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*SME BANK supports the Thai entrepreneurs  
with much more than funding*

## Vision

“To be the Bank which Promotes Sustainable Development of SMEs with Good Governance, Efficient Officers, and Good Financial Discipline”

## Mission

- Provide Financial Services that Respond to SMEs' Needs
- Give Nurture to New Entrepreneurs
- Support Existing SMEs to have Sustainable Growth
- Develop Good Governance in Management System
- Develop Effective HR Management System
- Improve Financial Performance

*Take care of*



**SMEs**

**In 1964**, the cabinet approved a financial strategy to promote and develop small industries, as proposed by the National Economic and Social Development Board (NESDB). A loan processing office for small industries was established under the Department of Industrial Promotion, Ministry of Industry's supervision to provide financial support to small manufacturing businesses. That office later became the Small Industry Finance Office (SIFO). However, SIFO's operations and growth were hampered by limited funds, which were dependent on state budget allocations.

**In 1991**, the government promulgated the Small Industry Finance Corporation Act and SIFO became the Small Industry Finance Corporation (SIFC) with registered capital of 300 Million Baht. Its status as a juristic person allowed SIFC to raise capital domestically and internationally.

**In 2000**, the government initiated policies using SIFC as a primary mechanism to assist small and medium enterprises, which are key drivers of the Thai economy. Ministry of Finance recapitalized SIFC by increasing its equity to 2.5 Billion Baht.

**On December 20, 2002**, the Small and Medium Enterprise Development Bank of Thailand Act was enacted, re-establishing SIFC as the Small and Medium Enterprise Development Bank of Thailand or SME BANK. The Bank's mandate was “to conduct business with the aim of developing, promoting and assisting small and medium enterprises to start-up, expand or improve their businesses by providing loans, guarantees, venture capital, counseling and other necessary services as prescribed by the Act.”

**In 2004**, SME BANK's capital was increased to 4.8 Billion Baht and to 7.3 Billion Baht in 2005.



## Chairman's Message



During 2006, everyone at SME BANK worked diligently to resolve problems associated with meeting previous government policy objectives of providing fast-track loans to small and medium enterprises that drive the nation's economy.

The government's policy-loan objectives were executed by SME BANK in 2004 and 2005, and resulted in a record number of loans granted. Although the government's loan objectives were met, SME BANK began experiencing problems with these loans in 2006.

SME BANK's financial fundamentals are affected by its policy role, typical of development bank in many other countries. Margins are low to keep its loans affordable to its customers. A legacy of Asian Financial Crisis-related problem loans and the inherent risks of its policy mandate have burdened the Bank with a high-level of non-performing loans.

During the 2004 and 2005 fast loan-growth period, the Bank did not have an appropriate credit evaluation infrastructure in place to handle the massive number of loans being processed. Nevertheless, the Bank continued processing these loans because its primary duty was to execute government policies to promote and develop small and medium size enterprises.

At the end of 2006, SME BANK was restructured with a new Board of Directors and a new management team that have begun implementing new strategies that will address the future successful development of the Bank.

The Bank's new strategic perspective is focused in three main areas:

1. Establishing a policy framework that will effectively and efficiently provide loans under the highest industry risk management standards and procedures.
2. Insuring that the Bank's officers and employees are provided with processes and procedures that allow them to operate as efficiently and effectively as other financial institutions.
3. Pro-actively developing new programs that will help the country's SMEs entrepreneurs attain to the necessary knowledge and skills to compete successfully at the global stage.

In conclusion, the Board of Directors would like to thank the Bank's management and all the employees for their cooperation in helping the Bank through a very trying year. With your continuing support, I am sure SME BANK will maintain its position as the primary supporter of small and medium enterprises in Thailand, key drivers of this country's economic growth and prosperity.

(Mr. Chakramon Phasukavanich)  
Chairman

## Chairman of Executive Directors Board's Message



The Small and Medium Enterprise Development Bank of Thailand (SME BANK) was established in 2002 with a mission to promote and develop sustainable small and medium enterprises and support the Thai economy's competitiveness in an increasingly globalized world.

To achieve its mission effectively, SME BANK must be more than just a lender. It must use its business experiences and resources to provide much-needed ancillary business services that will help SMEs clients build globally competitive businesses.

In 2006, SME BANK failed to achieve loan targets because of slow-down economic and a highly competitive financing market. During the year, we granted 8,163 new loans totaling 23,733.65 Million Baht. We also provided business advisory services to 18,167 businesses, (including 942 new entrepreneurs) through 14 different government supported projects.

SME BANK's entrepreneur development and assistant programs in 2006 were delivered to two specific groups of entrepreneurs.

- The first group was assisted under the "Care Entrepreneur Projects" that were supported by the Asset Capital Bureau. Under this program, SME BANK, Government Saving Bank and Bank of Agriculture and Agricultural Cooperatives assisted 20,747 retail entrepreneurs during 2006.

Mobile Public Relations Units traveled throughout 75 provinces in 2006 and provided loan information as part of the project. SME BANK Mobile units made presentations to 10,476 entrepreneurs in 7,416 sub-districts and 876 districts. The "Care Entrepreneur Projects" also focused on providing administrative management knowledge to retailers requesting Asset Capitalization Project loans from three banks (SME BANK, Government Savings Bank, and Bank of Agriculture and Agricultural Cooperatives). In 2006, 10,271 retailers attended training and 2,392 received loans totaling 325 Million Baht.

SME BANK also provided administrative management classes as well as follow-up classes for previous attendees. An additional 3,595 entrepreneurs attended accounting, financial management, and retail management workshops, with 1,190 individuals completing the courses.

- The Bank's operational management programs were attended by 4,586 clients. An Entrepreneur Upgrading Project included management workshops that upgraded business and financial management skills for small businesses. It included accounting courses, retail and warehouse management training as well as cost reduction techniques.

Our "Improving Doubtful Accounts" Project helped certain customers that were having difficulties repaying loans because of the poor economic environment and our "Business Heirs" courses provided valuable insight to individuals that were preparing to take-over family businesses from their parents and relatives.

In 2007, the Bank's Board of Directors will begin transforming the Bank's vision and mission to reflect the current difficult economic and political environment and at the same time prepare a viable business platform for sustainable future growth. More emphasis will be placed on implementing good corporate governance principles and developing efficient and effective work processes and procedures to improve the Bank's overall performance.

Strategically, we will implement pro-active measures to increase income, decrease expenses, and improve lending quality credit by revamping our organizational structure to decentralize loan approval authority so that loans can be efficiently granted under appropriate risk management processes.

Most importantly, we want to ensure that all stakeholders are proud to be associated with SME BANK and clearly understand its importance to the overall development of the Thai economy.

The Board of Executive Directors would like to express its sincere gratitude to the Government, shareholders, our alliance partners as well as all of the entrepreneurs who have given us their trust and support. We would also like to thank the Bank's management and all employees for their dedication and hard work.

(Mr. Somchai Sujjapongse)  
Chairman of Executive Directors Board



In 2006, SME BANK faced various negative external factors such as an economic-growth slow-down, domestic political turmoil and natural disasters that affected Thailand's overall economic development and the Bank's overall operational performance.

As a result, SME BANK did not reach many of its credit approval targets and more importantly began experiencing higher-levels of non-performing loans, requiring immediate urgent attention.

Despite the unfavorable environment, SME BANK continued pro-actively supporting SME development, particularly by providing them with much needed support services that help achieve sustainable long-term growth.

During the year, SME BANK also proudly received a quasi-sovereign rating from Moody's Investors Service of Baa1, the same rating as the Thai government. This rating will allow the Bank to obtain overseas funding at most favorable rates. Key factors for SME BANK's quasi-sovereign rating are Ministry of Finance(MOF)'s 97 per cent ownership and MOF and Ministry of Industry's continuous supervision.

Going forward, SME BANK's overall vision will be to become a Bank that promotes sustainable SME development with good governance, efficient operations and good financial discipline. Its mission to support existing SMEs by developing and promoting management systems that practice good governance, effective human resource management and improving the Bank's overall financial performance.

To achieve these goals, the organization's processes and procedures must be made more efficient and effective. The Bank will focus on the end-goal of providing speedier services by decentralizing credit approval authority to the regions and revamping its organizational structure, ie separating credit review and risk management departments. Another key organizational adjustment will be establishing an asset management department to more effectively manage the Bank's non-performing loans (NPLs).

Operationally in 2007, the Bank will focus on developing more non-financial service programs that will help our clients become more effective competitors in an increasingly competitive globalizing economic environment.

In conclusion, I would like to express my gratitude to the government, our shareholders and our alliance partners and perhaps more important, the SMEs that have placed their faith and trust in our Bank. I would also like to thank the Bank's executives and staff for their dedicated hard-work that will ensure SME BANK continues being a key driver of Thailand's economic growth and development.

(Mr. Pongsak Chewcharat)  
President



On April 25, 2000, the Thai Cabinet approved a draft framework for Audit Committee Guidelines for State Enterprises. Under these guidelines, all state enterprises must appoint Audit Committees to carry out duties and responsibilities as prescribed by the Ministry of Commerce.

SME BANK appointed a three-member Audit Committee on May 4, 2006 including: Mr. Yongyos Palanitisena, chairman, Mr. Threerawat Thanyalakpark, and Mr. Somchai Kuvijitsuwan as Director. The Audit Department's Vice President acted as the committee's secretary, and another staff member served as the assistant secretary. This Audit Committee served until October 19, 2006 at which time all members resigned.

In 2006, the Audit Committee met six times, including a joint meeting with the Risk Management Committee in Phuket. They reviewed the following:

1. Reviewed the Bank's Financial Statements with auditors and internal auditors to ensure that annual and quarterly financial statements, that were reviewed by an Auditor from the Office of the Auditor General of Thailand, were accurate and ready for public dissemination.
2. The Audit Committee reviewed the Bank's internal audit operations. For example, it reviewed the Bank's Audit Committee Ethics Code and auditors practices under the Bank's Code of Ethics. The Audit Committee audited the Bank's annual strategies and work plans, financial statements and internal audit reports, including the Bank's three-year and five-year plans, comparing them to the Bank's stipulated risk appetites.
3. Reviewed and became members of a committee investigating 26 credit items that were deemed questionable - The Bank of Thailand had earlier identified internal fraud possibilities. They also audited 27 credit items, after a Bank of Thailand notification under a Ministry of Finance order No. 847/2006 dated September 28, 2006. The topic of notification is "Appointing a committee to investigate 27 doubtful credit items". The investigation's results are expected soon.

The Audit committee believes that the above processes will ensure that SME BANK will have better internal audit and risk management systems in the near future. These systems will help monitor and detect fraudulent behavior. The Audit Committee believes that the Bank should continue developing internal audit procedures, including financial reports, internal controls reports, risk management reports and effective internal audit reports that strictly follow stipulated rules and regulations.

All of the Audit Committee's undertakings were reported to the Board of Directors.

(Mr. Somchai Kuvijitsuwan)  
Director Representative of Chairman  
October 19, 2006





## MR. CHAKRAMON PHASUKAVANICH

Permanent Secretary, Ministry of Industry

**Chairman**

Age 57

### Education / Training

- B.A. (Economics), Chulalongkorn University
- M.A. (Economics), California State University in Northridge
- Certificate of Senior Executive Development Program (Class 12)
- The National Defense Course, The National Defense College (Class 39)
- Directors Association Program (Class 20), Thai Institute of Directors Association
- Directors Certification Program (Class 71), Thai Institute of Directors Association

### Other positions / Experiences

- Members of the National Legislative Assembly
- Monetary Policy Committee, Bank of Thailand
- Secretary General, National Economic and Social Development Board

## MR. SOMCHAI SUJJAPONGSE

Deputy Director – General, Fiscal Policy Office,  
Ministry of Finance

**Chairman of Executive Board**

Age 46

### Education / Training

- B.A. (Economics) (Hons.)  
Chulalongkorn University
- M.A. (Economics)  
The Ohio State University, Columbus, Ohio
- Ph.D. (Economics)  
The Ohio State University, Columbus, Ohio
- Certificate of Senior Executive Development Program (Class 44)
- Directors Certification Program (Class 75),  
Thai Institute of Directors Association

### Other positions / Experiences

- Director, Fiscal Policy Bureau,  
Fiscal Policy Office, Ministry of Finance
- Director, Fiscal Policy and Planning Division,  
Fiscal Policy Office, Ministry of Finance
- Director, Savings and Investment Policy Division,  
Fiscal Policy Office, Ministry of Finance

## MR. DAMRI SUKHOTANANG

Deputy Permanent Secretary,  
Office of the Permanent Secretary, Ministry of Industry

**Director**

Age 58

### Education / Training

- B.Sc., (Hons.) (Chemical Technology),  
Chulalongkorn University
- M.Sc. (Ceramic Engineering),  
University of Missouri at Rolla.
- Ph.D. (Ceramic Engineering)  
University of Missouri at Rolla
- The National Defense Course, The National  
Defense College (Class 44)
- Certificate of Senior Executive Development  
Program (Class14)
- Directors Certification Program (Class 70)  
Thai Institute of Directors Association

### Other positions / Experiences

- Directors General, Office of Industrial Economics
- Directors General, Department of Industrial Promotion

## MR. THEVAN VICHITAKUL

Inspector General, Ministry of Finance

**Director**

Age 57

### Education / Training

- B.E. (Industrial Engineering),  
Chulalongkorn University
- M.A. (Business Economics),  
Thammasat University
- The National Defense Course, The National  
Defense College (Class 43)
- Directors Certification Program, (Class 20)  
Thai Institute of Directors Association

### Other positions / Experiences

- Member, Board of Director and Board of Audit  
Committee, Dhipaya Insurance Public Company Limited
- Board of Director, N.C.C. Management & Development  
Company Limited



## MR. SUTISAK LAOHACHEWIN

Deputy Director - General,  
Department of Business Development,  
Ministry of Commerce

### Director

Age 56

### Education / Training

- B.A. (Economics), Thammasat University
- M.S. (Economics), Utahstate University

### Other positions / Experiences

- Consul (Commercial)  
The Royal Thai Consulate General in Dubai, U.A.E.
- Minister Counsellor (Commercial) Office of  
Commercial Affairs, Royal Thai - Embassy  
in Copenhagen,
- Minister Counsellor (Commercial)  
Office of Commercial Affairs,  
Royal Thai - Embassy in Vienna



