
Unofficial Translation prepared by The Foreign Banks' Association

This translation is for the convenience of those unfamiliar with the Thai language.

Please refer to the Thai text for the official version.

Ratings Handbook

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Foreword

Risk ratings must be carried out before and after the examination. The purpose of risk rating prior to the examination is to specify risk areas based on existing data, and correspondingly allocate the appropriate time and resources for the examination. Risk ratings following the examination outline the financial institution's risks which will be indicative of the level of importance supervisors must give to monitoring and implementing risk control measures.

Risk examinations shall focus on five main types of risks: strategic risk, credit risk, market risk, liquidity risk, and operational risk and include other types of risk where significant. The examination shall evaluate each type of risk and risk management of each risk type including ranking them by their impacts on income and capital funds, evaluate aggregate risk trends and provide an aggregate risk rating for each type of risks based on the table below.

Aggregate Risk Ratings

		Risk Level		
		<i>Low</i>	<i>Medium</i>	<i>High</i>
Quality	<i>Weak</i>	Medium	Medium- High	High
Management	<i>Adequate</i>	Low-Medium	Medium	Medium- High
Risk	<i>Good</i>	Low	Low-Medium	Medium

Following, a composite rating shall be carried out based on considerations of the risk ratings above in conjunction with the institution's ability to generate income, and the adequacy of the capital funds taking account of the effects of the risks

Observations in carrying out risk ratings.

1. The risk factors outlined in this Handbook are guidelines stating the minimum considerations for risk ratings, and additional factors affecting the level and quality of risk management must also be considered. For each risk factor, it is not possible to set out fixed values to judge if risks should be considered high, medium, or low; the weight of each risk factor depends on the sensitivity of the capital fund and the institution's income generating capabilities to the risk. A risk factor that is significant to one financial institution may not affect another institution; similarly, in the same institution, a risk factor may be significant in one period and have no relevance in another period. It is therefore not possible to provide fixed parameter values and weights to estimate risks from different risk factors.

2. The risk ratings guidelines in the Handbook outline each risk factor and the risk ratings based on each risk factor individually. In practice, however, all risk factors must be considered together and the effects of all risk factors must be evaluated simultaneously in aggregate before risk ratings are carried out. For any one type of risk, risk factors which appear to result in low risks when considered individually may have medium risks when considered as a group if the aggregate effect of the group of factors have a medium effect on income and on the capital fund.

3. Risk trends shall be evaluated over a forward-looking 12-month horizon, however, if there are risk factors or events which are likely to affect the financial institution over a longer horizon, these factors and events must also be taken into account. Risk trends shall affect the state authority's supervision strategies which may include widening the scope of the examination.

4. Evaluations of risk levels and the quality of risk management must be carried out separately and independently. Therefore, the quality of risk management no matter how good or bad, should not be considered in risk rating evaluations. An exception may be the risk rating of strategic risks for which it may not be possible to clearly separate risk factors from the quality of risk management due to the inter-relationships between the two which make it difficult to accurately measure the level of strategic risks. Notably, neither capital funds nor the strength of the institution's financial position can solve inadequacies nor reduce deficiencies in an institution's risk management system.

5. The examiner should not automatically conclude that high risk levels are bad, nor that low risk levels are good. Risks level merely reflect the risks resulting from business operations. Where risk levels are appropriate depend on the institution's risk management system's ability to measure, monitor, and control the risks.

6. Increasing or decreasing forward-looking trends in aggregate risks over a 12-month horizon does not necessarily mean that aggregate risk ratings will increase or decrease following the level implied over the next 12 months. For example, given a high aggregate risk rating, a decreasing risk trend does not mean the institution's risks will fall enough to merit a medium-high or medium risk rating. For all types of risk, a high aggregate risk level still has the potential of higher risk trends; and low aggregate risk levels can still follow decreasing risk trends. The risk ratings are based on threshold levels at which risks are deemed high or low, and upon passing the threshold risks may continue higher or lower.

7. Assets to be sold shall be considered as when evaluating market risk as the item is subject to risks resulting from changes in price. As such, price risks cover the bid-ask spread in the investment amount, and as the prices of assets to be sold have generally fallen quite low, it may be estimated that financial institutions are unlikely to require significant additional reserve provisions in this area, therefore risk ratings are not necessary here. However, observations regarding the management of said assets, if any, should be included in the evaluation of market risk section of the examination report.

Evaluations for the composite risk rating must include assessment of the capital adequacy fund, income generating capabilities, and the aggregate assessment of each type of risk. In cases where capital funds are stable and have a good income generating capabilities but have unsatisfactory aggregate risk ratings, composite ratings considerations shall focus first on the risk assessments. However, in cases where aggregate risk ratings are satisfactory but capital adequacy funds and income generating abilities are not satisfactory, composite ratings considerations shall focus on the capital adequacy funds and said income generating abilities.

