other branches under the same entity	19	523,137,608	543,474,921
Retained earnings		2,096,075,405	40,062,606
Unrealised gain on changes in fair value of available-for-sale securities	14	282,530,879	18,453,300
Total Head Office's equity and balances with other branches under the same entity		<u>12,014,359,892</u>	<u>9,714,606,827</u>
Total liabilities and Head Office's equity and balances with other branches under the same entity			
		<u>72,696,793,470</u>	<u>44,842,662,313</u>
Off-balance sheet items - commitments			
Other commitments	16	1,490,056,310,295	1,182,385,692,686

The notes to financial statements on pages 9 to 37 form an integral part of these financial statements.

JPMorgan Chase Bank, N.A. - Bangkok Branch
Statements of Income
For the years ended 31 December 2008 and 2007

	Notes	2008 Baht	2007 Baht
Interest income			
Loans		52,972,234	53,961,604
Interbank and money market items		40,064,515	129,055,853
Investments		<u>1,087,049,924</u>	<u>1,095,948,368</u>
Total interest income		<u>1,180,086,673</u>	<u>1,278,965,825</u>
Interest expenses			
Deposits		40,942,852	70,668,548
Interbank and money market items		<u>297,312,141</u>	<u>475,564,021</u>
Total interest expenses		<u>338,254,993</u>	<u>546,232,569</u>
Net interest income		841,831,680	732,733,256
Reversal of bad debt and doubtful accounts		<u>9,486,182</u>	<u>19,300,000</u>
Net interest income after bad debt and doubtful accounts		<u>851,317,862</u>	<u>752,033,256</u>
Non-interest income			
Gain on investment		823,860,830	66,926,210
Fees and services income		28,567,208	29,237,440
Net gain (loss) on foreign currency exchange		2,983,965,088	(909,071,621)
Other income	17, 19	<u>259,487,152</u>	<u>792,536,420</u>
Total non-interest income		<u>4,095,880,278</u>	<u>(20,371,551)</u>
Non-interest expenses			
Personnel expenses		168,145,725	198,971,149
Premise and equipment expenses		32,241,468	32,796,482
Taxes and duties		41,685,890	80,653,766
Fees and services expenses	19	236,620,117	149,849,806
Other expenses	18, 19	<u>2,081,278,026</u>	<u>224,876,495</u>
Total non-interest expenses		<u>2,559,971,226</u>	<u>687,147,698</u>
Profit before income tax		2,387,226,914	44,514,007
Income tax		<u>(106,964,460)</u>	<u>-</u>
Net profit for the year		<u>2,280,262,454</u>	<u>44,514,007</u>

The notes to financial statements on pages 9 to 37 form an integral part of these financial statements.

JPMorgan Chase Bank, N.A. - Bangkok Branch

Statements of Changes in Head Office's Equity and balances with other branches under the same entity

For the years ended 31 December 2008 and 2007

	Fund remitted into Thailand for maintaining assets under law	Net balance of inter-office accounts with Head Office and other branches under the same entity	Retained earnings	Unrealised gain (loss) on changes in fair value of available-for-sale securities	Total
	Baht	Baht	Baht	Baht	Baht
Balance at 31 December 2006	5,729,416,000	219,232,493	708,118,475	(551,864)	6,656,215,104
Loss replenishment from Head Office	-	-	5,531,929	-	5,531,929
Profit remitted to Head Office	-	-	(713,650,404)	-	(713,650,404)
Remittance tax on profit to be remitted to Head Office	-	-	(4,451,401)	-	(4,451,401)
Increase during the year	3,383,200,000	324,242,428	-	-	3,707,442,428
Unrealised gain on changes in fair value of available-for-sale securities	-	-	-	19,005,164	19,005,164
Net profit for the year	-	-	44,514,007	-	44,514,007
Balance at 31 December 2007	<u>9,112,616,000</u>	<u>543,474,921</u>	<u>40,062,606</u>	<u>18,453,300</u>	<u>9,714,606,827</u>
Balance at 31 December 2007	9,112,616,000	543,474,921	40,062,606	18,453,300	9,714,606,827
Profit remitted to Head Office	-	-	(40,062,606)	-	(40,062,606)
Remittance tax on profit to be remitted to Head Office	-	-	(184,187,049)	-	(184,187,049)
Decrease during the year	-	(20,337,313)	-	-	(20,337,313)
Unrealised gain on changes in fair value of available-for-sale securities	-	-	-	264,077,579	264,077,579
Net profit for the year	-	-	2,280,262,454	-	2,280,262,454
Balance at 31 December 2008	<u>9,112,616,000</u>	<u>523,137,608</u>	<u>2,096,075,405</u>	<u>282,530,879</u>	<u>12,014,359,892</u>

The notes to financial statements on pages 9 to 37 form an integral part of these financial statements.

JPMorgan Chase Bank, N.A. - Bangkok Branch
Statements of Cash Flows
For the years ended 31 December 2008 and 2007

	2008	2007
	Baht	Baht
Cash flows from operating activities:		
Net profit before income tax	2,387,226,914	44,514,007
Adjustments to reconcile net profit before income tax to net cash provided by (used in) operating activities:		
Reversal of bad debt and doubtful accounts	(9,486,182)	(19,300,000)
Depreciation and amortisation	23,341,971	21,159,994
Unrealised (gain) loss on changes in fair value of trading securities	(826,814,123)	201,338,459
Unrealised gain on change in fair value of general investments	(11,192,796)	(1,434,975)
(Gain) loss on sales of investments in securities	10,008,355	(1,392,609)
Amortised discount on investments in securities	(484,307,811)	(600,394,460)
(Gain) loss on disposal of equipment	254,191	(142,339)
Loss on write-off of leasehold improvement	260,367	-
Unrealised (gain) loss on changes in fair value of financial derivative instruments	865,878,047	(2,575,065,728)
Interest income	(1,180,086,673)	(1,278,965,825)
Interest expense	338,254,993	546,232,569
Operating profit (loss) before changes in operating assets and liabilities	1,113,337,253	(3,663,450,907)
(Increase) decrease in operating assets:		
Interbank and money market items	843,675,000	(843,675,000)
Trading securities	(630,461,497)	(4,912,048,775)
Loans	767,836,618	(428,122,073)
Accounts receivable from securities trading	(1,004,276,159)	1,606,849,806
Other assets	624,458,109	(563,283,909)
Increase (decrease) in operating liabilities:		
Deposits	1,798,632,589	3,929,898,005
Interbank and money market items	(3,560,034,833)	8,583,330,852
Demand liabilities	(51,243,375)	92,229,230
Borrowings	606,091,177	1,500,084,639
Accounts payable from securities trading	388,180,620	942,816,037
Other liabilities	(643,160,955)	684,982,149
Net balance of inter-office accounts with Head Office and other branches abroad	(3,439,509)	311,798,065
Net cash provided by operating activities before interest received, interest paid and income tax paid - carried forward	249,595,038	7,241,408,119

The notes to financial statements on pages 9 to 37 form an integral part of these financial statements.