## MR. SORASIT SOONTORNKES

Senior Director, Financial Institutions  
Monitoring and Analysis Department,  
Supervision Group, Bank of Thailand

### Director

Age 54

### Education / Training

- B.A., Chulalongkorn University
- M.A., Chulalongkorn University
- Sasin Graduate Institute of  
Business Administration  
Thammasat University
- Executive Development Program  
(Wharton School) University of Pennsylvania
- Royal Thai Army War College Program 46,  
Institute of Advanced Military Studies

### Other positions / Experiences

- Supervision, Examination,  
and Analysis of Financial Institutions



## MR. PONGSAK CHEWCHARAT

President,  
Small and Medium Enterprise Development  
Bank of Thailand

### Director & Secretary

Age 57

### Education / Training

- B.Sc. (Mathematical Statistics)  
Thammasat University
- M.Sc. (Computer & Information System)  
Graduate School of Engineering  
Northeastern University, Boston,  
Massachusetts
- M.S. (Economic Policy and Planning)  
Graduate School of Arts & Sciences  
Northeastern University, Boston,  
Massachusetts
- Degree from National Defence College  
(Class 338)
- Audit Committee Program (Class 2/2004),  
Thai Institute of Directors Association

### Other positions / Experiences

- Director General, Real Estate Information  
Center, Government Housing Bank
- Senior Executive Vice President,  
Small and Medium Enterprise Development  
Bank of Thailand
- Senior Vice President, Computer Planning  
and Control Department, Krung Thai Bank

For a period of November 1<sup>st</sup>, 2006 to December 31<sup>st</sup>, 2006



## MR. SOMCHAI SUJJAPONGSE

Deputy Director - General,  
Fiscal Policy Office, Ministry of Finance

### Chairman of Executive Board



## MR. DAMRI SUKHOTANANG

Deputy Permanent Secretary, Ministry of Industry  
Director



## MR. THEVAN VICHITAKUL

Inspector General, Ministry of Finance  
Director



## MR. PONGSAK CHEWCHARAT

President,  
Small and Medium Enterprise Development  
Bank of Thailand  
Director & Secretary

For a period of November 1<sup>st</sup>, 2006 to December 31<sup>st</sup>, 2006



# Audit

## Committee

- \* **MR. YONGYOS PALANITISENA**  
Chairman
- \* **MR. THEERAWAT THANYALAKPARK**  
Managing Director, T. Treasury Holding Co.,Ltd.  
Vice Chairman
- MR. SOMCHAI KUVIJITSUWAN**  
Deputy Director General,  
Department of Prosecutor Commission  
Office of The Attorney  
Director
- MR. TADET SGOOLSIMTAVORN**  
Vice President, Audit Department,  
Small And Medium Enterprise Development  
Bank of Thailand  
Secretary
- MR. JESSADA CHOR.CHAROENYING**  
Vice President,  
Small And Medium Enterprise Development  
Bank of Thailand  
Secretary Assistant

As at 19 October 2006

### Note :

\* Independent Director i.e. a knowledgeable individual who does not hold a position within any related state enterprise or government department.

# Venture Capital

## Committee

- MR. DUMRI SUKHOTANANG**  
Deputy Permanent Secretary,  
Ministry of Industry  
Chairman
- \* **MR. SATHIT UTHAISRI**  
Advisor of Executive Chairman's Division  
Bangkok Bank Public Company Limited  
Director
- \* **MR. CHANITR CHARNCHAINARONG**  
President of Market for Alternative Investment (mai.)  
Director
- MRS. PREYAPUN PIYA-ANANT**  
Executive Vice President  
Small and Medium Enterprise Development  
Bank of Thailand  
Director
- MR. PORNCHAI VIRIYATANASKUL**  
Executive Vice President  
Small and Medium Enterprise Development  
Bank of Thailand  
Director
- MR. TRAIRATH TREERATPANT**  
Vice President, Venture Capital Department  
Small and Medium Enterprise Development  
Bank of Thailand  
Secretary

For a period of November 1<sup>st</sup>, 2006 to December 31<sup>st</sup>, 2006

# Risk Management

## Committee

- MR. CHARNCHAI MUSIGNISARKORN**  
Vice Chairman and Chairman Executive Board,  
ACL Bank Public Company Ltd.  
Chairman
- MRS. SUMONMAN KALAYASIRI**  
Deputy Permanent Secretary, Ministry of Industry  
Vice - Chairman
- MRS. SUREEPORN JANTARAPRAVECH**  
Assistant Director Research Department,  
Securities and Exchange Commission  
Director
- MR. RATH KITVEJOSOTH**  
Senior Executive Vice President ,  
Small and Medium Enterprise Development  
Bank of Thailand  
Director
- MRS. CHIRAPORN SUMETHEEPRASIT**  
Executive Vice President,  
Small and Medium Enterprise Development  
Bank of Thailand  
Secretary
- MR. JESSADA CHOR CHAROENYING**  
Vice President of Compliance and Credit Review Department ,  
Small and Medium Enterprise Development  
Bank of Thailand  
Assistant Secretary

As at 31 December 2006

### Note :

\* Independent Director i.e. a knowledgeable individual who does not hold a position within any related state enterprise or government department.

# Information Technology

## Committee

- MR. CHARNCHAI MUSIGNISAKORN**  
Vice Chairman and Chairman Executive Board,  
ACL Bank Public Company Ltd.  
Chairman
- \* **PROFESSOR DR. PISUT CHALAKORNKUL Ph.D.**  
Chairperson, Graduate school RBAC  
Vice - Chairman
- LT.GEN. VICHIT SATHARANOND**  
Director General (Royal Thai Survey Department)  
Director
- MR. SUPACHAI JONGSIRI**  
Information & Communication Technology  
Advisor Ministry Of Finance  
Director
- MR. METHA SUVANASARN**  
Audit Committee Chairman Software Industry  
Promotion Agency (SIPA)  
Director
- MRS. INTIRA KITIPONGPAIROJ**  
Executive Vice President  
Small and Medium Enterprise Development  
Bank of Thailand  
Secretary
- MR. SOMBOON AHUNAI**  
Executive Vice President  
Small and Medium Enterprise Development  
Bank of Thailand  
Assistant Secretary

As at 31 December 2006



- |   |  |  |   |
|---|--|--|---|
| 1. MR. PONGSAK CHEWCHARAT<br>President                      | 2. MR. CHONGCHET BOONKERD<br>Senior Executive Vice President | 3. MR. PONGSAK CHAJAIMJAN<br>Senior Executive Vice President   | 4. MISS PHUNNIPHA CHAIYAPHAT<br>Senior Executive Vice President |
| 5. MR. KOBPAK PONGPONRAT<br>Senior Executive Vice President | 6. MR. RATH KITVEJOSOTH<br>Senior Executive Vice President   | 7. MRS. PREYAPUN PIYA-ANANT<br>Senior Executive Vice President | 8. MR. WORAMIT KRUTTO<br>Executive Vice President               |
| 9. MR. SURACHAI KAMPALANONWAT<br>Executive Vice President   | 10. MRS. INTIRA KITIPONGPAIROJ<br>Executive Vice President   | 11. MRS. PATCHARAPORN SUTHICHOTI<br>Executive Vice President   | 12. MR. NGUHNTRA IDISAI<br>Executive Vice President             |
| 13. MR. PIRAWAT NAMATRA<br>Executive Vice President         | 14. MR. SOMDUL CHATUNART<br>Executive Vice President         | 15. MR. PRAKIT SHEEPAKDEE<br>Executive Vice President          |   |



- |   |  |  |
|---|--|--|
| 16. MRS. CHIRAPORN SUMETHEEPRASIT<br>Executive Vice President | 17. MRS. NIRACHA PHUNCHAROEN<br>Executive Vice President | 18. MR. PHISIT PHUTHANANUKIJ<br>Executive Vice President |
| 19. MISS KETHSIREE PIROONMETHEE<br>Executive Vice President   | 20. MR. SOMBOON AHUNAI<br>Executive Vice President       | 21. MR. AMORN CHUTIMAWONG<br>Executive Vice President    |
| 22. MR. WUDHI CHOSIVASAKUL<br>Executive Vice President        | 23. MR. SUWICHA NONTASUWAN<br>Executive Vice President   | 24. MR. CHATCHAI RATANAOLARN<br>Executive Vice President |
| 25. MR. KONGDACHA CHAIRATNANA<br>Executive Vice President     | 26. MISS SUWANNA LEEWIRAPHAN<br>Executive Vice President | 27. MR. VALLOBH TEJAPAIKUL<br>Executive Vice President   |
| 28. MR. PORNCHAI VIRIYATANASKUL<br>Executive Vice President   |  |  |

As At 31 December 2006



# Vice Presidents

1. MR. CHONGWUTH KWANGSUKSATIT  
Senior Vice President Cluster 2

2. MRS. LAVAL SINGHAMANY  
Senior Vice President Cluster 3

3. MR. KANTAPHON KAEWMANEE  
Senior Vice President Cluster 1

4. MRS. DOLPORN SUVANTAMEE  
Senior Vice President Cluster 2

5. MR. SMANPONG KLIENGLUMYONG  
Senior Vice President Business Development Department 2  
Acting As Vice President Business Development Department 1

6. MR. VITON BUASAKDI  
Vice President Portfolio Management Office 1

7. MISS CHITVIMON CHAIWATANA  
Vice President Debtor Accounting Department

8. MR. KERE KERINNONTA  
Vice President Collateral Appraisal Department

9. MR. APICHART JANSOONTORNGOON  
Vice President Cluster 5

10. MR. SURIYA CHITMAN  
Vice President Portfolio Management Office 2

11. MR. SUTHAT KANTHASAIBOUR  
Vice President Information System Engineering Department

12. MR. KITTIPONG PINYOTRAKOOL  
Vice President Banking Department

13. MR. SOMCHAI TANTITANAWAT  
Vice President Knowledge Development Department

14. MR. SITTISAK SACHCHAVEDHA  
Vice President Cluster 1

15. MISS MALIN WUVANICH  
Vice President Organization Accounting Department

16. MR. KODCHAGONE LODCHASAWEE  
Vice President Business Development Department 3

17. MR. SADUDEE WONGSANGA  
Vice President General Administration Department

18. MR. CHAIYAPHONG KOSOLSAK  
Vice President Cluster 3

19. MR. PICHIT MITRAWONG  
Vice President Cluster 5

20. MR. JARIN TIASAKUL  
Vice President Cluster 1

21. MR. JESSADA CHOR. CHAROENYING  
Vice President Compliance & Credit Review Department

22. MRS. PUNTHIP PRAPAMONGKOL  
Vice President Credit Processing Department

23. MRS. PASANUND LIMRATANAMONGKOL  
Vice President Human Resources Administration Department

24. MR. SOMPORN VATTANAPHOLPINIT  
Vice President Cluster 2

25. MR. SUWIT JUTIPRASERT  
Vice President Cluster 3

26. MR. KAMON WEERAWAN  
Vice President Cluster 3

27. MR. WIRIN UDOMCHOKE  
Vice President Cluster 1

28. MR. SOMCHAI SAENSINTHAI  
Vice President Cluster 2

29. MR. WEERAWUD RUJIRAKUL  
Vice President Cluster 1

30. MR. CHAIYAWAT CHANCHOWE  
Vice President Cluster 2

31. MISS YUPIN THANATIVAKUL  
Vice President Public Relation Department

32. MISS SANGAROON PHAHAVIRIYAVANICH  
Vice President Research & Planning Department

33. MR. PRAVES MASAWAT  
Vice President Organization & Regulations Department

34. MISS AREEYA DUANRAM  
Vice President Marketing Promotion Department

35. MR. ARNAT WIBOONKANARAK  
Vice President Cluster 2

36. MR. VISOOT CHOOSAMAI  
Vice President Cluster 3

37. MR. SOMCHAI FAKCHAROENPOL  
Vice President Cluster 4

38. MR. TADET SGOOLSIMTAVORN  
Vice President Audit Department

39. MRS. WANNIPA VUDTHIVAT  
Vice President Si Ayutthaya Road Office

40. MR. NOPADOL SOOKAJIT  
Vice President Legal Department

41. MR. AWILAS CHUNHAGSIKARN  
Vice President Treasury Department

42. MR. TRAIRATH TREERATPANT  
Vice President Financial Advisor &  
Venture Capital Department

43. MR. WINYAT SUKRASON  
Vice President Cluster 3

44. MR. NATTAPON DEJVITAK  
Vice President President Office

45. MR. SURAPON CHANNUAL  
Vice President Information Technology Department

46. MISS CHAYADA PONGSATTASIN  
Vice President Risk Management Department

47. MR. PORNLAPHAT KONGTANASIRIKUL  
Acting As Vice President Factoring Department

48. MR. TIENGCHAN WONGTONGSIRI  
Acting As Vice President Portfolio Management Office 3

49. MR. PIWAT CHAIYANUKIJ  
Acting As Vice President Leasing &  
Hire Purchase Department

As at 31 December 2006

Shareholders	Number of Shares	Value (Baht)	%
<b>Public Sector</b>			
1. Ministry of Finance	70,750,000	7,075,000,000	96.917808
2. Government Savings Bank	550,000	55,000,000	0.753425
3. Krungthai Bank (Public) Co.,Ltd.	222,000	22,200,000	0.304110
4. Members of Thai Bankers Association (State banks)	61,026	6,102,600	0.083596
5. Financial Institutions Development Fund	18,000	1,800,000	0.024658
<b>Public Sector Total</b>	<b>71,601,026</b>	<b>7,160,102,600</b>	<b>98.083597</b>
<b>Private Sector</b>			
1. Ladawan Investment Co., Ltd.	400,000	40,000,000	0.547945
2. Members of Thai Bankers Association (Private Sector banks)	622,863	62,286,300	0.853237
3. Members of Association of Finance Companies	374,411	37,441,100	0.512892
4. Others	1,700	170,000	0.002329
<b>Private Sector Total</b>	<b>1,398,974</b>	<b>139,897,400</b>	<b>1.916403</b>
<b>Grand Total</b>	<b>73,000,000</b>	<b>7,300,000,000</b>	<b>100.000000</b>