Considerations of effects of the five types of risks and their aggregate risk assessments and the weights given to each type of risk must take account of the

sensitivities of the capital adequacy fund and its income generating capabilities to each type of risk. The sensitivities to risks and the weights which should be given to each type of risk will differ across different financial institutions, and within one financial institution risk sensitivities will vary between different time periods, and the examiner must estimate the effects that risks will have on the capital adequacy funds.

Risk Examination Division
Risk Management and Information System Examination Department
Supervision Group
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Strategic Risk Ratings

Risk Levels

Low

Changes in the organisation structure and key personnel following the previous examination having little effect on the organisation.

The financial institution has set out strategic plans to support effective risk management. The assumptions and various factors applied to strategic planning are reasonable and the plan well reflects strengths, weaknesses, opportunities, obstacles, and the market position of the financial institution.

Strategic plans inspire confidence, and have sufficient future support in terms of funding, human resources, operational systems, and management. Risk management systems are in place, and strategic plans have efficient operational procedures, clear strategic targets consistent with the direction of business enterprises and the changing environment. There is comprehensive communication of strategic targets and of the organisational culture which are consistently followed and met.

Strategy decisions or changes in external factors have little effect on the financial institution.

Medium

Changes in the organisation structure and key personnel following the previous examination having some but not significant effects on the organisation.

The financial institution has set out strategic plans to support adequate risk management. The assumptions and various factors applied to strategic planning are reasonable and the plan adequately reflects strengths, weaknesses, opportunities, obstacles, and the market position of the financial institution.

Strategic plans have sufficient future support in terms of funding, human resources, operational systems, and management. Risk management systems implementation procedures are consistent with strategies. Strategic targets may be aggressive but are consistent with the direction of business enterprises and the changing environment. Communications of strategic targets and of the organisational culture are carried out and are effectively adopted and followed throughout the organisation.

Effects of strategy decisions or changes in external factors are not significant to the financial institution.

High

Changes in the organisation structure and key personnel following the previous examination having significant effects on the organisation.

Strategic plans do not support effective risk management. The assumptions and various factors applied to strategic planning are unreasonable and the plan does not adequately reflect the strengths, weaknesses, opportunities, obstacles, and the market position of the financial institution.

Capital funds, human resources, operational systems, management, risk management systems, and implementation procedures do not adequately support operational implementation of strategies due to over-expansion or over-extension of business enterprises. Continued over-expansion will affect income and capital adequacy funds. Strategies may be inconsistent with the direction of business enterprises or may be inappropriate to the changing environment. There is inadequate or unclear communications of strategic targets and of the organisational culture, inadequate adoption and compliance or ineffective implementation of strategies.

Strategy decisions or changes in external factors may have great detrimental effects on the financial institution.

Risk Management

Good

Business management follows the principles of good governance achieving efficiency and transparency regarding the disclosure of information. Clear policies and operational procedures are set out for work carried out for and by organisational personnel (insiders) to protect against operational problems concerning conflicts of interest where personnel may carry out tasks for personal gain instead of the good of the organisation.

Strategic decisions may be changed with little expense and no obstacles. Contingency plans are in place in cases of crisis covering key areas, plans have been communicated to personnel throughout the organisation, and are regularly tested.

The financial institution has official policies for training and reserve managerial capacity building to ensure management continuity. Information systems effectively support strategy implementation, the management are highly skilled in the development of strategy direction, in increasing efficiency in strategy implementation and business operations to successfully meet set targets.

The financial institution's board of directors is fully qualified, has diversified experience, regularly attend board meetings and each is without any influence over the other members. There is a committee responsible for the supervision of all risks.

Adequate

Business management follows the principles of good governance with transparency regarding the disclosure of information. Adequate policies and operational procedures are set out for work carried out for and by organisational personnel (insiders) to protect against operational problems concerning conflicts of interest where personnel may carry out tasks for personal gain instead of the good of the organisation.

Strategic decisions may be changed with no obstacles and no significant expenses. Contingency plans are in place in cases of crisis adequately covering key areas, contingency plans are regularly tested and communicated to personnel throughout the organisation.

The financial institution has adequate official policies for training and reserve managerial capacity building to ensure management continuity. Information systems adequately support strategy implementation, the management show capabilities in

implementation and carrying out business operations to meet set targets and objectives, and have good decision-making and managerial skills.

The financial institution's board of directors are qualified , have diversified experience, there may be some inattendance of meetings but with no significant consequences, and no board member has controlling authority over other members. The scope of the board of directors' responsibilities cover the key risk areas.

Weak

Business management does not follow principles of good governance, and there is no transparency regarding the disclosure of information. Inadequate policies and operational procedures regarding work carried out for and by organisational personnel (insiders) to protect against operational problems concerning conflicts of interest where personnel may carry out tasks for personal gain instead of the good of the organisation.

Changes in strategic decisions will result in obstacles and significant expenses. Contingency plans in case of crisis are inadequate, and are not regularly tested and nor communicated to personnel in the organisation.

The financial institution has inadequate official policies for reserve managerial capacity building, or is inefficient and has inadequate training programmes to ensure management continuity. Information systems do not adequately support strategy implementation, the management do not have the capability to implement and carry out business operations to meet set targets and objectives, and are unsuccessful in decision-making and the management of the business.