JPMorgan Chase Bank, N.A. - Bangkok Branch
Statements of Cash Flows
For the years ended 31 December 2008 and 2007

	2008	2007
	Baht	Baht
Net cash provided by operating activities before interest received, interest paid and income tax paid - brought forward	249,595,038	7,241,408,119
Interest received	1,205,337,298	1,148,846,319
Interest paid	(339,921,432)	(559,053,211)
Income tax paid	(6,518,016)	(4,535,788)
Net cash provided by operating activities	1,108,492,888	7,826,665,439
Cash flows from investing activities:		
Purchases of investments in securities	(28,647,302,864)	(27,750,686,368)
Proceeds from sales of investments in securities	2,594,325,240	2,440,121,954
Proceeds from matured investments in securities	25,074,300,000	14,990,000,000
Proceeds from sales of equipment	56,000	143,000
Purchase of equipment	(11,460,582)	(8,689,353)
Purchase of leasehold improvement	(496,801)	(30,981,144)
Net cash used in investing activities:	(990,579,007)	(10,360,091,911)
Cash flows from financing activities		
Fund remitted into Thailand	-	3,383,200,000
Loss replenishment from Head Office	-	5,531,929
Profit remitted to Head Office	(40,062,606)	(713,650,404)
Remittance tax to Head Office	(4,451,401)	(79,294,490)
Net cash provided by (used in) financing activities	(44,514,007)	2,595,787,035
Net increase in cash and cash equivalents	73,399,874	62,360,563
Cash and cash equivalents at beginning of the year	356,720,631	294,360,068
Cash and cash equivalents at end of the year	430,120,505	356,720,631
Cash and cash equivalents		
Cash on hand	7,087,092	7,730,479
Interbank and money market items	406,130,418	348,984,960
Net inter-office accounts with Head office and other branches abroad	16,902,995	5,192
	430,120,505	356,720,631

The notes to financial statements on pages 9 to 37 form an integral part of these financial statements.

1 General information

JPMorgan Chase Bank, N.A., which is a bank established under the law of the State of New York, United States of America, operates as a full branch in Thailand, namely Bangkok Branch, herein referred to as "the Bank". The address of the Bank's registration in Thailand is as follows:

Bubhakit Building, 20 North Sathorn Road, Silom, Bangrak, Bangkok 10500.

The Bank's financial statements have been approved for issue by the Bank's management on 20 April 2009.

2 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

2.1 Basis of preparation of financial statements

The Bangkok Branch is a segment of JPMorgan Chase Bank, N.A. and is not separate legal entities. The financial statements of the Thailand operations of JPMorgan Chase Bank have been prepared from the records of the Thailand operations and only reflect transaction recorded locally.

The financial statements have been prepared in accordance with procedures, policies and notifications of the Bank of Thailand regarding the preparation of the financial statements of commercial banks and the generally accepted accounting principles in Thailand under the Accounting Act B.E. 2543, being those Thai Accounting Standards under the Accounting Profession Act B.E. 2547.

The Bank has chosen not to apply Thai Accounting Standard No. 48, Financial Instruments: Disclosure and Presentation. The application of this standard is not mandatory for non-public companies.

The Bank's financial statements have been prepared under the historical cost convention except some of transactions as disclosed in the accounting policies below.

The preparation of financial statements in conformity with Thai generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses in the reported periods. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

An English version of the financial statements has been prepared from the statutory financial statements that are in Thai language. In the event of a conflict or a difference in interpretation between the two languages, the Thai language statutory financial statements shall prevail.

2 Accounting policies (Cont'd)

2.2 New accounting standard and amendments to accounting standards

During 2007 and 2008, the Federation of Accounting Profession ("FAP") has announced new and amendments to Thai Accounting Standard ("TAS") as follows:

Revised accounting standards

TAS 25 (Revised 2007) "Cash Flow Statements"
TAS 29 (Revised 2007) "Leases"
TAS 31 (Revised 2007) "Inventories"
TAS 33 (Revised 2007) "Borrowing Costs"
TAS 35 (Revised 2007) "Presentation of Financial Statements"
TAS 39 (Revised 2007) "Accounting Policies, Changes in Accounting Estimates and Errors"
TAS 41 (Revised 2007) "Interim Financial Reporting"
TAS 43 (Revised 2007) "Business Combinations"
TAS 49 (Revised 2007) "Construction Contracts"

New accounting standard

TAS 51 "Intangible Assets"

The amendments to accounting standards and the new accounting standard are effective for the period beginning on or after 1 January 2008 except TAS 29 which is effective for the lease contract started on or after 1 January 2008.

TAS 29, 31, 33, 41, 43 and 49 are not relevant for the Bank.

TAS 25, 39 and 51 did not result in substantial effect to the Bank's financial statements, except that TAS 35 (Revised 2007) has affected the presentation of other disclosures as discussed in Note 2.20.

The revised and new accounting standards that are not yet effective and have not been early adopted by the Bank are as follows:

TAS 36 "Impairment of Assets"
TAS 54 "Non-current Assets Held for Sale and Discontinued Operating"

Those two standards are not expected to have a material impact on the financial statements.

2 Accounting policies (Cont'd)

2.3 Accounting principles in the United States of America which the Bank applies

The Bank has applied accounting principles in the United States of America for recording of deposits and borrowings with embedded derivatives as well as financial derivatives in absence of present TAS. Those principles come from the following standards:

- **FAS 155 Accounting for Certain Hybrid Financial Instruments**

The Bank has applied the accounting principle in this standard to record deposits and borrowings with embedded derivatives by presenting them at fair value and recording such change of fair value in the statement of income.

- **FAS 157 Fair Value Measurement**

The Bank has applied the accounting principle in this standard to measure fair value of all financial derivatives.

- **FAS 159 Fair Value Option**

The Bank has selected to use Fair Value Option for deposits and borrowings with embedded derivatives by presenting them at fair value and recording such change of fair value in the statement of income.