As at 31 December 2006

Small and Medium Enterprise Development Bank of Thailand

For the year ended December 31, 2006, 2005 and 2004

Item	2006		2005		2004	
	Amount	Increased (Decreased)	Amount	Increased (Decreased)	Amount	Increased (Decreased)
Financial Position (Unit : Million Baht)		%		%		%
Interbank and Money Market Items	4,017.53	67.26	2,401.98	398.93	481.43	197.51
Securities Purchased under Resale Agreements	3,160.00	(14.25)	3,685.00	(9.30)	4,063.00	176.02
Investment - Net	6,736.15	(6.97)	7,240.51	116.91	3,338.07	123.60
Loans and Accrued Interest Receivable - Net	40,021.23	0.09	39,986.02	39.02	28,762.36	58.53
Total Assets	55,679.38	1.61	54,799.17	47.75	37,089.84	72.53
Deposits	6,262.92	(37.22)	9,975.41	-	300.00	100.00
Interbank and Money Market Items	28,670.53	69.29	16,935.80	5.89	15,993.99	-
Borrowings	13,008.49	(30.02)	18,587.69	25.25	14,840.67	(16.82)
Total Liabilities	50,398.14	7.96	46,682.51	47.81	31,581.94	73.65
Issued and Fully paid - Up Share capital	7,300.00	-	7,300.00	52.08	4,800.00	71.43
Shareholders' Equity	5,281.24	(34.93)	8,116.66	47.36	5,507.90	66.33
Financial Performance (Unit : Million Baht)						
Interest Income	3,270.17	27.57	2,563.35	71.94	1,490.87	48.23
Non-Interest Income	173.74	8.34	160.37	49.56	107.23	6.12
Total Income	3,443.91	26.44	2,723.72	70.43	1,598.10	44.38
Interest Expenses	1,860.72	62.94	1,141.67	174.05	416.70	71.76
Non-Interest Expenses	1,205.18	6.04	1,136.53	37.12	828.84	41.94
Total Expenses	3,065.90	34.56	2,278.50	82.93	1,245.54	50.70
Gross Profit before Doubtful Accounts	378.01	(15.10)	445.22	26.28	352.56	25.77
Doubtful Accounts	3,214.88	838.71	342.48	54.24	222.04	71.02
Net Profit (Losses)	(2,836.87)	-	102.74	(21.28)	130.52	(13.28)
Earnings per Share (Baht)	(38.86)	-	2.12	(51.71)	4.39	(18.40)
Capital Adequacy (BIS ratio)	11.36%		18.27%		17.51%	



SME BANK closely adheres to good corporate governance management principles. It believes that good corporate governance practices will result in an efficient, effective and stable organization.

SME BANK operates under good corporate governance principles as stipulated clearly by Ministry of Finance guidelines. The Bank's Board of Directors establishes policies and strategies under a framework established by the SME BANK Act, Ministerial Regulations and other relevant rules and regulations.

During 2006, SME BANK supported a wide range of activities that promoted good corporate governance including the following:

- Established a good corporate governance leadership group that focused on operations, responsibilities, decision-making processes and leadership expectations and standards. The SME Bank believes that leadership is a critical element of developing an organization's ethical and moral standards and good corporate governance practices.



- Changing the organization's operational paradigm, culture, and values - emphasizing self-reliance, professionalism, diligence, attention to work, including performing with caution and common-sense.
- Making it a fundamental principle for all employees to do the right thing for the organization and the country.
- Making the Bank's policies and regulations more effective so that people will not take advantage of their positions for personal gain and prevent conflicts of interest.
- Established criteria to measure good corporate governance; made it part of management level Employee Performance Evaluations.
- Established a Bank Risk Management Plan to control risk. Risk management is a governance issue because project evaluation analysis risk standards and skills are critical for developing a sustainable organization. Developing electronic filing systems so that important prior documents can be easily retrieved and examined.
- Established processes and procedures that permitted SME BANK to easily welcome internal and external suggestions, complaints, opinions, and compliments from internal and external organizations. Procedures that allow SME BANK to easily consider and improve management and internal operations by responding to stakeholders needs and rewarding appropriately those who have performed well.

To ensure strict adherence to good corporate governance principles, SME BANK must be a transparent organization that does not contravene regulations, perform illegal acts, succumb to political intervention or accept or condone internal employee dishonesty. SME BANK supports any measures that help employees promote strict adherence to ethics and morality as well as high quality work standards.

SME BANK executives must clearly communicate that they support and want to work with employees that perform honestly and fairly and are willing to fight against unethical and immoral activities that are detrimental to the Bank's and the country's long-term well-being.

For these reasons, SME BANK will include measuring an individual's adherence to good corporate governance standards as a critical element for determining overall individual performance. These standards include financial discipline, careful budgeting with an eye for controlling costs, evaluating each project by using a cost-benefit analysis for each investment, legal compliance, protecting their own as well as the organization's reputation, achieving the Bank's social mission by closely adhering to good corporate governance principles.

SME BANK began pro-actively executing good corporate governance development principles in 2006 by: actively communicating good governance principles and their importance throughout the organization. Senior management also began to recognize the value and importance of practicing good corporate governance principles.

We strongly believe that pro-actively implementing and executing good corporate governance principles will benefit SME BANK as follows:-

- SME BANK will go forward with a clear vision and with systematic processes and procedures to analyze its progress
- The Bank will be able to focus on future economic value management and create a more sustainable and stable organization
- Will allow the Bank to achieve its overall responsibilities to SMEs, and to the development of a sustainable Thai economy.
- Develop a management team that is more objectively focused and operates with a higher degree of confidence
- Develop a more results-focused organization with the ability and tools to create value to the organization



The risk factors affecting SME BANK's 2006 performance were different from prior years. The Bank experiences major senior management changes in 2006.

A major strategic risk came with the president's resignation during the year. This risk was mitigated with the appointment of a new president and a new Board of Directors.

The arrival of a new president in the fourth quarter of 2006 gave the new management a short-window to review SME BANK's operations and develop new policies where necessary. The new leadership worked closely with existing SME BANK management to develop and articulate new Vision, Mission and Strategies going forward.

These included developing a focus to operate under good corporate governance principles while executing the government's overall strategy of developing a Thai entrepreneurial society. To build a sustainable Thai entrepreneurial society, SME BANK realized that it must continuously develop useful ancillary services that will help individual Thai SMEs become strong global competitors.

The Bank's 2006 net-loss provided new management team with an impetus to totally revamp the Bank's operations. We realized that we must strengthen our risk management processes and procedures and completely revamped the following:-

- Re-positioned the Bank's Risk Management Plan so that it becomes an integral part of the Bank's overall strategy of building a solid foundation for a sustainable and stable organization.
- Reviewed credit approval terms and conditions and included loss-prevention and loss-mitigation as a critical part of the overall process. These improved processes resulted from collaborative efforts by the Credit Department and the Back Office.
- Developed concepts and policies on how to protect the organization's operations from political interference.
- Educated employees at all levels to understand the importance of loss-prevention and loss-mitigation; increasing their abilities to analyze proposed new projects. We also are developing standards that will help NPL recovery by educating employees on how to work closely with and monitor individual client's operation.

The new processes and procedures have changed how the Bank views risk management. We recognize and accept that past risk management processes were inadequate and the new processes are put in place to ensure that employees at all levels adhere strictly to good corporate governance principles of the highest standards.

Every person in the organization will be deemed a risk owner. This principle will be clearly communicated to every employee in the organization. They will fully understand and believe in risk management's overall value to the organization and its long-term benefits for SME BANK. The overall risk management plan will evolve over time and its strength will emanate from the collective and collaborative efforts of all employees.

Apart from strategic risks, credit risks are important risks for the Bank. The devastating flash floods that inundated 47 provinces and the persistently high fuel prices during the year hurt many of our borrowers. In addition, the bomb attacks in Bangkok frightened away many tourists and resulted in slowing consumption and investments.

The unstable political environment resulted in a slowing loan demand, particularly from new SMEs. In addition, more existing borrowers began having difficulty making loan repayments. SME BANK's loan loss provision rose in the year to higher than expected rates.

SME BANK strictly follows International Accounting Standard No.39 (IAS 39): Financial Instrument: Recognition and Measurement. IAS 39 required the Bank to adjust the way it valued doubtful debtors collateral as of December 2006. Following IAS 39, the Bank increased cash reserves for poor quality debtors in the credit-factoring group. These reserves were undertaken after recommendations from the Audit Committee and the Bank of Thailand and resulted in the first SME BANK net loss since its formation in 2002.

In addition, the Bank's risk management group spent a good part of 2006 developing internal processes and procedures to manage poor quality credits. The new risk management systems focused on mitigating poor quality loan defaults on a case-by-case basis with troubled borrowers. Some borrowers were permitted to restructure their loans with payments based on lower cash flows generated because of deteriorating business environments.

The risk management group's efforts resulted in SME BANK undertaking the following:-

1. Reducing unnecessary operational expenses - to reduce risk of loss
2. Improving credit analysis and approval quality - decrease risk factors from credit processing uncertainty.
3. Preparing for additional capital fund requirements after the implementation of additional IAS 39 reserve requirements.
4. Clearly communicating on-going performance to shareholders increasing the major shareholder Ministry of Finance's trust

Despite experiencing serious risk management problems in 2006, the Bank still received Quasi-sovereign rating from Moody's Investors Service and a national institution, TRIS still assigned Baa1 and AA- to SME BANK because they believed that the Bank will improve its future performance and return to a stable financial status and perform satisfactorily with the support and supervision of Ministry of Finance and Ministry of Industry.

SME BANK is developing risk assessment tools to mitigate its marketing risks and for measuring risks associated with the use of financial derivatives. The Bank has informally requested Ministry of Finance advice on developing Financial Risk Management tools.

Although SME BANK experienced major operational changes in 2006, investors in SME BANK's FRCD and the Bank's depositors remained confident in the Bank's financial stability. With government support, SME BANK rarely experienced liquidity risks during the year. The Bank does not take deposits from the general public.

The Bank focused on managing its balance sheet by matching the funding of assets and liabilities when possible.

In the area of operations risk, SME BANK collected risk information on a weekly basis from various departments and began developing a database for this information. This information will eventually be used to develop a risk map. We are also preparing to develop risk policies that comply with Basel II requirements.



Although the Bank's turnover 2006 was weaker than expected, it began quickly developing a risk-management-framework compliant organization and worked hard to vigorously resolve its asset quality problems. The Bank's inefficient internal operations resulted in unmet targets and were a primary reason for high non-performing loans at year-end. We began pro-actively changing the organization's structure under a new Board of Directors and new senior management at the end of 2006.

The Bank's organizational changes accompanied by the political and economic uncertainty greatly affected overall performance in 2006.

## Credit Ratings

Moody's Investors Service, a globally-recognized credit rating institution assigned a Baa1 rating and stable outlook to SME BANK, the same ratings it gave to the Thai Government. A major reason for SME BANK's high rating is Ministry of Finance's 97 per cent ownership and the Bank's continuous supervision by Ministry of Finance and Ministry of Industry.



Moody's said "SME BANK's financial fundamentals are affected by its policy role, typical of development bank in many other countries. Margins are low to keep its loans affordable to its customers. A legacy of Asian Financial Crisis-related problem loans and the inherent risks of its policy mandate have burdened the Bank with a high-level of non-performing loans. However, creative NPLs resolutions undertaken since SME BANK's change of status to a bank (it was previously a finance company) promise to limit the losses and the need for additional government capital."

TRIS Rating Co., Ltd. assigned a AA- rating for organization credit and for its debentures. It was a reflection of a strong government support and from Ministry of Industry because SME BANK has a key role in developing the country's SME entrepreneurs. TRIS said:

"Going forward SME BANK's challenge is maintaining a balance between supporting Small and Medium Size Business as a Government Policy Organization and an effort to improve operating efficiency in accordance with standard risk management processes and procedures. Its success in developing and implementing standardize risk management processes and procedures will allow SME BANK to sustain its strategic status through inevitable political changes."

## Finance

At December 31, 2006, SME BANK's total assets were 55,679.38 Million Baht, an increase of 1.61% over 2005. Total liabilities were 50,398.14 Million Baht, an increase of 7.96% over the previous year. Shareholder's equity was 5,281.24 Million Baht, a 34.93% decrease from year end 2005 because we



established a much higher than targeted allowance for doubtful accounts. Higher NPLs and larger provisions were required by new Bank of Thailand guidelines for loan classifications and the implementation of accounting standard IAS 39.

In 2006, SME BANK earned net interest income of 3,443.91 Million Baht, and incurred expenses totaling 3,065.90 Million Baht. The Bank reserved 3,214.88 Million Baht for doubtful accounts resulting in a net loss of 2,836.87 Million Baht.

- Interest income in 2005 amounted to 3,270.17 Million Baht, an increase of 27.57% over 2005. Interest income increased because of the increase in total outstanding loans, income from hire-purchases, and investment interest.

- Non-Interest income amounted to 173.74 Million Baht, an increase of 8.34% over 2005. The major increase came from the fees and service fees.

- Interest expenses on deposits and loans amounted to 1,860.72 Million Baht, accounting for 60.69% of total expenses. In 2006, interest expenses accounted for 50.12% of total expenses. The interest expense increase resulted from higher market interest rates.

- Operational expense stood at 1,205.18 Million Baht, accounting for 39.3% of total expenses or an increase of 6.04% over 2005

- Earnings before allowance for doubtful accounts amounted 378.01 Million Baht, a decrease of 15.10% over 2005

- Allowance for Doubtful Accounts: Following Bank of Thailand guidelines for classifying loans and a new provision in International Accounting Standard (IAS) 39, SME Bank increased its NPL provisions in 2006. The SME Bank's provision in 2006 amounted to 3,214.88 Million Baht.

- Net Profit: The high allowance for doubtful accounts resulted in a net loss of 2,836.87 Million Baht for the year ending December 31, 2006.

- Sufficient Funding: As at the end of 2006, the Bank's BIS ratio (Bank for International Settlements) was 11.36 %

## Loans

In 2006, SME BANK issued new loans totaling 23,734 Million Baht, a 38% decrease from 2005 to 8,163 borrowers, a 39% decrease. The borrowers were from: manufacturing - 49.6%, services - 42.6%, wholesale - 7.8%. As a result: 3,485 people were newly employed, - while 43,778 people remained employed. Total loans outstanding at December 31, 2006 amounted to 44,262 Million Baht, an increase of 7.8% over 2005

## NPLs

At the beginning of 2006, SME BANK had total non-performing loans (NPLs) of 7,938 Million Baht. During the year, sub-standard NPLs increased to 9,343 Million Baht (this increase resulted from new Bank of Thailand guidelines and the implementation of new IAS 39 standards). At the same time, some clients that restructured loan in 2005 could not meet repayment terms and became NPLs. The Bank's total NPLs are 10,919 Million Baht. The Bank addressed the rising NPL problem in 2006 by using an individual



business's repayment ability as a primary restructuring factor. At the end of 2006, the Bank restructured loans totalling 8,956 Million Baht.

As at the end of 2006, NPLs totaled 19,273 Million Baht, 43.54% of total outstanding loans of 44,262 Million Baht.

## Developing Entrepreneurs

SME BANK has aided in the development of two groups of entrepreneurs:

**Group 1:** The Asset Capital Bureau supported "Care Entrepreneur Projects", including a "Win Win Relationship (WWR) Project". SME BANK, Government Saving Bank and Bank of Agriculture and Agricultural Cooperatives organized these projects that helped 20,747 retail entrepreneurs in the following ways:

1. Mobile Public Relations Units: This program was conducted in 75 provinces to provide information on funding sources. In 2006, SME BANK Mobile Public Relations appeared in 7,415 sub-districts and 876 districts and hosted 10,476 trainees.

2. Care Entrepreneur Training Projects : This project focused on providing administrative management knowledge to retailers requesting Asset Capitalization Project loans from three banks (SME BANK, Government Savings Bank, and Bank of Agriculture and Agricultural Cooperatives). In 2006, 10,271 retailers attended training sessions and 2,392 of them obtained funding totaling 325 Million Baht.



SME BANK also provided administrative management classes as well as follow-up classes for previous attendees. An additional 3,595 entrepreneurs attended accounting, financial management, and retail management workshops. A total of 1,190 entrepreneurs completed the training courses.

**Group 2:** SME BANK conducted operational management programs for 4,586 clients.

The following successful programs were conducted:

1. Entrepreneur Upgrading Project: This project included management-training workshops that upgraded business skills including financial management and accounting programs for small businesses, retail and warehouse management, and a cost reduction techniques course. In 2006, 4,089 clients attended the courses and most of them indicated they were interested in attending additional courses.

2. Project "Improving Doubtful Accounts": SME BANK put together a team to study and analyze the problems being experienced by clients with outstanding loan balances of more than 10 Million Baht and who were having problems paying on due dates. In 2006, SME BANK sent teams to analyze the operations and advise 90 such borrowers.

3. "Business Heir" Projects: This project developed and trained new entrepreneurs who are primarily heirs to businesses. Its objective was to reduce business risks associated with family owned businesses. Many small businesses run into problems when owners/operators were no longer able to run the business and have not trained designated heirs. In 2006, SME BANK trained 405 clients in this group.

## Supporting Government Policy

**Policy Loan Approvals:** SME BANK provides loans for special government policy projects in 23 strategic businesses. These loans totaling 6,416.14 Million Baht were provided with lower-than market interest rates and less stringent collateral requirements. The total amount of loans issued under this category in 2006 was 20 per cent less than originally targeted.

The OTOP (53%) and Food Safety from Farm to Consumers (43%) loan projects were fairly successful in meeting their targets. However, the Fresh Market Upgrading-Restaurant-Food Manufacturing, and Thai Taxi Development loan programs all failed to meet their targets. High NPLs in these particular categories forced the Bank to adjust its credit policies and loan conditions for these loans during the year.

**Cluster Development Strategy:** SME BANK mirrored the Government's Master Plan's 10 strategic clusters by structuring its loan departments similarly. Coordinating its efforts with the government and the private sector, the SME Bank helped drive the government's cluster Master Plan.

It cooperated with Bank of Agriculture and Agricultural Cooperatives (BAAC) and Government Savings Bank (GSB) to support the Grass Roots Economic System initiatives by developing agricultural supply chains and participating in Regional SME Projects that studied how to target and establish clusters in different provinces.

Some of these initiatives received credit approvals but the program's overall success was hindered by communication breakdowns among the different responsible groups and because of limited budgets and support.

## Important Projects in 2006

1. Thai Cuisine to the World: This project was initiated to support Thai entrepreneurs who wished to establish or expand food businesses overseas. SME BANK loaned 166.07 Million Baht to 21 borrowers under this program in 2006.

2. Poultry Farm Improvement : This project supported poultry farmers and slaughterhouse owners that were hurt by the bird flu outbreak. SME BANK loaned 37.21 Million Baht to 19 borrowers under this program in 2006.

3. Food Safety from Farm to Consumer: This project supported meat-processing industry upgrades, beginning from the farm, to the slaughterhouse, transportation to market and waste processing. These loans to 71 borrowers helped them develop processes to comply with standards of Department of Livestock Development.

4. Upgrading Fresh Markets-Restaurants-Food Manufacturers: These loans helped borrowers upgrade their food services operations by purchasing new machinery and equipment. SME BANK loaned 79.25 Million Baht to 44 borrowers under this program in 2006.

5. Speedy Credit to Attend Exhibitions and Trade Fairs: SME BANK provided loans to exporters who participated in domestic and international exhibitions or trade fairs organized by the Government and private sectors. Loans under this program of 2.65 Million Baht were given to five borrowers.

6. Packing Credit Loans: These are working capital loans to help borrowers produce and prepare products for export. The Bank loaned 16.67 Million Baht under this program in 2006.

7. Loans to Mitigate Poor People's Debts: These loans helped lower-income borrowers restructure their current debts. During the year, the Bank loaned 2.27 Million Baht under this program. We also provided educational and instructional programs that helped 250 borrowers increase their incomes and quality of life.



SME BANK also conducted career planning and business planning programs for these borrowers.

8. Develop Thai Taxi Driver Entrepreneurs : These loans helped taxi drivers purchase their own energy-saving NGV automobiles. During the year, the Bank loaned 182.64 Million Baht to 222 borrowers.

9. OTOP Loans: This program was developed to help entrepreneurs in the provinces develop and market their unique products both domestically and internationally. During the year, the Bank loaned 106.47 Million Baht to 244 borrowers under this program.

10. Franchise Loans: These loans were to borrowers that wanted to purchase franchised businesses. During the year, the Bank loaned 24.53 Million Baht .

11. Fast-Track Loans: These special loans were targeted to small enterprises and could be obtained with personal guarantees. The Bank loaned 26.26 Million Baht to 145 borrowers under this program.

12. Special Loans to Retiring Government Officers: These loans were targeted to government officers that chose early retirement and wished to start up businesses. The Bank also provided training and consulting to these borrowers. Loans of 2.24 Million Baht were given to five borrowers.

13. Loans for Tsunami Victims: These loans helped borrowers in six provinces whose businesses were ravaged by the tsunami in December 2004. The Bank loaned 1.3 Million Baht to two borrowers under this program in 2006.

14. Loans under Asset Capitalization Program: These loans are provided to borrowers that have registered rights for assets such as intellectual property/ machinery/rental rights on government property or from the National Housing Authority. The Bank loaned 68.18 Million Baht to 150 borrowers under this program.



## Creating Marketing Opportunities for Our Clients

At the end of 2006, SME BANK started a Market Place Project at the Bank's new building, SME BANK Tower, on Phaholyothin Road. We also organized product fairs at various government and affiliate's offices including: Ministry of Industry, Ministry of Finance, Department of Export Promotion, Ministry of Commerce and PTT Public Company Limited. About 30 to 40 borrowers participated in these fairs. These fairs helped clients showcase their products at a very low cost.

In October, SME BANK also published the first edition of [www.smebank.co.th](http://www.smebank.co.th) Product Catalogue featuring our clients' products. This four-color catalogue that included 600 items from 300 clients was widely distributed and the exhibitors received tremendous response from the market. The Bank also included a special [www.smebank.co.th](http://www.smebank.co.th) Catalogue in 100 New Year's gift baskets.

These catalogues included contact information for all businesses displaying their products and were distributed to the Bank's affiliates and alliance partners as well as to various overseas organizations. SME BANK will continue publishing new catalogues in 2007.

During the year, the Bank also organized several press tour projects to the premises of various SME BANK clients. Media representatives from television, newspapers, radio and websites participated in these visits. This project not only helped our clients but also created a very positive image for SME BANK.

We also conducted seminars and workshops that helped our clients better understand how to market their products locally and internationally. These included web-site design seminars, workshops on

entering the Chinese market, the Middle East, Africa etc. On the Bank's fourth year anniversary, we conducted a very successful "Helping Thai SMEs 2007" Seminar that featured speakers on macro and micro-economic issues as well as on His Majesty the King's sufficiency economy initiatives. More than 700 people attended the event on December 20, 2006 at the Public Relations Departments.

The Bank also constructed booths at more than 120 exhibits during 2006. During "Money Expo 2006" at the Queen Sirikit National Convention Center, we featured many popular special interest-rate loan products. Besides, the Bank also participated at the "Chiangmai Money Expo 2006", "Money Expo Korat 2006", "The 10th Annual Business Opportunities & Franchises Fair", "Innovation for New Business Fair", "BIG and BIH Fair", "OTOP to the World Fair", and "The Thailand Logistics Fair 2006".

We also organized Business Matching Events for our clients. As part of this program, we arranged visits and tours to business in Nakhon Ratchasima Province and Kanchanaburi Province.

SME BANK also worked with the National Credit Bureau Co., Ltd. (NCB) in conducting its "Building Financial Discipline" presentation. These programs educated borrowers on how best to maintain their credit ratings so that they can access borrowing when they need funds.

We also participated in programs that helped businesses that were affected by flash floods during the year. We worked with the Small Business Credit Guarantee Corporation (SBCG), Asset Capitalization Bureau (PO), and The Provincial Press Association of Thailand (PPAT) to distribute 600 survival kits and other consumer goods to businesses and villagers in Ayutthaya Province, Ang Thong Province, and Sing Buri Province. SME BANK distributed many products that were manufactured by our clients.

## Cooperation with Domestic Organizations

SME BANK cooperated with more than 44 public and private sector organizations to develop programs that supported small and medium sized businesses through the Grass Root Economic Systems initiatives. These organizations include among others, Government Savings Bank (GSB), Bank of Agriculture and Agricultural Cooperatives (BAAC), Tourism Authority of Thailand, Export-Import Bank of Thailand, Small Business Credit Guarantee Corporation (SBCG), Vocational Education Office and National Defense College (NDC). We also worked with Fiscal Policy Office (FPO) on the mitigation of "Poor People's Debts".



## International Cooperation

During 2006, SME BANK cooperated with the following organizations:-

Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) to organize an academic learning seminar and study trip for ADFIAP member institutions.

United Nations Development Program (UNDP): Organized an academic learning seminar and study trip project for UNDP-EDP II for African countries.

Asian Development Bank (ADB): Attended 39th Annual Meeting of the Board of Governors of Asian Development Bank (ADB), in India

World Bank : Attended World Bank IMF Annual Meeting, in Singapore

APEC-MOU Financial Institutions dealing with SMEs: Attended 3rd Annual Meeting, in Vietnam



In addition, SMEBANK has cooperation with organizations in other countries as follows:-

Federal Republic of Germany Japan	Co- meeting to estimate the progress of KfW Loans and Securitization Project
United States of America Malaysia South Africa Republic of Malawi Islamic Republic of Iran Republic of Indonesia Republic of Namibia The Netherlands Uganda Vietnam Egypt Sri Lanka	<ol style="list-style-type: none"> <li>1. Signed 80 Million US Dollars loan contract with Japan Bank for International Cooperation (JBIC)</li> <li>2. Arranged two business matching activities for clients of fashion cluster and food cluster with Japan Finance Cooperation for Small and Medium Enterprise (JASME) and conducted two seminars.</li> <li>3. Japan International Cooperation Agency [JICA] official visit to SME BANK.</li> <li>4. Arranged Road Show Delegation to Japan</li> </ol> <ol style="list-style-type: none"> <li>1. Combine Insurance Co.,Ltd. visited SME BANK to propose bancassurance venture</li> <li>2. Representatives of US Embassy met with President</li> </ol> <p>Attended and made presentation at SME Banking and Finance Conference , Malaysia</p> <p>Representatives of Small Enterprise Development Agency (SEDA) visited SME BANK</p> <p>Minister of Industry ,Commerce and Private Development and the group visited SME BANK</p> <p>Director-General of National Iranian Productivity Center visited SME BANK</p> <p>AIT Institute graduate students visited SME BANK</p> <p>Representative of Namibia visited SME BANK</p> <p>Supported Brookland Bridge Organization in organizing the “Triple Bottom Line Investment” Conference</p> <p>Representatives of Uganda Enterprise visited SME BANK and study trip to SME BANK clients.</p> <p>Representatives of Policy Implementation Assistance Project as well as Representatives of The Bank of Investment Development of Vietnam visited SME BANK</p> <p>Representatives of Business Development Support Project (BOSSP) visited SME BANK</p> <p>Chairman of SME Bank of Sri Lanka visited SME BANK</p>

In 2007, SME BANK will further transform its work processes and procedures with the objective of providing more efficient and effective services to customers. Another objective is building a new image of reliability and trust among all the Bank’s stakeholders including shareholders, employees and customers.

To this end, we launched Triple Trusts Project that will decentralize many of loan approvals down to the branch level. We will also organize training and educational activities that will provide new and important knowledge and skills both for our personnel and SME clients.

These initiatives are part of the bank’s overall program to develop image as a key contributor to this country’s sustainable development. Perhaps more importantly, these Bank and customer level programs will go a long way in ensuring SME BANK’s future sustainable growth.

Another key component the Bank will be pro-actively initiating in 2007 is our vision and mission to drive good corporate governance ideals and processes into our organization. Our 2007 Business Plan will include implementation of the following strategies:

**1. Upgrading overall customer knowledge and business skills.**

SME BANK realizes that risks can be reduced by pro-actively instituting programs that help its borrower obtain more knowledge and business skills that will enhance their success rates. Our Business Center officers will now regularly visit customers and provide them with business advice or suggest supplementary educational programs when needed. The Bank has established upgrading programs that address key business management areas such as accounting, financial management, inventory management, legal and tax, and marketing.

**2. Organization structure change**

SME BANK will decentralize much of the current credit approval processes within a framework that provides clearly defined roles and decision-making authority. To ensure appropriate risk management, approvals for loans in excess of certain deemed amounts will be approved by credit approval committees that include senior Bank officers.