2.4 Recognition of income

Interest income is recognised on an accrual basis. The Bank discontinues recognition of overdue accrued interest income more than three months since the due date or there is uncertainty of collectability, and a collection basis is applied. The Bank also reverses interest income on such loans in order to comply with the Bank of Thailand's notification.

Interest on investment in debt securities is recognised as income on an accrual basis using the effective interest rate method.

Other income is recognised as income on an accrual basis.

2.5 Recognition of interest expenses

Interest on borrowings and deposits is recognised as expense on an accrual basis.

2.6 Provisions

In addition to employee benefits, provisions are recognised when Bank has a present legal or constructive obligation as a result of past events. It is probable that an outflow of resources will be required to settle the obligations, and a reliable estimate of the amount can be made. Where the Bank expects provisions to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

2 Accounting policies (Cont'd)

2.7 Offsetting

Financial assets and financial liabilities are presented in the balance sheet by the net amount when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the financial asset and settle the financial liability simultaneously.

2.8 Foreign currency translation

Items included in the financial statements are measured using Thai Baht. The financial statements are presented in Thai Baht.

Foreign currency transactions are translated into Thai Baht using the exchange rates prevailing at the date of the transactions. Foreign currency assets and liabilities outstanding at the balance sheet date are translated into Thai Baht using the reference rates of exchange of the Bank of Thailand ruling at that date.

Gains and losses resulting from the settlement of such transactions and from the translation of such monetary assets and liabilities are recognised in the statements of income when incurred.

2.9 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the statements of cash flows, cash and cash equivalents comprise of cash and deposits held at call with other banks.

2.10 Securities purchased under resale agreements and securities sold under repurchase agreements

Securities purchased under agreements to resell and securities sold under agreements to repurchase are recorded as assets and liabilities as appropriate. Interest income from securities purchased under resale agreements and interest expense from securities sold under repurchase agreements are recognised on an accrual basis over the respective periods of the agreements.

2.11 Investments

Investments in debt securities which are classified as trading securities are carried at fair value. Fair value of debt securities, not traded in the established market, is calculated by reference to the risk-free yield curve adjusted by an appropriate risk premium. Increases or decreases in the carrying amount are recognised in statements of income when incurred.

2 Accounting policies (Cont'd)

2.11 Investments (Cont'd)

Investments in debt securities which are classified as available-for-sale securities are carried at fair value. Fair value of debt securities, not traded in the established market, is calculated by reference to the risk-free yield curve adjusted by an appropriate risk premium. Increases or decreases in the carrying amount are credited or charged against unrealised gains or losses on investments in securities under Head Office's equity and balances with other branches under the same entity.

Investments in marketable equity securities which are classified as available-for-sale securities are carried at fair market value traded in Stock Exchange of Thailand. Increases or decreases in the carrying amount are credited or charged against unrealised gains or losses on investments in securities under Head Office's equity and balances with other branches under the same entity.

Investments in non-marketable equity securities which are classified as general investments are stated at cost less allowance for impairment in value.

A test for impairment is carried out when there is a factor indicating that such investment might be impaired. If the carrying value of the investment is greater than its recoverable amount, impairment loss is charged to statement of income.

The Bank uses the First-in, First-out method in determining the cost of the disposed securities. Gains or losses on disposal of investments are taken to the statements of income in the period which the transactions take place.

2.12 Loans and allowance for doubtful accounts

Loans are generally stated at the principal amounts outstanding. The allowance increases by provisions charged to expense and decreased by write-offs, net of recoveries. The allowance is based on the management's review and assessment of the status of individual debtor as well as the Bank of Thailand's guidelines. Such assessment takes into consideration various factors including the risks involved, the value of collateral and the status of individual debtor including the relationship of allowance for doubtful debts against the loan balance through the economic situation which may have impact on the customers' ability to pay.

2.13 Troubled debt restructuring

The Bank records assets or equity received in settlement of debts at the lower of the fair values of the assets or equity securities, less estimated selling expenses (if any), or the amount of investment in receivables (including accrued interest income).

In case that the debt restructuring involves modification of terms of receivables, the fair value of investments in receivables after restructuring is based on the net present value of the expected future cash flows, discounted by the Minimum Lending Rates (MLR) prevailing at the restructuring date.

Losses arising from restructuring, less recorded allowance for doubtful accounts, are recognised in the statements of income when incurred.

Legal fees and other direct costs incurred to effect the debt restructuring are expensed when incurred.

2 Accounting policies (Cont'd)

2.14 Equipment

Equipment is stated at historical cost less accumulated depreciation. Depreciation is calculated on a straight-line method over the estimated useful lives of 3 - 5 years and 10 years.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Estimated recoverable amount is the higher of the anticipated discounted future cash flows from the continuing use of the asset or the amount obtainable from the sale of the asset less any costs of disposal.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Repairs and maintenance are charged to the statements of income during the accounting period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Bank. Major renovations are depreciated over the remaining useful life of the related asset.

2.15 Leasehold right

The cost of leasehold right on building for the period of 30 years, which is presented as other assets, is amortised as an operating expense on a straight-line method over the life of the agreement.

2.16 Provident fund

The Bank operates a provident fund, being a defined contribution plan, the assets for which are held in a separate trustee-administered fund. The provident fund is funded by payments from employees and by the Bank.

The Bank's contributions to the provident fund are charged to the statements of income.

2.17 Related parties

Enterprises or individuals that, directly or indirectly through one or more intermediaries, control, or are under controlled by, or are under common control with, the Bank, including holding companies, subsidiaries and fellow subsidiaries are related parties of the Bank. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, key management personnel, including directors and officers of the Bank and close members of the family of these individuals and companies associated with these individuals also constitute related parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

2 Accounting policies (Cont'd)

2.18 Derivatives

Derivative financial instruments including foreign exchange forward contracts, forward rate agreements, currency option agreements, interest rate option agreements and interest and currency swap agreements are recognised at fair values. Fair values are obtained from quoted market prices, or other widely used methods such as discounted cash flow models. Changes in fair value are reflected in the statements of income.

2.19 Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2.20 Critical accounting estimates, assumption and judgements

Estimates assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment of loans

The Bank maintains an allowance for doubtful accounts to reflect impairment of loans relating to estimated losses resulting from the inability of customers to make required payments. Management believed that estimation are reasonable.

Impairment of investments

Investments are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recovered. In determining the impairment losses, the management believed that estimation are reasonable.

Fair value of financial derivative instruments

In determining the fair value of financial derivative instruments, the management has made judgement in valuing derivative instruments by using widely accepted valuation techniques and guidelines. Management believed that estimation are reasonable.