Officers charged with analyzing and evaluating credits will be different from those that have the authority to approve loans. Separate regional committees will be established to mitigate non-performing loans of 3 Million Baht or less. To further reduce the Bank’s risk from potential non-performing loans, regional credit committees will develop and execute processes to closely monitor 100 per cent of loans issued in their jurisdictions.

**3. Improving credit approval efficiency**

One of SME BANK major objectives in 2007 is developing and implementing credit approval





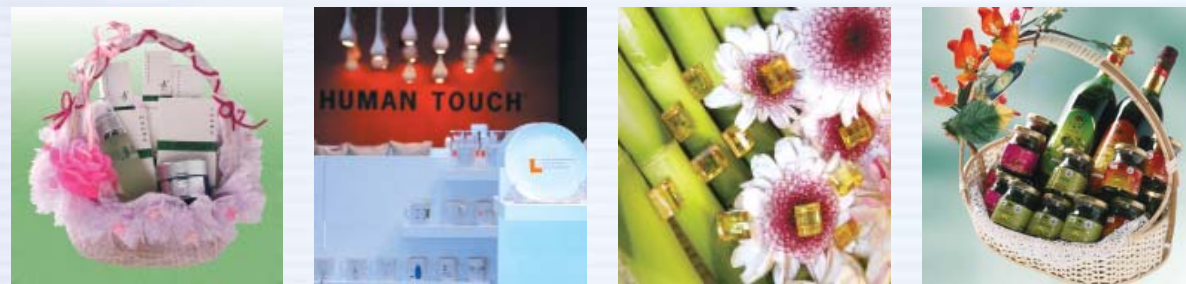


processes and procedures that will ensure that efficiency ratios are comparable to those of a competitive small Thai commercial bank. To ensure we achieve this objective, the Bank will immediately develop and institute training programs as well implement the latest cutting-edge technologies and systems that will deliver effective and efficient loan approval processes.

We realize that the Bank must develop globally competitive efficiencies if it wishes to successfully compete in the current and future environment. To accomplish this, we must pro-actively build up our human resources and implement the most appropriate information technology systems.

**4. Reducing expenses and mitigating effect of NPLs:**

During 2007, we will be closely monitoring our expenses for the suitability and appropriateness. To mitigate the overall effects of non-performing loans (NPLs), we will implement processes that will help us identify any potential problems at a very early stage. This will allow us to help our clients mitigate potential problems before they become too difficult to resolve. We also re-categorized our NPLs by further delineating them into separate categories and risk groups.



REPORT OF THE AUDITOR AND FINANCIAL STATEMENTS  
 SMALL AND MEDIUM ENTERPRISE DEVELOPMENT BANK OF THAILAND  
 FOR THE YEAR ENDED DECEMBER 31, 2006 AND 2005

Office of the Auditor General

Small and Medium Enterprise Development Bank of Thailand



TO : THE SHAREHOLDERS OF THE SMALL AND MEDIUM ENTERPRISE DEVELOPMENT BANK OF THAILAND

The Office of the Auditor General has audited the balance sheets of the Small and Medium Enterprise Development Bank of Thailand as at December 31, 2006, and 2005, and the related statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management as to their correctness and completeness of the presentation. The responsibility of the Office of the Auditor General is to express an opinion on these financial statements based on the audits.

The Office of the Auditor General conducted the audits in accordance with generally accepted auditing standards. Those standards require that the Office of the Auditor General plan and perform the audit 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. The Office of the Auditor General believes that the audits provide a reasonable basis for the opinion.

In the opinion of the Office of the Auditor General, the financial statements referred to above present fairly, in all material respects, the financial position of the Small and Medium Enterprise Development Bank of Thailand as at December 31, 2006, and 2005, and the results of operations, the changes in shareholders' equity, and the cash flows for the years then ended in accordance with generally accepted accounting principles.

(Signed) *Kanya Wilailuckana*  
(Kanya Wilailuckana)  
Director of Audit Office

(Signed) *Wibulphen Hitaphan*  
(Wibulphen Hitaphan)  
Auditor-in-charge

Office of the Auditor General  
March 30, 2007

Small and Medium Enterprise Development Bank of Thailand

As at December 31, 2006 and 2005

Unit : Baht

	Notes	2006	2005
<b>Assets</b>			
Cash		9,480,000.00	8,100,004.00
Interbank and Money Market Items	4.1		
Domestic Items			
Interest Bearing		2,382,691,621.76	2,003,761,583.71
Non - Interest Bearing		1,634,833,943.56	398,219,844.67
Total Interbank and Money Market items		4,017,525,565.32	2,401,981,428.38
Securities Purchased under Resale Agreements	4.2	3,160,000,000.00	3,685,000,000.00
Investments	2.2.7 4.3		
Current Investment - Net		4,606,157,381.17	3,916,076,367.98
Long - term Investments - Net		2,129,988,892.03	3,324,433,135.38
Total Investments - Net		6,736,146,273.20	7,240,509,503.36
Loans and Accrued Interest Receivable			
Loans	2.2.4 4.4	43,981,815,240.30	40,775,906,316.59
Accrued Interest Receivable	4.4	206,592,696.16	197,260,899.35
Total Loans and Accrued Interest Receivable		44,188,407,936.46	40,973,167,215.94
Less Allowance for Doubtful Accounts	2.2.5 4.5	4,167,183,232.07	987,153,280.94
Total Loans and Accrued Interest Receivable - Net		40,021,224,704.39	39,986,013,935.00
Properties Foreclosed - Net	2.2.9 4.6	230,908,700.86	265,418,052.55
Premises and Equipment - Net	2.2.8 4.7	884,596,503.94	911,038,954.97
Assets In Process	4.8	288,658,012.36	26,319,604.74
Advance for Legal Costs - Net	4.9	-	-
Other Assets - Net	4.10	330,838,668.24	274,786,002.01
Total Assets		55,679,378,428.31	54,799,167,485.01

Notes to the financial statements are an integral part of these financial statements.



Small and Medium Enterprise Development Bank of Thailand

As at December 31, 2006 and 2005

Unit : Baht

	Notes	2006	2005
<b>Liabilities and Shareholders' Equity</b>			
Deposits in Baht	4.11	6,262,915,786.67	9,975,410,161.95
Interbank and Money Market Items	4.12		
Domestic Items			
Interest Bearing		9,775,031,920.76	9,557,296,220.65
Foreign Items			
Interest Bearing		18,895,499,200.00	7,378,500,000.00
Total Interbank and Money Market Items		28,670,531,120.76	16,935,796,220.65
Liabilities Payable on Demand		43,063,542.70	164,206,328.20
Borrowings	4.13		
Short-term Borrowings		5,627,422,700.51	8,648,709,726.44
Long-term Borrowings		7,381,072,148.60	9,938,982,144.14
Total Borrowings		13,008,494,849.11	18,587,691,870.58
Accrued Interest Payable		652,538,919.82	455,034,169.64
Deferred Income		-	2,855,733.16
Support Fund from the Operation Center for Resolving Debts of the Public	4.15	875,316.58	1,941,191.17
Support Fund from the Financial Counseling Centre For SMEs and the Public	4.16	-	294,852.62
Support Fund from the Bureau of the Budget	4.17	113,852.80	2,982,980.00
Other Liabilities	4.18	1,759,609,706.30	556,296,848.64
Total Liabilities		50,398,143,094.74	46,682,510,356.61

Notes to the financial statements are an integral part of these financial statements.

Small and Medium Enterprise Development Bank of Thailand

As at December 31, 2006 and 2005

Unit : Baht

	Notes	2006	2005
<b>Liabilities and Shareholders' Equity (continued)</b>			
<b>Shareholders' Equity</b>			
Share capital	4.19		
Authorized 73,000,000 Ordinary Shares of baht 100 each		7,300,000,000.00	7,300,000,000.00
Issued and Fully Paid-up 73,000,000 Ordinary Shares		7,300,000,000.00	7,300,000,000.00
Revaluation Surplus (Deficit) on Investments	4.3	73,480,000.00	72,030,000.00
Government Support Fund for Investments	4.20	193,550,000.00	193,550,000.00
Retained Earnings	4.22		
Appropriated			
Legal Reserve	2.2.11	43,291,423.63	38,154,248.12
Reserve for Investments	2.2.12	216,457,118.20	190,771,240.66
Unappropriated		(2,545,543,208.26)	322,151,639.62
Total Shareholders' Equity		5,281,235,333.57	8,116,657,128.40
Total Liabilities and Shareholders' Equity		55,679,378,428.31	54,799,167,485.01
<b>Off-Balance Sheet Items-Contingencies</b>			
Aval to Bill and Guarantees of Loans		-	90,342,790.29
Liability under unmatured import bills		19,611,313.00	-
Letters of Credit		16,745,591.13	76,119,729.37
Other Contingencies		43,034,704,225.36	35,536,328,485.91

Notes to the financial statements are an integral part of these financial statements.

(Signed) Mr. Chakramon Phasukavanich  
(Mr. Chakramon Phasukavanich)  
Chairman

(Signed) Mr. Pongsak Chewcharat  
(Mr. Pongsak Chewcharat)  
President

# Statements of Income

Small and Medium Enterprise Development Bank of Thailand

For the years ended December 31, 2006 and 2005

Unit : Baht

Notes	2006	2005
Interest and Dividend Income		
Loans	2,355,539,825.06	1,991,899,655.21
Interbank and Money Market Items	570,911,158.07	400,884,496.70
Leasing	104,611,608.76	50,356,655.01
Investments	239,107,565.46	120,210,643.93
Total Interest and Dividend Income	3,270,170,157.35	2,563,351,450.85
Interest Expense		
Deposits	358,393,274.35	173,665,283.58
Interbank and Money Market Items	952,548,298.78	518,646,966.47
Short-term Borrowings	211,570,269.46	194,840,951.42
Long-term Borrowings	338,212,888.73	254,821,384.18
Total Interest Expense	1,860,724,731.32	1,141,974,585.65
Net Interest and Dividend Income	1,409,445,426.03	1,421,376,865.20
Doubtful Accounts	3,214,240,959.44	342,478,230.63
Losses on debt restructuring	640,745.70	-
Net Interest and Dividend Income After Doubtful Accounts and Losses on debt restructuring	(1,805,436,279.11)	1,078,898,634.57
Non-Interest Income		
Gains (Losses) on Investments	(44,007,916.52)	(26,427,891.54)
Fees and Service Income		
Acceptances, Avals and Guarantees	18,313,295.91	11,407,230.98
Others	139,523,843.88	135,788,289.01
Other Income	59,910,085.23	39,602,924.92
Total Non-Interest Income	173,739,308.50	160,370,553.37
Non-Interest Expenses		
Personnel Expenses	762,171,271.39	742,091,775.27
Premises and Equipment Expenses	262,792,651.41	241,959,113.14
Taxes and duties	365,981.55	488,880.22
Fees and Service Expenses	30,850,885.11	35,463,744.97
Directors' Remuneration	2,969,577.23	2,832,250.00
Other Expenses	146,024,457.53	113,689,914.18
Total Non-Interest Expenses	1,205,174,824.22	1,136,525,677.78
Net Profit (Losses)	(2,836,871,794.83)	102,743,510.16
Basic Earnings per Share	2.2.13 (38.86)	2.12

Notes to the financial statements are an integral part of these financial statements.

# Statement of Changes in Shareholders' Equity

Small and Medium Enterprise Development Bank of Thailand

For the years ended December 31, 2006 and 2005

Unit : Baht

	Issued and paid up Share capital	Excess capital from change in investment value	Government support fund for investment	Retained earnings	Total
Opening Balance at January 1, 2005	4,800,000,000.00	66,020,000.00	193,550,000.00	448,333,618.24	5,507,903,618.24
Share Capital					
Issued 25,000,000 Shares of Baht					
100 each	2,500,000,000.00	-	-	-	2,500,000,000.00
Revaluation Surplus on Investments	-	6,010,000.00	-	-	6,010,000.00
Un - Recognize Item in the Statement of Income	-	6,010,000.00	-	-	6,010,000.00
Net Profit	-	-	-	102,743,510.16	102,743,510.16
Closing Balance at December 31, 2005	7,300,000,000.00	72,030,000.00	193,550,000.00	551,077,128.40	8,116,657,128.40
Revaluation Surplus on Investments	-	1,450,000.00	-	-	1,450,000.00
Un - Recognize Item in the Statement of Income	-	1,450,000.00	-	-	1,450,000.00
Net Losses	-	-	-	(2,836,871,794.83)	(2,836,871,794.83)
Closing Balance at December 31, 2006	7,300,000,000.00	73,480,000.00	193,550,000.00	(2,285,794,666.43)	5,281,235,333.57

Notes to the financial statements are an integral part of these financial statements.



# Statements of Cash Flows

Small and Medium Enterprise Development Bank of Thailand

For the years ended December 31, 2006 and 2005

Unit : Baht

	2006	2005
<b>Cash Flows from Operating Activities</b>		
Net Profit (Losses)	(2,836,871,794.83)	102,743,510.16
Items to Reconcile Net Profit (Loss) to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	86,791,225.96	83,003,878.81
Doubtful Accounts	3,214,240,959.44	342,478,230.63
Losses from Sale/Depreciation of Assets	44,615.50	-
Gain from Reimbursement of Assurance Claims	-	(394,085.11)
Increase in Accrued Interest Receivable	(9,331,796.81)	(51,514,840.21)
Increase in Accrued Income	(2,553,429.14)	(2,994,599.20)
Increase in Accrued Interest Payable	197,504,750.18	303,713,213.23
Increase (Decrease) in Accrued Expenses	(136,276,073.29)	190,251,333.50
Loss from Depreciation of Capital	45,006,354.02	26,427,891.54
Loss from Depreciation of Properties Foreclosed	5,906,525.21	60,737.00
(Reversal) Loss from Depreciation of Properties Foreclosed	-	(1,626,341.55)
Income from Operations before Changes in Operating Assets and Liabilities	564,461,336.24	992,148,928.80
Decrease in Operating Assets (Gain)		
Interbank and Money Market Items	(1,437,973,999.94)	(1,920,554,948.43)
Securities Purchased under Resale Agreements	525,000,000.00	378,000,000.00
Loans	(3,205,908,923.71)	(11,495,266,041.91)
Properties Foreclosed	28,602,826.48	(234,517,948.00)
Other Assets	(86,445,445.29)	(118,191,322.91)
Increase in Operating Liabilities (Decrease)		
Cash Deposits in Baht	(3,712,494,375.28)	9,675,410,161.95
Interbank and Money Market Items	11,734,734,900.11	9,574,805,373.93
Liabilities Payable on Demand	(121,142,785.50)	160,045,992.66
Deferred Income	(2,855,733.16)	(2,855,733.60)
Support Fund from the Operation Center for Resolving Debts of the Public	(1,065,874.59)	1,941,191.17
Support Fund from the Financial Counseling Centre For SMEs and the Public	(294,852.62)	294,852.62
Support Fund from the Bureau of the Budget	(2,869,127.20)	2,982,980.00
Other Liabilities	1,339,588,930.95	89,952,877.81
Net Cash from Operating Activities	5,621,336,876.49	7,104,196,364.09

Notes to the financial statements are an integral part of these financial statements.

Small and Medium Enterprise Development Bank of Thailand

For the years ended December 31, 2006 and 2005

Unit : Baht

	2006	2005
<b>Cash Flows from Investment Activities</b>		
Increase in Time Deposits	(177,840,000.00)	-
Cash Paid for Securities Investment	(16,223,679,086.03)	(3,922,854,887.23)
Cash Paid for Purchase of Premises and Equipment	(61,388,327.54)	(781,754,571.70)
Cash Paid for Purchase of Assets In Process	(262,338,407.62)	(13,712,959.14)
Cash Received from Reimbursement of Assurance Claims	-	902,000.00
Cash Received from Securities Investment	16,684,485,962.17	-
Net Cash Used in Investment Activities	(40,759,859.02)	(4,717,420,418.07)
<b>Cash Flows from Financing Activities</b>		
Cash Paid for Repayment of Borrowings	(7,382,402,061.89)	(10,221,294,880.63)
Cash Received from Borrowings	1,803,205,040.42	5,335,321,856.04
Cash Received from Shares Issued and Fully Paid	-	2,500,000,000.00
Net Cash Used in Financing Activities	(5,579,197,021.47)	(2,385,973,024.59)
Net Increase in Cash and Cash Equivalents	1,379,996.00	802,921.43
Opening Balance of Cash and Cash Equivalents	8,100,004.00	7,297,082.57
Closing Balance of Cash and Cash Equivalents	9,480,000.00	8,100,004.00
<b>Additional Disclosures of Cash Flow Information</b>		
Cash Paid for the year		
Interest Expense	1,663,219,981.14	838,261,372.42

Notes to the financial statements are an integral part of these financial statements.

For the years ended December 31, 2006 and 2005

## 1. Establishment Objectives and Operations

The Small and Medium Enterprise Development Bank of Thailand was established as a juristic person under the Small and Medium Enterprise Development Bank of Thailand Act B.E. 2545 (2002), which effectively came into force since December 20, 2002. The Bank is mandated to conduct business with the aim to develop, promote, and assist small and medium enterprises in the establishment, operation, expansion or improvement of their businesses through the provision of loans, guarantees, venture capital, counseling and other necessary services as prescribed by the Act.

The entire business, assets, liabilities, retained earnings, reserves and all rights and accountabilities of the Small Industry Finance Corporation as existed on the day which this Act came into force, were transferred to SME BANK.

The Bank's head office is located at 475 Siripinyo Building, 9<sup>th</sup> Floor, Sri Ayudhya Road, Ratchathewi District, Bangkok. The Bank has branch offices located throughout all regions of Thailand. Total employees as at December 31, 2006 and 2005 were 1,912 and 1,812 respectively.

## 2. Basis of Presentation and Significant Accounting Policies

### 2.1 Basis of Presentation of Financial Statements

The Bank has prepared its financial statements disclose items as specified in Bank of Thailand's Announcement on Balance Sheet and Profit and Loss Statement of Commercial Banks, dated May 10, 2001, and are in accordance with generally accepted accounting standards as prescribed in the Accounting Act B.E. 2543 (2000).

### 2.2 Summary of Significant Accounting Policies

#### 2.2.1 Cash and Cash Equivalents

Cash and Cash equivalents represent cash in hand and cash on collection.

#### 2.2.2 Recognition of Income

##### - Interest income

The Bank recognize interest income on loans on an accruals basis using the effective interest rate method, except for interest on loans classified as delinquent over 3 months which is recognized on a cash basis.

The Bank reverses accrued interest income on loans classified as delinquent over 3 months since the first date of overdue accordance with the Bank of Thailand regulation.

##### - Penalties income

The Bank recognize penalties income on an accruals basis using the effective interest rate method, except for penalties income classified as delinquent over 3 months which is recognized on a cash basis.

The Bank reverses accrued penalties income on loans classified as delinquent over 3 months since the first date of overdue accordance with the Bank of Thailand regulation.

##### - Fees and service income

The Bank recognize fees and service income on loan approval is recognized on a cash basis. Fees income from issuance of guarantee letters is recognized on a rights basis.

#### 2.2.3 Recognition of Interest Expense

Interest expense on deposits and borrowings is recognized on an accruals basis using the effective interest rate method.

### 2.2.4 Loans

Loans represent the outstanding principle amount, which accrued interest receivables presented as a separate item. Unearned discounts are presented as a deduction from the loans.

### 2.2.5 Allowance for Doubtful Accounts

Allowance for doubtful accounts are based on analysis of each account, taking into consideration the possibility of the said debt collection and value of existing collateral. Accounts are classified by the Bank in accordance with the Bank of Thailand's guidelines.

### 2.2.6 Troubled Debt Restructuring

The Bank considers debtors deemed able to pay their debts if terms and conditions are eased from normal standards without incurring any loss in book value. The Bank uses banking practice regarding troubled debt restructuring to resolve the problem of troubled debts, such as asset transfer to repay debt, change of repayment conditions and other forms of troubled debt restructuring.

### 2.2.7 Investments

The Bank's investments comprise debt securities as trading securities, available-for-sale securities, held-to-maturity debt securities and general investment securities which are presented separately as net current investments and net long-term investment.

Investment in marketable investment units which are available-for-sale investments is presented in terms of fair value with their net assets value.

Those debt securities which the Bank intends and is able to hold to maturity are classified as held-to-maturity securities which are presented at cost value written off. Their surplus or deficit value will be held to maturity and adjusted to interest receivables at the end of each month on a straight-line method. The interest income from held-to-maturity debt securities are recorded on an accrual basis using the effective rate method.

Investments other than marketable securities are stated at cost less allowance for investment impairment (if any). Loss on impairment of investment are recognized as the expenses in the statement of income.

### 2.2.8 Premises and Equipment - Net

Premises and equipment are stated at cost less accumulated depreciation and allowance for asset impairment (if any). Depreciation of premises and equipment is calculated on a straight-line method over their estimated useful lives, for building, it is 20 years and for equipment, 5-10 years. Equipment which cost not more than 1,000 baht per unit, are stated as expenses in the accounting period of their purchase.

The asset, which were transferred by One Step Shop : OSS and the Financial Counseling Centre for SMEs and the Public are calculated on a straight-line method over their estimated useful live for 2 years since the date of assets transfer.

The assets, which were transferred by the project of New Entrepreneurs Creation (NEC) and projects of Invigorating Thai Business (ITB) are calculated on a straight-line method over their estimated useful live for 2 years since the date of assets transfer.

### 2.2.9 Properties Foreclosed - Net

These comprise land and buildings debtors used as collateral and ordered by a court of law to be sold at auction which the Bank purchased with the intention to resell later on.

Properties foreclosed are stated at debt settlement cost or at their auction value and recorded as receipt of partial debt repayment less allowance for asset impairment (if any). The assets are valued by comparison with their market value as assessed by a third party. Losses on impairment are recognized as non-interest expense in the statements of income. Depreciation of buildings are not calculated or deducted as profit or loss when sold and after remaining debt is repaid.



## 2.2.10 Provident Fund for staff

The Bank established and registered the Provident Fund in accordance with the Act of Provident Fund of B.E.2530 (1997), with the approval from the Ministry of Finance on November 29,1996.

According to the regulations of Provident Fund, the staff hired by the Bank as permanent employees, are entitled to subscribe to this Fund as its member. The staff contributed to the Fund at the rate of 3 - 9% according to the length of service of each staff and the Bank contributed money to this Fund with the rate of 5 - 10% according to the length of service for staff as well. And the Bank staff will be reimbursed the said benefit when resigned according to the length of their seniority.

The Bank contributed money to the Provident Fund for staff, charge to expense for staff in the statements of income.

## 2.2.11 Legal Reserve

The Bank sets aside at least 5% of previous year's net profit as a legal reserve, appropriation until said reserve is not less than 10% of authorized share capital.

## 2.2.12 Reserve for Investment

The Bank sets aside 25% of previous year's net profit as reserve for investment in new projects.

## 2.2.13 Basic Earnings / (Loss) per Share

Basic earning / (Loss) per share is computed by dividing the net profit by the weighted average number of fully paid up ordinary shares at the year ended.

## 3. Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies, including forward foreign exchange contracts, are translated into Thai Baht at the rates of exchange prevailing at the transaction dates. Balances of assets and liabilities denominated in foreign currencies, including forward foreign exchange contracts are translated into Thai Baht at the reference rates announced by the BOT at the date of balance sheet. Exchange gains or losses on translation are recognized as income or expense in the period.

## 4. Supplementary Information

### 4.1 Interbank and Money Market Items (Assets) comprise the following:

Unit : Million Baht

	2006			2005		
	Demand	Time	Total	Demand	Time	Total
<b>Domestic Items</b>						
Bank of Thailand	154.68	-	154.68	138.88	-	138.88
Commercial banks	1,451.24	1,000.00	2,451.24	239.77	1,000.00	1,239.77
Other banks	28.92	377.84	406.76	19.57	200.00	219.57
Finance Co., Finance & Securities Co., Securities Co., and Credit Foncier Co.	-	1,000.00	1,000.00	-	800.00	800.00
Total Domestic Item	1,634.84	2,377.84	4,012.68	398.22	2,000.00	2,398.22
Add Accrued interest receivable	-	4.85	4.85	-	3.76	3.76
Total	1,634.84	2,382.69	4,017.53	398.22	2,003.76	2,401.98

### 4.2 Securities Purchased under Resale Agreements comprise the following:

Unit : Million Baht

	2006	2005
Government Bonds	-	685.00
Bonds of the Financial Institutions - Development Fund	3,160.00	3,000.00
Total	3,160.00	3,685.00

### 4.3 Investments comprise the following:

Unit : Million Baht

	2006			
	Cost/ Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
<b>4.3.1 Current investments</b>				
Held - to - maturity debt securities				
Government and state enterprise securities	4,606.16	-	-	4,606.16
Total Current investments	4,606.16	-	-	4,606.16
<b>4.3.2 Long-term investments</b>				
Held - to - maturity debt securities				
Government and state enterprise securities	1,000.00	73.48	-	1,073.48
Private enterprises debt securities	501.93	-	-	501.93
Add Allowance for revaluation	73.48	-	-	-
Total	1,575.41	-	-	1,575.41
General investments				
Non-marketable Equity Securities	629.32	-	74.74	554.58
Less Allowance for impairment	(74.74)	-	-	-
Total	554.58	-	-	554.58
Total Long-term investments - net	2,129.99	-	-	2,129.99

Unit : Million Baht

	2005			
	Cost/ Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
<b>4.3.1 Current investments</b>				
Held - to - maturity debt securities				
Government and state enterprise securities	3,916.08	-	-	3,916.08
Total Current investments	3,916.08	-	-	3,916.08
<b>4.3.2 Long-term investments</b>				
Held - to - maturity debt securities				
Government and state enterprise securities	2,647.81	72.03	-	2,719.84
Add Allowance for revaluation	72.03	-	-	-
Total	2,719.84	-	-	2,719.84
General investments				
Non-marketable Equity Securities	634.32	-	29.73	604.59
Less Allowance for impairment	(29.73)	-	-	-
Total	604.59	-	-	604.59
Total Long-term investments - net	3,324.43	-	-	3,324.43

## Investment (Continued)

Unit : Million Baht

	2006			
	Maturity			
	Within 1 Year	Over 1 to 5 years	Over 5 years	Total
<b>4.3.3 Remaining Maturity of Debt Securities</b>				
Held - to - maturity debt securities				
Government and state enterprise securities	4,606.16	-	1,000.00	5,606.16
Private enterprises debt securities	-	501.93	-	501.93
<u>Add</u> Allowance for revaluation	-	-	73.48	73.48
Total	<u>4,606.16</u>	<u>501.93</u>	<u>1,073.48</u>	<u>6,181.57</u>

Unit : Million Baht

	2005			
	Maturity			
	Within 1 Year	Over 1 to 5 years	Over 5 years	Total
<b>4.3.3 Remaining Maturity of Debt Securities</b>				
Held - to - maturity debt securities				
Government and state enterprise securities	3,916.08	1,647.81	1,000.00	6,563.89
<u>Add</u> Allowance for revaluation	-	-	72.03	72.03
Total	<u>3,916.08</u>	<u>1,647.81</u>	<u>1,072.03</u>	<u>6,635.92</u>

## 4.4 Loan and Accrued Interest Receivable

### 4.4.1 Classified by Type of Loans

Unit : Million Baht

	2006	2005
Loans	42,552.71	39,616.22
Hire purchase receivable	1,709.37	1,431.50
Total	44,262.08	41,047.72
<u>Add</u> Accrued interest receivable	206.59	197.26
Total	44,468.67	41,244.98
<u>Less</u> Unearned discounts	(280.26)	(271.81)
Loans and accrued interest receivable	44,188.41	40,973.17
<u>Less</u> Allowance for doubtful accounts	(4,167.18)	(987.15)
Loans and accrued interest receivable - net	<u>40,021.23</u>	<u>39,986.02</u>

### 4.4.2 Classified by remaining maturity

Unit : Million Baht

	2006	2005
Up to 1 year	7,330.13	12,211.77
Over 1 years	36,931.95	28,835.95
Total	44,262.08	41,047.72
<u>Add</u> Accrued interest receivable	206.59	197.26
Total	44,468.67	41,244.98
<u>Less</u> Unearned discounts	(280.26)	(271.81)
Loans and accrued interest receivable	<u>44,188.41</u>	<u>40,973.17</u>

### 4.4.3 Classified by Loan Classification

Unit : Million Baht

	2006			
	Loans and Accrued Interest Receivable	Debt net of Collateral	Allowance for Doubtful Accounts %	Allowance Established
Pass	22,328.06	3,140.60	1	31.41
Special mention	2,821.84	404.13	2	8.08
Substandard	2,942.07	245.60	20	49.12
Doubtful	4,339.51	1,038.56	100	1,038.56
Doubtful of loss	12,037.19	3,040.01	100	3,040.01
Total	44,468.67	7,868.90		4,167.18
<u>Less</u> Unearned discounts	(280.26)			
Loans and accrued interest receivable	44,188.41			
<u>Less</u> Allowance for doubtful accounts	(4,167.18)			
Loans and accrued interest receivable - net	<u>40,021.23</u>			

Unit : Million Baht

	2005			
	Loans and Accrued Interest Receivable	Debt net of Collateral	Allowance for Doubtful Accounts %	Allowance Established
Pass	30,772.93	5,473.54	1	54.74
Special mention	2,500.71	246.73	2	4.93
Substandard	1,192.53	178.34	20	35.67
Doubtful	1,793.16	260.95	50	130.47
Doubtful of loss	4,985.65	761.34	100	761.34
Total	41,244.98	6,920.90		987.15
<u>Less</u> Unearned discounts	(271.81)			
Loans and accrued interest receivable	40,973.17			
<u>Less</u> Allowance for doubtful accounts	(987.15)			
Loans and accrued interest receivable - net	<u>39,986.02</u>			



## Classified by Loan Classification (Continue)

As at December 31, 2006 and 2005, loans whose interest income recognition has ceased totaled 19,273.20 million baht and 7,938.37 million baht, accounting for 43.34 and 19.25 percent respectively of loans and accrued interest receivables.