Equipments

Management determines and reviews the estimated useful lives and residual values for the Bank's equipments and revises if they are different from previously estimated. Management believed that estimation are reasonable.

3 Interbank and money market items

Interbank and money market items consist of the followings:

	2008		
	Demand Baht	Time Baht	Total Baht
Domestic items			
The Bank of Thailand	186,243,350	-	186,243,350
Commercial banks	105,692,702	-	105,692,702
Total	291,936,052	-	291,936,052
<u>Add</u> Accrued interest receivable	-	-	-
Total domestic items	291,936,052	-	291,936,052
Foreign items			
Japanese Yen	86,369,597	-	86,369,597
Euro	17,584,442	-	17,584,442
Danish Krone	3,000,878	-	3,000,878
Others	7,239,449	-	7,239,449
Total	114,194,366	-	114,194,366
<u>Add</u> Accrued interest receivable	-	-	-
Total foreign items	114,194,366	-	114,194,366
Total interbank and money market items	406,130,418	-	406,130,418
2007			
	2007		
	Demand Baht	Time Baht	Total Baht
Domestic items			
The Bank of Thailand	72,737,229	-	72,737,229
Commercial banks	145,458,230	-	145,458,230
Total	218,195,459	-	218,195,459
<u>Add</u> Accrued interest receivable	-	-	-
Total domestic items	218,195,459	-	218,195,459
Foreign items			
US Dollar	-	843,675,000	843,675,000
Japanese Yen	109,923,884	-	109,923,884
Euro	1,870,178	-	1,870,178
Danish Krone	2,880,354	-	2,880,354
Others	16,115,085	-	16,115,085
Total	130,789,501	843,675,000	974,464,501
<u>Add</u> Accrued interest receivable	-	12,600,286	12,600,286
Total foreign items	130,789,501	856,275,286	987,064,787
Total interbank and money market items	348,984,960	856,275,286	1,205,260,246

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4 Investments, net

Investments as at 31 December comprised of the followings:

	2008		2007	
	Cost/ Book value Baht	Fair value Baht	Cost/ Book value Baht	Fair value Baht
Short-term investment				
Trading securities				
Government and state enterprise securities	6,465,111,777	6,619,021,910	5,834,650,280	5,657,500,645
Other corporate enterprise securities	2,285,664,924	2,719,935,244	2,285,664,924	2,224,180,889
Add(less) Mark to market adjustment	588,180,453	-	(238,633,670)	-
Total	9,338,957,154	9,338,957,154	7,881,681,534	7,881,681,534
Available-for-sale securities				
Government and state enterprise securities	16,192,552,994	16,300,572,061	18,826,934,833	18,840,224,546
Add(less) Mark to market adjustment	108,019,067	-	13,289,713	-
Total	16,300,572,061	16,300,572,061	18,840,224,546	18,840,224,546
Total short-term investments, net	25,639,529,215	25,639,529,215	26,721,906,080	26,721,906,080
Long-term investments				
Available-for-sale securities				
Government and state enterprise securities	6,103,300,812	6,289,435,913	2,015,941,894	2,021,105,480
Marketable equity securities	16,932,693	5,309,403	-	-
Add(less) Mark to market adjustment	174,511,811	-	5,163,586	-
Total	6,294,745,316	6,294,745,316	2,021,105,480	2,021,105,480
General investments				
Non-marketable equity securities	1		16,932,694	
Add(less) Allowance for impairment	-		(11,192,797)	
Total	1		5,739,897	
Total long-term investment, net	6,294,745,317		2,026,845,377	
Total investments, net	31,934,274,532		28,748,751,457	

4 Investments, net (Cont'd)

Available-for-sale debt instruments classified according to their remaining lives to maturity are as follows:

	2008			
	Up to 1 year Baht	Over 1 year to 5 years Baht	Over 5 years Baht	Total Baht
Government and state enterprise securities	16,300,572,061	5,535,052,073	754,383,840	22,590,007,974
Total	16,300,572,061	5,535,052,073	754,383,840	22,590,007,974

	2007			
	Up to 1 year Baht	Over 1 year to 5 years Baht	Over 5 years Baht	Total Baht
Government and state enterprise securities	18,840,224,546	2,021,105,480	-	20,861,330,026
Total	18,840,224,546	2,021,105,480	-	20,861,330,026

5 Loans and interest receivables

5.1 Grouped by products:

	2008 Baht	2007 Baht
Overdrafts	19,563,955	13,873
Loans	658,225,042	1,445,611,742
Total loans	677,788,997	1,445,625,615
<u>Add</u> Interest receivables	8,686,655	28,318,751
<u>Less</u> Allowance for doubtful accounts	(8,888,370)	(18,374,552)
Total loans and interest receivables, net	677,587,282	1,455,569,814

5.2 Grouped by remaining maturity periods:

	2008 Baht	2007 Baht
Less than 1 year	675,465,418	1,443,220,283
Over than 1 year	2,323,579	2,405,332
Total loans	677,788,997	1,445,625,615
Interest receivables	8,686,655	28,318,751
Total loans and interest receivables	686,475,652	1,473,944,366

5 Loans and interest receivables (Cont'd)

5.3 Grouped by currencies and residencies of customers:

	2008		
	Domestic Baht	Foreign Baht	Total Baht
Thai Baht	120,185,948	-	120,185,948
US Dollar	557,603,049	-	557,603,049
Total loans	677,788,997	-	677,788,997
Interest receivables	8,686,655	-	8,686,655
Total loans and receivables	686,475,652	-	686,475,652

	2007		
	Domestic Baht	Foreign Baht	Total Baht
Thai Baht	739,392,416	-	739,392,416
US Dollar	706,233,199	-	706,233,199
Total loans	1,445,625,615	-	1,445,625,615
Interest receivables	28,318,751	-	28,318,751
Total loans and receivables	1,473,944,366	-	1,473,944,366

5.4 Grouped by type of business and classification:

	2008				
	Normal	Special mention	Substandard	Doubtful	Doubtful loss
Manufacturing and commerce	557,603,049	-	90,000,000	-	5,901,327
Utilities and services	19,563,954	-	-	-	-
Others	2,323,579	-	-	-	2,397,088
Total loans	579,490,582	-	90,000,000	-	8,298,415
Interest receivables	8,159,136	-	527,055	-	464
Total loans and receivables	587,649,718	-	90,527,055	-	8,298,879