### 4.4.4 Troubled Debt Restructuring

Details of restructured debts of the Bank and its subsidiaries for the years ended December 31, 2006 are as follows :

Unit : Million Baht

2006					
Forms of Restructuring	Number of Accounts	Outstanding Debts		Transferred Assets	
		Before	After	Types	Fair Value
Changes of repayment conditions	3,627	13,954.80	13,435.16	-	-
Transfers of assets	104	278.35	161.70	Land	116.65
				Land and Premises	
<b>Total</b>	<b>3,731</b>	<b>14,233.15</b>	<b>13,596.86</b>		

### 4.5 Allowance for Doubtful Accounts comprise the following:

Unit : Million Baht

2006						
	Pass	Special Mention	Substandard	Doubtful	Doubtful of Loss	Total
Opening Balance	54.74	4.93	35.67	130.47	761.34	987.15
Doubtful accounts	(23.33)	3.15	13.45	908.09	2,278.67	3,180.03
Closing Balance	<u>31.41</u>	<u>8.08</u>	<u>49.12</u>	<u>1,038.56</u>	<u>3,040.01</u>	<u>4,167.18</u>

In 2006, the BOT issued the Notification regarding Worthless or Irrecoverable Assets and Doubtful Assets that may be Worthless or Irrecoverable of Commercial Banks dated December 7, 2006 which has been come into effect since the last six month accounting period of the year 2006 onwards. The essences require that commercial banks set gradually provision of 100 percent for the difference between the book value of loan and the present value of expected cash flows from the debtors or the present value of expected cash flows from the sale of collateral as follows :

(a) For debtors who the court has already adjudged or who are in the process of legal execution, and debtors who are in the process of litigation, provision shall be set since from the last six month accounting period of the year 2006 onwards.

(b) For debtors classified as doubtful of loss and doubtful, provision shall be set from the first accounting period of the year 2007 onwards.

(c) For debtors classified as substandard, provision shall be set from the last six month accounting period of the year 2007 onwards.

As of December 31, 2006, the Bank set provisions amounting to 2,327.50 million baht, in compliance with the precedent regulations. According to the BOT's new regulations, the Bank has also set aside provision for debtors classified at the rate of 100 percent for debtor group (a) debtors already adjudged or in the process of

## Allowance for Doubtful Accounts comprise the following: (Continue)

legal execution and in the process of litigation. These debtors carried impaired loan amounting to 473.00 million baht, as well as, debtor group (b) debtors classified as doubtful of loss and doubtful accounts amounting to 1,366.68 million baht. As such, the Bank has carried out provisioning in excess of the BOT's requirement in this period for allowance doubtful accounts totaling 1,839.68 million baht.

Unit : Million Baht

2005						
	Pass	Special Mention	Substandard	Doubtful	Doubtful of Loss	Total
Opening Balance	41.00	6.47	55.35	155.23	405.97	664.02
Doubtful accounts	13.74	(1.54)	(19.68)	(24.76)	355.37	323.13
Closing Balance	<u>54.74</u>	<u>4.93</u>	<u>35.67</u>	<u>130.47</u>	<u>761.34</u>	<u>987.15</u>

### 4.6 Properties Foreclosed - Net comprise the following:

Unit : Million Baht

2006				
Acquired from debt settlement	Opening Balance	Additions	Disposals	Closing Balance
Immovable assets	265.48	92.62	(138.64)	219.46
Movable assets	-	17.42	-	17.42
Total	265.48	110.04	(138.64)	236.88
Less Allowance for Properties foreclosed impairment	(0.06)	(5.91)	-	(5.97)
Properties foreclosed - net	<u>265.42</u>	<u>104.13</u>	<u>(138.64)</u>	<u>230.91</u>

Unit : Million Baht

2005				
Acquired from debt settlement	Opening Balance	Additions	Disposals	Closing Balance
Immovable assets	30.96	234.82	(0.30)	265.48
Less Allowance for Properties foreclosed impairment	(1.63)	(0.06)	1.63	(0.06)
Properties foreclosed - net	<u>29.33</u>	<u>234.76</u>	<u>1.33</u>	<u>265.42</u>

### 4.7 Premises and Equipment -Net comprise the following:

Unit : Million Baht

2006									
	Cost				Accumulated Depreciation				Net
	Opening balance	Additions	Disposals	Closing balance	Opening balance	Depreciation	Disposals	Closing balance	
Land	264.76	-	-	264.76	-	-	-	-	264.76
Premises	404.79	-	-	404.79	2.66	0.46	-	3.12	401.67
Office equipment	206.28	30.73	(4.62)	232.39	87.03	38.23	(3.55)	121.71	110.68
Installation of computer system	20.63	9.65	-	30.28	8.23	2.18	-	10.41	19.87
Furniture	71.44	21.01	-	92.45	57.37	15.80	-	73.17	19.28
Vehicles	163.78	-	-	163.78	65.35	30.10	-	95.45	68.33
<b>Total</b>	<u>1,131.68</u>	<u>61.39</u>	<u>(4.62)</u>	<u>1,188.45</u>	<u>220.64</u>	<u>86.77</u>	<u>(3.55)</u>	<u>303.86</u>	<u>884.59</u>

## Premises and Equipment -Net (Continued)

Total premises price amounted to 404.79 million baht, comprising of head office building 395.57 million baht, and branches offices 9.22 million baht.

Unit : Million Baht

	2005								Net
	Cost				Accumulated Depreciation				
	Opening balance	Additions	Disposals	Closing balance	Opening balance	Depreciation	Disposals	Closing balance	
Land	4.70	260.06	-	264.76	-	-	-	-	264.76
Premises	6.25	398.54	-	404.79	2.27	0.39	-	2.66	402.13
Office equipment	192.25	34.66	-	226.91	59.71	35.55	-	95.26	131.65
Furniture	60.09	11.35	-	71.44	35.16	22.21	-	57.37	14.07
Vehicles	88.02	77.15	(1.39)	163.78	41.38	24.85	(0.88)	65.35	98.43
Total	351.31	781.76	(1.39)	1,131.68	138.52	83.00	(0.88)	220.64	911.04

### 4.8 Assets In Process comprise the following:

Unit : Million Baht

	2006			
	Opening Balance	Additions	Disposals	Closing Balance
Acquired from debt settlement				
Office Building Renovation	6.77	246.98	-	253.75
Office equipment	-	0.78	-	0.78
Installation of computer system	18.03	15.30	1.56	31.77
Furniture	1.52	11.05	10.22	2.35
Total	26.32	274.11	11.78	288.65

Unit : Million Baht

	2005			
	Opening Balance	Additions	Disposals	Closing Balance
Acquired from debt settlement				
Office Building Renovation	-	6.77	-	6.77
Installation of computer system	10.00	8.03	-	18.03
Furniture	2.61	-	1.09	1.52
Total	12.61	14.80	1.09	26.32

### 4.9 Advance for Legal Costs - Net comprise the following:

Unit : Million Baht

	2006	2005
Advance for legal costs	47.26	29.88
Less Allowance for doubtful accounts	(47.26)	(29.88)
Advance for legal costs - net	-	-

### 4.10 Other Assets - Net comprise the following:

Unit : Million Baht

	2006	2005
Interest receivables from securities purchased under resale agreements	1.26	1.45
Accrued interest receivables - Held - to - maturity debt securities	37.68	46.37
Accrued interest receivables - Cross Currency swaps - net	89.08	1.97
Accrued interest receivables - Interest rate swaps - net	46.77	98.62
Prepaid Expenses	32.42	24.41
Right to rent building - net	0.18	-
Accrued other income	9.29	6.74
Deposits	16.16	16.66
Guarantees	2.90	2.70
Insurance premium refundable	26.04	15.34
Loan guarantee fees refundable	19.73	13.60
Asset in transit for hire purchase	0.62	-
Accounts receivable - Revenue Department	76.31	70.10
Right to rent building	1.50	1.50
Other account receivables	16.67	4.27
	376.61	303.73
Less Allowance for doubtful accounts	(45.77)	(28.94)
Total	330.84	274.79

### 4.11 Deposits in Baht comprise the following:

Unit : Million Baht

	2006	2005
<b>Product</b>		
Saving deposits	927.18	121.52
Time deposits		
- Less than 6 months	536.54	1,005.75
- 6 months - less than 1 year	1,080.00	1,101.76
- 1 year and over	2,769.20	7,746.38
Certificate of deposits	950.00	-
Total	6,262.92	9,975.41



## 4.12 Interbank and Money Market Items (Liabilities)

These are promissory notes and bills of exchange issued to financial institutions as at December 31, 2006 and 2005, for the total amount of 28,670.53 million baht and 16,935.80 million baht, with interests of 0.01-5.885 percent.

### 4.12.1 Domestic Item

#### 4.12.1.1 Short-term

Unit : Million Baht

	2006			2005		
	Demand	Time	Total	Demand	Time	Total
Bank of Thailand	-	645.03	645.03	-	632.30	632.30
Other banks	-	500.00	500.00	-	500.00	500.00
Other financial institutions	-	-	-	-	10.00	10.00
Total	-	1,145.03	1,145.03	-	1,142.30	1,142.30

#### 4.12.1.2 Long-term

Unit : Million Baht

	2006			2005		
	Demand	Time	Total	Demand	Time	Total
Commercial banks	-	1,900.00	1,900.00	-	1,800.00	1,800.00
Other banks	-	5,000.00	5,000.00	-	5,000.00	5,000.00
Finance Co., Finance & Securities Co., and Securities Co.	-	-	-	-	20.00	20.00
Other financial institutions	-	1,730.00	1,730.00	-	1,595.00	1,595.00
Total	-	8,630.00	8,630.00	-	8,415.00	8,415.00
Total Domestic Item	-	9,775.03	9,775.03	-	9,557.30	9,557.30

### 4.12.2 Foreign Item

#### Long-term

Unit : Million Baht

	2006			2005		
	Demand	Time	Total	Demand	Time	Total
US Dollar	-	17,661.56	17,661.56	-	7,378.50	7,378.50
EURO	-	1,233.94	1,233.94	-	-	-
Total Foreign Item	-	18,895.50	18,895.50	-	7,378.50	7,378.50
Total Domestic & Foreign Item	-	28,670.53	28,670.53	-	16,935.80	16,935.80

## 4.13 Borrowings

### Classified by Type

Unit : Million Baht

	2006			2005		
	Domestic	Overseas	Total	Domestic	Overseas	Total
Short-term borrowings	5,627.42	-	5,627.42	8,648.71	-	8,648.71
Long-term borrowings	7,381.07	-	7,381.07	9,938.98	-	9,938.98
Total	13,008.49	-	13,008.49	18,587.69	-	18,587.69

**Short-term borrowings** as at December 31, 2006 and 2005 totaled 5,627.42 million baht and 8,648.71 million baht respectively, consisting of :

(1) Support fund from the National Science and Technology Development Agency (NSTDA) in the form of joint lending with SME BANK to private-sector projects, not exceeding 20 million baht per project, for a period of 5 years ending on June 1, 2002 and the agreement has been rolled over for a further period of 5 years, ending on June 2, 2007. NSTDA provides two-thirds of the loan amount while SME BANK provides the remaining one-third. The loan is to be repaid to NSTDA within 30 days from the date of principal repayment by the private sector borrower. Loans outstanding as of December 31, 2006 totaled 1.12 million baht.

(2) Borrowing from the individual, juridical person, state-enterprise and government affairs issued as promissory notes as at December 31, 2006 and 2005 totaled 5,626.30 million baht and 8,648.71 million baht respectively with fixed interest rates of 0.25-5.70 percent per annum. Maturity is within 1 year. Interest payment dates are as indicated on the notes.

**Long-term borrowings** as at December 31, 2006 and 2005 totaled 7,381.07 million baht and 9,938.98 million baht respectively, consisting of :

(1) Borrowing from the Ministry of Finance, from transfer of business from the Small industries Finance Office, Department of Industrial Promotion. After deduction of 75 million baht for subscription of 750,000 shares in the Small Industry Finance Corporation at 100 baht per share, the balance of 175.45 million baht was lent to SME BANK.

(2) Support fund from the National Science and Technology Development Agency (NSTDA) in the form of joint lending with SME BANK to private-sector projects, not exceeding 20 million baht per project, for a period of 5 years ending on June 1, 2002 and the agreement has been rolled over for a further period of 5 years, ending on June 2, 2007. NSTDA provides two-thirds of the loan amount while SME BANK provides the remaining one-third. The loan is to be repaid to NSTDA within 30 days from the date of principal repayment by the private sector borrower. Loans outstanding as at December 31, 2005 totaled 2.53 million baht .