	2007				
	Normal	Special mention	Substandard	Doubtful	Doubtful loss
Manufacturing and commerce	715,247,072	-	120,000,000	-	4,664,827
Engineering and construction	569,706,050	-	-	-	-
Utilities and services	30,246,714	-	-	-	-
Others	5,323,112	-	-	-	437,840
Total loans	1,320,522,948	-	120,000,000	-	5,102,667
Interest receivables	27,026,945	-	1,291,562	-	244
Total loans and receivables	1,347,549,893	-	121,291,562	-	5,102,911

5 Loans and interest receivables (Cont'd)

5.5 Grouped by classifications:

Classified loans and accrued interest receivables and the allowance for doubtful accounts in accordance with guidelines of the Bank of Thailand (BOT) are as follows:

Classifications	2008			
	Loans and accrued interest receivables Baht	Loans net of collateral Baht	Allowance for doubtful accounts Minimum % required according to BOT guidelines	Total allowance recorded Baht
Normal	579,490,582	58,949,086	1	589,491
Substandard	90,527,055	-	-	-
Doubtful loss	8,298,879	8,298,879	100	8,298,879
Accrued interest receivable of normal loan	8,159,136	-	-	-
Total	686,475,652	67,247,965		8,888,370
Additional allowance				-
Total				8,888,370

Classifications	2007			
	Loans and accrued interest receivables Baht	Loans net of collateral Baht	Allowance for doubtful accounts Minimum % required according to BOT guidelines	Total allowance recorded Baht
Normal	1,320,522,948	1,320,522,948	1	13,205,229
Substandard	121,291,562	-	-	-
Doubtful loss	5,102,911	5,102,911	100	5,102,911
Accrued interest receivable of normal loan	27,026,945	-	-	-
Total	1,473,944,366	1,325,625,859		18,308,140
Additional allowance				66,412
Total				18,374,552

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6 Allowance for doubtful accounts

	2008					
	Normal	Special mention	Substandard	Doubtful	Doubtful loss	Total
Balance at beginning of the year	13,271,641	-	-	-	5,102,911	18,374,552
Allowance for doubtful accounts	-	-	-	-	3,195,968	3,195,968
Reversal of allowance for doubtful accounts	(12,682,150)	-	-	-	-	(12,682,150)
Balance at end of the year	589,491	-	-	-	8,298,879	8,888,370

	2007					
	Normal	Special mention	Substandard	Doubtful	Doubtful loss	Total
Balance at beginning of the year	9,009,725	-	24,000,000	-	4,664,827	37,674,552
Allowance for doubtful accounts	4,261,916	-	-	-	438,084	4,700,000
Reversal of allowance for doubtful accounts	-	-	(24,000,000)	-	-	(24,000,000)
Balance at end of the year	13,271,641	-	-	-	5,102,911	18,374,552

As at 31 December 2007, the allowance for doubtful accounts recorded at the Bank as presented above is in accordance with the policy at head office abroad and is higher than the Bank of Thailand requirement according to the notification of the Bank of Thailand related to worthless or irrecoverable assets and other doubtful assets which may be worthless or irrecoverable of banking business.

7 Troubled debts restructuring

During the year 2008 and 2007, there was no additional troubled debts restructuring.

As at 31 December 2008, the Bank has no outstanding loans which have been restructured (2007: Baht 30 million). During the year ended 31 December 2008, the Bank did not have interest income from restructured loans (2007: Baht 2 million).

As at 31 December 2008 and 2007, the Bank has no commitment to lend additional funds to the restructured customers.

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8 Equipment, net

	Computer equipment Baht	Office equipment Baht	Furnitures, fixture & fitting Baht	Motor vehicles Baht	Total Baht
As at 31 December 2007					
Cost	66,194,469	51,988,978	39,567,414	48,000	157,798,861
<u>Less</u> Accumulated depreciation	<u>(51,706,516)</u>	<u>(33,276,188)</u>	<u>(33,497,946)</u>	<u>(47,999)</u>	<u>(118,528,649)</u>
Net book value	<u>14,487,953</u>	<u>18,712,790</u>	<u>6,069,468</u>	<u>1</u>	<u>39,270,212</u>
For the year ended 31 December 2008					
Opening net book value	14,487,953	18,712,790	6,069,468	1	39,270,212
Additions/transfer	2,214,930	8,920,065	325,587	-	11,460,582
Disposals - cost	(24,876,515)	(14,433,127)	(1,564,965)	-	(40,874,607)
Disposals - accumulated depreciation	25,094,090	14,176,201	1,294,125	-	40,564,416
Depreciation charge	<u>(9,119,892)</u>	<u>(5,560,362)</u>	<u>(713,589)</u>	<u>-</u>	<u>(15,393,843)</u>
Closing net book value	<u>7,800,566</u>	<u>21,815,567</u>	<u>5,410,626</u>	<u>1</u>	<u>35,026,760</u>
As at 31 December 2008					
Cost	43,532,884	46,475,916	38,328,036	48,000	128,384,836
<u>Less</u> Accumulated depreciation	<u>(35,732,318)</u>	<u>(24,660,349)</u>	<u>(32,917,410)</u>	<u>(47,999)</u>	<u>(93,358,076)</u>
Net book value	<u>7,800,566</u>	<u>21,815,567</u>	<u>5,410,626</u>	<u>1</u>	<u>35,026,760</u>

Initial cost of asset, which has already fully depreciated as at 31 December 2008, but the Bank still uses such assets is Baht 71 million (2007: Baht 123 million).

9 Other assets, net

Other assets as at 31 December comprised of the followings:

	2008 Baht	2007 Baht
Leasehold right and leasehold improvement, net	97,710,796	105,422,490
Accrued interest receivables	176,726,088	169,744,331
Accounts receivable regarding unremunerated reserve requirement	-	613,231,200
Other receivables	1,602,863	18,827,080
Prepaid expenses	2,739,668	5,158,318
Others	<u>8,415,958</u>	<u>-</u>
Total other assets	<u>287,195,373</u>	<u>912,383,419</u>
The amortisation cost of leasehold right and depreciation of leasehold improvement for the year	<u>7,948,128</u>	<u>6,947,577</u>

10 Deposits

10.1 Grouped by type of deposits:

	2008 Baht	2007 Baht
Demand	376,404,250	410,686,437
Savings	6,746,739,392	4,913,824,616
Total	7,123,143,642	5,324,511,053

10.2 Grouped by remaining maturity periods:

	2008 Baht	2007 Baht
Less than 1 year	7,123,143,642	5,324,511,053
Over than 1 year	-	-
Total	7,123,143,642	5,324,511,053

10.3 Grouped by currencies and residencies of depositors:

	2008		
	Domestic Baht	Foreign Baht	Total Baht
Thai Baht	6,875,978,779	5,360,115	6,881,338,894
US Dollar	241,804,748	-	241,804,748
Total	7,117,783,527	5,360,115	7,123,143,642