(3) Borrowing from the individual, juridical person, state-enterprise and government affairs issued as promissory notes as at December 31, 2006 and 2005 totaled 1,205.62 million baht and 3,761 million baht respectively with fixed interest rate 2.25 - 5.70 percent per annum.

**Debentures** of 6,000 million baht

On July 16, 1999, SME BANK issued unsecured debenture (guaranteed by the Ministry of Finance) lot number 1/1999 divided into 10 units at a face value and selling price of 100 million baht per unit, totaling 1,000 million baht, and with maturity of 10 years and a floating coupon rate based on Krung Thai Bank's 12-months deposit interest rate. The debenture was sold to the Social Security Office. Coupons are paid twice a year, on January 16, and July 16, of every year. The principal is due on July 16, 2009. The first interest installment was scheduled in January 2000. The last interest installment is on the maturity date.

## Debentures (Continue)

On July 22, 2003, SME BANK issued unsecured and non-subordinated debenture lot number 1/2003 divided into 5 million units at a face value and selling price of 1,000 baht per unit, totaling 5,000 million baht, with maturity of 5 years and a fixed coupon rate of 2.20 percent per year. Coupons are paid twice a year, on January 22, and July 22, of every year. The principal is due on July 22, 2008. The first interest installment is scheduled in January 2004. The last interest installment is on the maturity date.

### 4.14 Support Fund from the Assets Capitalization Bureau

The Bank has made a memorandum with the Assets Capitalization Bureau regarding the management of projects to support the new entrepreneurs on assets capitalization, which the cabinet had approved on August 10, 2004 with the aim to stimulate and increase the efficiency and the opportunities to reach the financial sources for the small owners or small business within the operational period of 4 years and 2 months (from August 2004 to September 2008) with the budget of 510.55 million baht.

Regarding the withdrawal of support fund to subsidize projects for new entrepreneurs on assets capitalization of 2006, the Bank has received the subsidy amounted to 113.37 million baht from the Assets Capitalization Bureau whose the amount of 6.74 million baht was paid for repayment to the closing balance remaining of 2006 ending as of December 31, 2005. During 2006, the expenses of projects on assets capitalization totaled to 115.92 million baht. The subsidy received for projects concerned has been recognized by the Bank as support fund income from the Assets Capitalization Bureau, amounted to 106.63 million baht. As at December 31, 2006, the Bank showed the income of accrued support fund receivable amounted to 9.29 million baht.

The expense really paid to subsidize projects for the new entrepreneurs of assets capitalization has been recognized by the Bank in the statements of income. The Bank showed the closing balance after deduction from the support fund income received from the Bureau of the Budget.

### 4.15 Support Fund from the Operation Center for Resolving Debts of the Public

The Bank has obtained the budget for operation to solve integrally social problems and poverty from the Operation Center for Resolving People's Debts Projects within the operational period from April 2004 to September 2008 with the amount of 4.20 million baht.

Regarding the withdrawal of support fund for resolving people's debts projects, the subsidy amounted to 4.20 million baht has been recognized by the Bank since June 27, 2005 as the compensation income for resolving people's debts projects, according to the expenses really paid totaling to 1.06 million baht and 2.26 million baht respectively as at December 31, 2006 and with the closing balance of support fund remaining 0.88 million baht.

### 4.16 Support Fund from the Financial Counseling Centre for SMEs and the Public

The Bank received the business transfer from the Financial Counseling Centre for SMEs and the Public on September 30, 2004, which the Ministry of Finance had approved for support fund on the budget of expense for management, deducted by the remaining sum of subsidy from the Financial Counseling Centre for SMEs and the Public.

Regarding the withdrawal of support fund for projects, the Financial Counseling Centre for SMEs and the Public received the support fund on September 12, 2005 according to the most urgent notification ref. Kor Khor. 1001/2777 dated September 15, 2005 for the budget of 86.63 million baht by which the amount of 15.82 million baht was deducted as the repayment to the statement of debtors of the Financial Counseling Centre for SMEs and the Public, ending as at December 31, 2004. The remaining sum amounted 70.81 million baht was recognized by the Bank as the support fund income from the Financial Counseling Centre for SMEs and the Public for 2005 - 2006 for the total expenses really as at December 31, 2005 without any support fund remaining on the closing balance.

## Support Fund from the Financial Counseling Centre for SMEs and the Public (Continue)

The expenses from the projects of the Financial Counseling Centre for SMEs and the Public were recognized by the Bank as Public Service Account (PSA). The Bank has showed the closing balance of income and expenses of projects concerned in the statements of income of 2005 with the total expense equated with the income. And the above project has been already terminated.

### 4.17 Support Fund from the Bureau of the Budget

The Bank received the budget amounted to 102.20 million baht to support new entrepreneurs projects on the assets capitalization with the operational period of 3 years (from 2006 to 2008) for activities involving the public relations, financial counseling and follows up for evaluation.

Regarding the withdrawal of support fund for projects to support new entrepreneurs on assets capitalization, the closing balance of support fund remaining showed at 2.98 million baht. In 2006, the Bank received the subsidy amounted to 22.70 million baht for operation from the Bureau of the Budget. The support fund income received from the Bureau of the Budget amounted to 25.57 million baht has been recognized by the bank. As at December 31, 2006, the Bank showed the closing balance of support fund remaining 0.11 million baht.

### 4.18 Other Liabilities comprise the following:

Unit : Million Baht

	2006	2005
Accrued expenses	186.10	322.38
Advance receivables	83.51	44.03
Deposit for insurance premium	10.56	6.97
Advance revenue	11.24	8.37
Deposit Loan guarantee fees	2.14	1.35
Deposit for collateral valuation fees	0.19	0.19
Guarantees	140.01	23.41
Deposit	0.08	0.24
Creditor - New Entrepreneurs Creation Project	0.18	-
Other creditors	81.70	149.36
Difference on Revaluation - Cross Currency swap	1,243.90	-
<b>Total</b>	<b>1,759.61</b>	<b>556.30</b>

### 4.19 Share Capital

The Bank received the shares transferred by the Small Industry Finance Corporation for the total of 28 million shares at 100 Baht per share with the amount of 2,800 million Baht in accordance with the Act of Small and Medium Enterprises Bank B.E.2545 (2002) which was enacted since December 20, 2002.

On November 30, 2004, a General Meeting of Shareholders resolved to increase capitalization in accordance with resolution 1/2004 on April 26, 2004 by a total of 20 million shares at 100 baht per share, amounting to 2,000 million baht.

On December 26, 2005, a General Meeting of Shareholders resolved to increase capitalization in accordance with resolution 1/2005 on April 29, 2005 by a total of 25 million shares at 100 baht per share, amounting to 2,500 million baht.

As at December 31, 2006 and 2005, the Bank has fully paid up registered capital of 73 million shares at 100 baht per share, amounting to 7,300 million baht.

### 4.20 Government Support Fund for Investments

In 2002, the Bank received from the government a free obligation contribution of 193.55 million baht, accounting for 49 percent of registered capital as invested capital for the Allied Retail Trade Company.



4.21 Derivatives

The bank uses derivative financial instruments as a risk management tool. For assets and liabilities, the derivative financial instrument used to manage their credit risk will recognize accrued profit or loss according to any change in fair value in a corresponding time period.

A derivative is a financial instrument used to protect assets and liabilities against risks will also recognize accrued interest payable and receivable in corresponding time periods.

4.22 Retained Earnings

At the General Meeting of Shareholders on April 27, 2006, the meeting passed a resolution to set aside 5 percent of the net accounting profit as legal reserve, and to set aside 25 percent of the previous year's net profit as reserve for investment.

4.23 Contingencies (Off - Balance Sheet Items)

Unit : Million Baht

	2006	2005
Aval and guarantees		
Guarantees for loans	-	90.34
	-	90.34
Liability under unmatured import bills	19.61	-
Letters of credit	16.75	76.12
Other Contingencies		
Other guarantees	840.00	597.70
Currency swaps contracts		
Bought	20,139.40	7,378.50
Sold	-	1,687.53
Interest rate swaps contracts	22,055.30	25,872.60
Total	43,034.70	35,536.33
Grand Total	43,071.06	35,702.79

4.24 The Acquisition of Assets

4.24.1 The Acquisition of Assets of the One Step Shop (OSS)

On December 23, 2004, SME BANK received the acquisition of assets in the form of office equipment from the One Step Shop (OSS) in accordance with a resolution of the meeting on the operations of the OSS at the Fiscal Policy Office, Ministry of Finance on December 30, 2004. Net value of the said equipment has taken into account depreciation of 0.28 million baht which is net value of 0.28 million baht from the principal cost of 0.56 million baht.

4.24.2 The Acquisition of Assets of the Financial Counseling Centre for SMEs and the Public

On October 21, 2004, SME BANK received the acquisition of assets in the form of office equipment from the Counseling Center in accordance with the Ministry of Finance letter of September 30, 2004, Ref. Kor Khor 1004/20050 which stated net book value of 5.43 million baht (the principal cost of 10.46 million baht , accumulated depreciation of 5.03 million baht).

Assets transfer under 4.24.1 and 4.24.2 are presented as assets classified as office equipment together with deferred income.

4.25 Reclassification

The Bank reclassified some type of accounts on the financial statements ending as at December 31, 2005 in accordance with the financial statements showing as at December 31, 2006.

Small and Medium Enterprise Development Bank of Thailand



As at 31 December 2006





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## Sa Kaeo Business Center

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Fax (037) 421-977  
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## Nakhonnayok Business Center

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E-mail: Nakhonnayok@smebank.co.th

## Chainat Business Center

68/3-4 Phomprasert Rd., Tambon Nai Mueang, Amphoe Mueang Chainat 17000  
Tel. (056) 416-741-3  
Fax (056) 416-744  
E-mail: Chainat@smebank.co.th

## Angthong Business Center

14/5-6 Angthong-Singburi Rd., Tambon Taladluang, Amphoe Mueang, Angthong 14000  
Tel. (035) 625-106, 625-116, 625-198  
Fax (035) 625-207  
E-mail: Angthong@smebank.co.th

## Uthaitani Business Center

137 Terbsiri Rd., Tambon Uthaimai, Amphoe Mueang Uthaitani 61000  
Tel. (056) 571-401-3  
Fax (056) 571-404  
E-mail: Uthaitani@smebank.co.th

## Banpong Business Center

178-180 Songphol Rd., Tambon Banpong, Amphoe Banpong, Ratchaburi 70110  
Tel. (032) 222-820-2 Fax (032) 210-789  
E-mail: Banpong@smebank.co.th

## Kabinburi Business Center

995 Mu 8, Tambon Mueangkao, Amphoe Kabinburi, Prachinburi 25110  
Tel. (037) 281-449, 281-494, 281-601  
Fax (037) 281-649  
E-mail: Kabinburi@smebank.co.th

## Pattaya Business Center

245/155-156 Pattaya Sai 3 Rd., Tambon Nongplue, Amphoe Banglamung, Chonburi 20150  
Tel. (038) 416-805-7  
Fax (038) 416-808  
E-mail: Pattaya@smebank.co.th

## Klaeng Business Center

204/54-55 Sukhumvit Rd., Tambon Thangkween, Amphoe Klaeng, Rayong 21110  
Tel. (038) 672-844-6  
Fax (038) 672-847  
E-mail: Klaeng@smebank.co.th

## Southern Business Centers

### Surat Thani Business Center

60/4-6 Sri Wichai Rd., Tambon Makham Tear, Amphoe Mueang, Surat Thani 84000  
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Fax (077) 275-792  
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### Songkhla Business Center

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### Phuket Business Center

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Fax (076) 355-929  
E-mail: Phuket@smebank.co.th

### Nakhon Si Thammarat Business Center

70/34-35 Pak Nakhon Rd., Tambon Klang, Amphoe Mueang, Nakhon Si Thammarat 80000  
Tel. (075) 357-301-3  
Fax (075) 357-304  
E-mail: Nakhonsithammarat@smebank.co.th

### Trang Business Center

3/9 Visetkul Rd., Tambon Tub Tiang, Amphoe Mueang, Trang 92000  
Tel. (075) 217-910-2  
Fax (075) 217-913  
E-mail: Trang@smebank.co.th

### Yala Business Center

277-279 Premjit-Suraphan Rd., Tambon Sateng, Amphoe Mueang, Yala 95000  
Tel. (073) 224-458-9, 224-430  
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### Chumphon Business Center

25/46-47 Grom Luang Chumphon Rd., Tambon Tha Ta Pao, Amphoe Mueang, Chumphon 86000  
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Fax (077) 506-880  
E-mail: Chumphon@smebank.co.th

### Krabi Business Center

50/6-7 Krabi-Kao Thong Rd., Tambon Pak Num, Amphoe Mueang, Krabi 81000  
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Fax (075) 621-102  
E-mail: Krabi@smebank.co.th

## Pattani Business Center

400/22-23 Mu 4, Nhong Jik Rd., Tambon Rusamilear, Amphoe Mueang, Pattani 94000  
Tel. (073) 337-801-2, 337-804  
Fax (073) 337-803  
E-mail: Pattani@smebank.co.th

## Prachuap Khiri Khan Business Center

197 Prachuap Khiri Khan Rd., Tambon Prachuap Khiri Khan, Amphoe Mueang, Prachuap Khiri Khan 77000  
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## Satun Business Center

483/1-2 Mu 7, Yontrakarn Kamthon Rd., Tambon Klongkhit, Amphoe Mueang, Satun 91000  
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## Ranong Business Center

2/81-82 Mu 1, Phetkasem Rd., Tambon Bangrin, Amphoe Mueang, Ranong 85000  
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E-mail: Ranong@smebank.co.th

## Phangnga Business Center

68/9-10 Phangnga-Tabpud Rd., Tambon Thammaphud, Amphoe Mueang, Phangnga 82000  
Tel. (076) 412-263-4, 412-260  
Fax (076) 412-278  
E-mail: Phangnga@smebank.co.th

## Narathiwat Business Center

153/8-9 Suriyapradit Rd., Tambon Bangnak, Amphoe Mueang, Narathiwat 96000  
Tel. (073) 512-375-7  
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E-mail: Narathiwat@smebank.co.th

## Phattalung Business Center

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## Koh-Samui Business Center

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As at 31 December 2006





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