	2007		
	Domestic Baht	Foreign Baht	Total Baht
Thai Baht	4,421,046,491	4,488,280	4,425,534,771
US Dollar	898,976,282	-	898,976,282
Total	5,320,022,773	4,488,280	5,324,511,053

11 Interbank and money market items

Interbank and money market items consist of deposits, borrowings and borrowings with embedded derivatives:

2008			
	Demand Baht	Time Baht	Total Baht
Domestic items			
Local banks	-	4,752,356,250	4,752,356,250
Life insurance companies	-	6,030,000,000	6,030,000,000
Securities company	78,539,197	1,745,000,000	1,823,539,197
Total domestic items	78,539,197	12,527,356,250	12,605,895,447
Foreign items			
Thai Baht	113,431	-	113,431
Total foreign items	113,431	-	113,431
Total interbank and money market items	78,652,628	12,527,356,250	12,606,008,878
2007			
	Demand Baht	Time Baht	Total Baht
Domestic items			
Local banks	-	8,875,353,100	8,875,353,100
Life insurance companies	-	4,450,000,000	4,450,000,000
Securities company	14,335,369	1,139,000,000	1,153,335,369
Total domestic items	14,335,369	14,464,353,100	14,478,688,469
Foreign items			
Thai Baht	5,242	-	5,242
US Dollar	-	1,687,350,000	1,687,350,000
Total foreign items	5,242	1,687,350,000	1,687,355,242
Total interbank and money market items	14,340,611	16,151,703,100	16,166,043,711

12 Borrowings

Borrowings are promissory notes and bills of exchange linked to embedded derivatives which comprise of interest rate indices, price of equity indices abroad and other financial indices. The balances are classified by remaining periods as follows:

	2008 Baht	2007 Baht
Maturity within 3 months	100,000,000	-
Maturity between 3 - 12 months	850,000,000	99,528,900
Maturity between 1 - 5 years	1,525,704,716	1,770,084,639
Total borrowings	2,475,704,716	1,869,613,539

Borrowings grouped by currencies and residencies of customers:

	2008		
	Domestic Baht	Foreign Baht	Total Baht
Thai Baht	2,475,704,716	-	2,475,704,716
Total	2,475,704,716	-	2,475,704,716

	2007		
	Domestic Baht	Foreign Baht	Total Baht
Thai Baht	1,869,613,539	-	1,869,613,539
Total	1,869,613,539	-	1,869,613,539

13 Other liabilities

Other liabilities as at 31 December comprised of the followings:

	2008 Baht	2007 Baht
Accrued interest payable	75,490,295	77,156,734
Profit remittance tax payable	184,187,049	4,451,401
Accrued bonuses	39,956,418	67,812,460
Income tax payable	100,446,444	-
Accounts payable regarding unremunerated reserve requirement	-	613,231,200
Others	166,563,035	168,636,747
Total other liabilities	566,643,241	931,288,542

14 Unrealised gain (loss) on changes in fair value of available-for-sale securities

Unrealised gain (loss) on changes in fair value of available-for-sale securities comprised of:

	2008 Baht	2007 Baht
Unrealised gain on changes in fair value of available-for-sale securities	306,667,023	18,809,967
Unrealised loss on changes in fair value of available-for-sale securities	(24,136,144)	(356,667)
Total	282,530,879	18,453,300

15 Capital funds

Capital Funds of the Branch

	2008 Baht	2007 Baht
Assets maintained in accordance with Section 32	9,112,616,000	9,112,616,000
Total funds for maintaining assets in accordance with Section 32 and net balance of inter-office accounts		
Funds for maintaining assets in accordance with Section 32	9,112,616,000	9,112,616,000
Net inter-office balance which branch is debtor (creditor) of the head office, others branches and subsidiary	523,137,608	543,474,921
Total	9,635,753,608	9,656,090,921
Capital funds	9,112,616,000	9,112,616,000

Total capital fund to risk weighted assets ratio (%) 19.68

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16 Commitments

As at 31 December, the Bank has the following commitments which were incurred in the normal course of business.

	2008		
	Thai Baht Baht	Foreign currencies Baht	Total Baht
Letter of Credit Confirmation	-	2,897,873	2,897,873
Guarantees	75,471,463	198,012,532	273,483,995
Foreign exchange spot/forward purchase contracts	126,708,293,988	121,824,022,903	248,532,316,891
Foreign exchange spot/forward sale contracts	110,745,764,356	137,861,121,451	248,606,885,807
Interest rate option purchase contracts	10,854,704,716	10,871,542,683	21,726,247,399
Interest rate option sale contracts	6,295,759,141	11,020,053,621	17,315,812,762
Interest rate swap contracts	727,421,094,680	70,684,562,050	798,105,656,730
Foreign exchange call option			
Purchase contracts	-	10,010,562,601	10,010,562,601
Sale contracts	-	11,951,888,476	11,951,888,476
Foreign exchange put option			
Purchase contracts	-	5,970,239,320	5,970,239,320
Sale contracts	-	1,683,605,705	1,683,605,705
Cross currency swap			
Purchase contracts	25,782,163,058	37,014,384,395	62,796,547,453
Sale contracts	32,496,415,000	29,902,712,073	62,399,127,073
Interest rate option - Equity linked			
Purchase contract	-	67,164,664	67,164,664
Sale contract	64,000,000	-	64,000,000
Unused overdraft credit line	200,436,046	-	200,436,046
Unused credit facilities	-	349,437,500	349,437,500

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16 Commitments (Cont'd)

	2007		
	Thai Baht Baht	Foreign currencies Baht	Total Baht
Guarantees	54,367,524	4,125,239,374	4,179,606,898
Foreign exchange spot/forward purchase contracts	73,960,873,355	87,505,995,175	161,466,868,530
Foreign exchange spot/forward sale contracts	83,891,023,025	77,007,132,215	160,898,155,240
Interest rate option purchase contracts	10,905,084,639	3,423,051,228	14,328,135,867
Interest rate option sale contracts	11,832,680,201	3,220,569,228	15,053,249,429
Interest rate swap contracts	595,075,133,759	62,874,505,939	657,949,639,698
Foreign exchange call option			
Purchase contracts	-	2,255,480,199	2,255,480,199
Sale contracts	-	5,192,138,754	5,192,138,754
Foreign exchange put option			
Purchase contracts	-	9,353,113,401	9,353,113,401
Sale contracts	-	4,101,132,947	4,101,132,947
Cross currency swap			
Purchase contracts	46,040,499,609	28,317,860,791	74,358,360,400
Sale contracts	25,182,190,000	47,907,635,197	73,089,825,197
Unused overdraft credit line	159,986,127	-	159,986,127

The management anticipates no material losses as a result of these transactions.

17 Other income

Other income for the year ended 31 December comprised of the followings:

	2008 Baht	2007 Baht
Gain from derivative contracts	-	4,493,394
Gain from structured deposits and notes	-	485,521,785
Income sharing from financial derivative trading	198,661,940	245,537,520
Others	60,825,212	56,983,721
Total	259,487,152	792,536,420

18 Other expenses

Other expenses for the year ended 31 December comprised of the followings:

	2008	2007
	Baht	Baht
Contribution to Financial Institutions Development Fund/ Deposit Protection Agency	30,435,165	13,562,423
Communication expense	19,340,871	16,782,727
Other reserves	16,168,665	126,373,501
Loss from withholding tax written off	-	47,780,439
Loss from derivative contracts	1,002,567,395	-
Loss from structured deposits and notes	996,784,272	-
Others	15,981,658	20,377,405
Total	2,081,278,026	224,876,495

19 Related party transactions

The significant related party transactions are transacted with the Group companies of JPMorgan Chase.

The significant related party transactions, outstanding balance as of 31 December 2008 and 2007 and income and expenses for the years then ended consisted of the followings:

	2008	2007
	million Baht	million Baht
Balance sheets		
Interbank and money market items - assets	18	858
Interbank and money market items - liabilities	1,824	3,454
Net balance of inter-office accounts with Head Office and other branches under the same entity		
JPMorgan Chase Bank, NY	17	(544)
JPMorgan Chase Bank, London	2	-
JPMorgan Chase Bank, Hong Kong	(542)	-
Contingencies	279,092	228,906
	2008	2007
	million Baht	million Baht
Statements of income		
Interest income	10	46
Other income	210	329
Interest expense	116	116
Fees and services expenses and other expenses	201	101

Transactions between the Bank and related parties had been priced at and contain similar conditions with the Bank's general customers and conformed to normal course of banking business practice.

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20 Liquidity risk

The following table presents a maturity analysis for on balance sheet monetary assets and liabilities as at 31 December.

	2008						In million Baht
	At call	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No maturity	Total
Cash	7	-	-	-	-	-	7
Interbank and money market items	406	-	-	-	-	-	406
Investments	-	5,753	13,118	7,700	5,358	5	31,934
Loans and accrued interest receivables	-	260	416	-	2	8	686
Allowance for doubtful accounts	-	(1)	-	-	-	(8)	(9)
Other monetary assets	-	146	31	-	-	-	177
Total monetary assets	413	6,158	13,565	7,700	5,360	5	33,201
Deposits	7,123	-	-	-	-	-	7,123
Interbank and money market items	27	5,934	840	2,905	2,900	-	12,606
Accounts payable from securities trading	-	1,372	-	-	-	-	1,372
Demand liabilities	71	-	-	-	-	-	71
Borrowings	-	100	850	1,526	-	-	2,476
Other monetary liabilities	-	46	-	-	75	19	140
Total monetary liabilities	7,221	7,452	1,690	4,431	2,975	19	23,788
Liquidity, net	(6,808)	(1,294)	11,875	3,269	2,385	(14)	9,413

	2007						In million Baht
	At call	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No maturity	Total
Cash	8	-	-	-	-	-	8
Interbank and money market items	349	856	-	-	-	-	1,205
Investments	-	6,761	12,854	2,313	6,815	6	28,749
Loans and accrued interest receivables	-	1,168	299	-	2	5	1,474
Allowance for doubtful accounts	-	(10)	(3)	-	-	(5)	(18)
Other monetary assets	-	773	10	-	-	-	783
Total monetary assets	357	9,548	13,160	2,313	6,817	6	32,201
Deposits	5,324	-	-	-	-	-	5,324
Interbank and money market items	14	8,130	1,687	3,585	2,750	-	16,166
Accounts payable from securities trading	-	984	-	-	-	-	984
Demand liabilities	122	-	-	-	-	-	122
Borrowings	-	-	100	1,770	-	-	1,870
Other monetary liabilities	-	691	40	-	34	18	783
Total monetary liabilities	5,460	9,805	1,827	5,355	2,784	18	25,249
Liquidity, net	(5,103)	(257)	11,333	(3,042)	4,033	(12)	6,952

20 Liquidity risk (Cont'd)

The table above classified monetary assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. It is unusual for banks to have completely matched maturities since business transactions are often of uncertain terms and of different types. In addition, the Bank obtains a large proportion of domestic funding from customer deposits and foreign funding from Head Office and other branches abroad. The Bank has demonstrated that a substantial level of such funding provides a stable source of long term funding for the Bank.

The Bank has a liquidity risk management framework in place, supplementing the asset reserve requirement by the Bank of Thailand.

21 Currency risk

	In million Baht				
	2008				Total
	Baht	US Dollar	Japanese Yen	Others	
Cash	7	-	-	-	7
Interbank and money market items	292	-	86	28	406
Investments	31,934	-	-	-	31,934
Loans and accrued interest receivables, net	112	566	-	-	678
Accounts receivable from securities trading	1,004	-	-	-	1,004
Financial derivative assets	34,370	(150)	4,014	111	38,345
Equipment, net	35	-	-	-	35
Other assets	278	10	-	-	288
Total assets	68,032	426	4,100	139	72,697
Deposits	6,881	242	-	-	7,123
Interbank and money market items	10,964	1,642	-	-	12,606
Accounts payable from securities trading	1,372	-	-	-	1,372
Demand liabilities	71	-	-	-	71
Financial derivative liabilities	32,938	(257)	3,664	122	36,467
Borrowings	2,476	-	-	-	2,476
Other liabilities	345	221	-	1	567
Total liabilities	55,047	1,848	3,664	123	60,682
On-balance-sheet-net foreign currency position	12,985	(1,422)	436	16	12,015
Off-balance-sheet-net foreign currency position	1,040,444	417,725	29,513	1,825	1,489,507

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21 Currency risk (Cont'd)

	In million Baht				
	2007				
	Baht	US Dollar	Japanese Yen	Others	Total
Cash	8	-	-	-	8
Interbank and money market items	218	856	110	21	1,205
Investments	28,749	-	-	-	28,749
Loans and accrued interest receivables, net	732	724	-	-	1,456
Financial derivative assets	48,604	(34,335)	(1,829)	34	12,474
Equipment, net	39	-	-	-	39
Other assets	298	614	-	-	912
Total assets	78,648	(32,141)	(1,719)	55	44,843
Deposits	6,295	899	-	-	7,194
Interbank and money market items	14,232	1,934	-	-	16,166
Accounts payable from securities trading	984	-	-	-	984
Demand liabilities	123	-	-	-	123
Financial derivative liabilities	20,844	(9,143)	(1,971)	-	9,730
Other liabilities	219	711	-	1	931
Total liabilities	42,697	(5,599)	(1,971)	1	35,128
On-balance-sheet-net foreign currency position	35,951	(26,542)	252	54	9,715
Off-balance-sheet-net foreign currency position	846,942	308,104	24,722	2,458	1,182,226

22 Financial risk management

Strategy in using financial instruments

The Bank has developed and implemented comprehensive policies and procedures to identify, mitigate, and monitor risk across the entity, which are based on JPMorgan Chase policies. These practices rely on constant communication, judgment, and knowledge of products and markets by the people closest to them, combined with regular oversight by a central risk management group and senior management.

(a) Credit risk

Credit risk is the risk of losses resulting from failure by the Bank's counterparties and customers to meet their obligations. The carrying amount of cash and cash equivalents, loans to and bills receivable from customers, intercompany receivables, other current receivables and commitments represent the maximum exposure of the Bank to credit risk. With respect to derivative financial instruments, the maximum credit exposure of the Bank is represented by the positive fair values, mainly pertaining to derivative transactions with financial institutions, including intercompany balances.

"Know Your Customer" is the key element to credit risk management.

22 Financial risk management (Cont'd)

(a) Credit risk (Cont'd)

JPMorgan Chase has developed policies and practices that are designed to ensure that credit risks are accurately assessed, properly approved, continuously monitored and actively managed at both the transaction and portfolio levels. The policy framework establishes credit approval authorities, concentration limits, risk-rating methodologies, portfolio-review parameters and problem-loan management.

The Bank's capital will be committed following thorough research and analysis, utilising all expertise appropriately available in the organisation which may contribute to our risk assessment. Certain transactions will require special approval due to their risk attributes or level of sensitivity.

Officers with Credit Approval Authority are expected to understand the credit policies, guidelines and procedures applicable to their responsibilities.

The new business initiative process requires a thorough understanding of the credit risk (and all other forms of risk) inherent in all proposed activities or undertakings. New initiatives will only be introduced after appropriate new control systems are implemented, in accordance with the Bank's New Business Initiative Process.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral if applicable.

1) Derivatives

The Bank maintains strict control limits on net open derivative positions (ie, the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (ie, assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

2) Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

22 Financial risk management (Cont'd)

(a) Credit risk (Cont'd)

3) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit - which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties carry the same credit risk as loans. Documentary and commercial letters of credit which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(b) Market risk

Market risk comes mainly from trading and proprietary activities, and is the risk of losses arising from adverse movements in market prices. Market risks are most commonly sub-divided into interest rate risk, equity risk, foreign exchange risk and commodity risk, depending on whether the risk factor is an interest rate, a stock price, etc.

The portfolio effect of holding different instruments across a variety of business activities and asset classes helps to diversify the market risk the Bank is exposed to and reduces the potential losses from market risk.

The Bank's ability to measure and monitor potential losses that could arise from adverse changes in market conditions is key to managing market risks. Quantitative and qualitative measures are an integral and crucial part in the Bank's assessment of market risks.

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22 Financial risk management (Cont'd)

Financial instruments by category

					In million Baht
					2008
	Loans and receivables	Assets at fair value through the profit and loss	Derivatives used for hedging	Available for sale	Total
Assets as per balance sheet					
Cash and cash equivalents	430	-	-	-	430
Available-for-sale financial assets	-	-	-	22,595	22,595
Derivative financial instruments	-	38,345	-	-	38,345
Trading and other receivables excluding prepayments	1,860	-	-	-	1,860
Total	2,290	38,345	-	22,595	63,230
	Liabilities upon initial recognition	Liabilities at fair value through the profit and loss	Derivatives used for hedging	Other financial liabilities	Total
Liabilities as per balance sheet					
Deposits and Borrowings	2,476	-	-	7,123	9,599
Interbank and money market items	5,645	-	-	6,961	12,606
Derivative financial instruments	129	36,339	-	-	36,468
Trade and other payables excluding statutory liabilities	-	-	-	1,914	1,914
Total	8,250	36,339	-	15,998	60,587

22 Financial risk management (Cont'd)

Financial instruments by category (Cont'd)

	2007				In million Baht
	Loans and receivables	Assets at fair value through the profit and loss	Derivatives used for hedging	Available for sale	Total
Assets as per balance sheet					
Cash and cash equivalents	357	-	-	-	357
Available-for-sale financial assets	-	-	-	20,861	20,861
Derivative financial instruments	-	11,741	-	-	11,741
Trading and other receivables excluding prepayments	2,257	-	-	-	2,257
Total	2,614	11,741	-	20,861	35,216
	Liabilities upon initial recognition	Liabilities at fair value through the profit and loss	Derivatives used for hedging	Other financial liabilities	Total
Liabilities as per balance sheet					
Deposits and Borrowings	1,870	-	-	7,194	9,064
Interbank and money market items	5,635	-	-	10,531	16,166
Derivative financial instruments	(733)	9,730	-	-	8,997
Trade and other payables excluding statutory liabilities	-	-	-	1,900	1,900
Total	6,772	9,730	-	19,625	36,127

22 Financial risk management (Cont'd)

Structured deposits and notes with embedded derivatives

The Bank has selected to use Fair Value Option for deposits and borrowings with embedded derivatives by presenting them at fair value and recording such change of fair value in the statements of income.

Balance sheet items which the Bank adopted fair value option as at 31 December are as follows:

	2008	2007
	Baht	Baht
Interbank and money market items	5,645,000,000	5,635,000,000
Borrowings	2,475,704,716	1,869,613,539
Mark-to-market loss (gain) on structured deposits and notes with embedded derivatives	129,185,750	(733,024,782)
Total	<u>8,249,890,466</u>	<u>6,771,588,757</u>

For the year ended 31 December, the Bank recorded gain (loss) from structured deposits and notes with embedded derivatives as follows:

	2008	2007
	Baht	Baht
Gain (loss) from structured deposits and notes with embedded derivatives	<u>(996,784,272)</u>	<u>485,521,786</u>