The financial institution's board of directors are not adequately qualified, do not have diversified experience, lack attendance of meetings, a board member has controlling authority over other members, and the scope of the board of directors' responsibilities do not cover key risk areas.

Credit Risk Ratings

Risk Levels

Low

Current and forward-looking risk exposures which have the potential to cause loss of income or loss to the capital adequacy fund are low. The credit structure and size of loans are conservative. The risks arising from items which do not comply with loan extension standards and from unauthorised loan extensions are low. Loans portfolios and capital investments have good risk diversification in terms of both rankings of investability and behaviors of debtors regarding reliance on borrowings. Overall, counterparties and issuers of debt instruments with whom the financial institution has carried out investments have good credit ratings. Debtors carry out businesses in markets and industries which are stable. The financial institution has low concentration risks. Loan portfolios and capital investments have low sensitivity to changes regarding economic conditions, industry, competition, government policies, and technological changes.

Risk of losses due to subsidiaries and related businesses are low, and the returns received compensate for existing risks. The size of expansion of the loan portfolio and capital investments are at levels which do not cause concern. The ratio of problem loans to the capital adequacy fund is low, and are solvable under normal operating conditions. The amount of nonperforming loans is low and is likely to decrease. The financial institution is strict in carrying out asset classification and making reserve provisions.

Collateral assets have high liquidity, and have market values which are not sensitive to changes in market conditions. Losses incurred do not have significant effects on current reserves, and any additional reserve provisions are small in terms of their proportion to income.

Medium

The risk exposures which have the potential to incur loss of income or loss to the capital adequacy fund are not at significant levels. The credit structure and size of loans are acceptable. There may be a significant number of items which do not comply

with loan extension standards and from unauthorised loan extensions, however, these do not instigate complex risks. Some portions of capital investments may be ranked as non-investible and some debtors' operations are too dependent on the loans but debtors carry out business in markets or industries with low volatility. Some counterparties and issuers of debt instruments with whom the financial institution has carried out investments may have low credit ratings, but overall, counterparties and issues have average credit ratings. The financial institution's concentration risks from loans are not at significant levels. Loan portfolios and capital investments may be affected by changes regarding economic conditions, industry, competition, government policies, and technological changes.

There are risks of loss due to subsidiaries and related businesses but risks are not at significant levels, and the returns received compensate for existing risks.

There may be unusual expansions of the loan portfolio in certain products or region/ industry with supporting work plans which are consistent and reasonable. The amount of problem loans are limited compared to the capital adequacy fund, and are solvable over a reasonable length of time. The amount of nonperforming loans is within average industry limits is likely to decrease. Asset classifications and reserve provisioning are in compliance with the regulations of the Bank of Thailand.

Collateral assets have average liquidity, with market values which change following market conditions. Losses incurred do not have effects on reserves, or have effects which are not significant compared to their proportion to income.

High

The risk exposures which have the potential to cause loss of income or loss to the capital adequacy fund are significant. There is aggressive credit extension, and a large number of items which do not comply with loan extension standards. A major portion of capital investments are ranked as non-investible or are debtors which are too dependent on loans to carry out operations or are debtors whose business are in highly volatile markets or industries. Counterparties and issuers of debt instruments, on the average, fail to receive reliable ratings. The financial institution's loans have significant concentration risks. Loan portfolios and capital investments are significantly affected by changes

regarding economic conditions, industry, competition, government policies, and technological changes.

There are significant risks of loss due to subsidiaries and related businesses, and returns may not compensate for existing risks.

There are aggressive growth of the loan portfolio in certain products or region/ industry. The financial institution has a large amount of problem loans compared to the capital adequacy fund which may require protracted remedial period, or the institution has a large amount of nonperforming loans. Asset classifications and reserve provisioning are not in compliance with the regulations of the Bank of Thailand.

Collateral assets have little liquidity, with market values which are highly volatile to market conditions. Losses incurred may significantly reduce reserves, and the financial institution will need to make significant additional reserve provisioning compared to the size of their income.

Risk Management

Good

The financial institution has loan policies which clearly set out acceptable risk limits and the responsibilities of related parties. Loan policies and strategies have been reviewed and approved by the institution's board of directors, and communicated to all related parties. There is a balance between loan market expansion and credit analyses.

The loan approval process is easy to understand and strictly adhered to. Credit analyses are detailed and carried out with careful consideration, and monitoring of loan quality/status is timely. Risk measurement and risk control systems are comprehensive and are able to support management decision-making regarding changes in loan quality and market conditions. Methodologies for risk measurement and risk limits setting are reasonable and carried out by parties independent of the risk generating divisions. Risk systems and methodologies are appropriate for the complexity and size of the organisation.

Credit risk measurement and risk management tools are able to provide useful information for timely decision-making. These tools have been evaluated by independent parties, are continuously developed and up-to-date. Credit risk database systems provide sufficient and current information, are linked to risk management systems, and are accurate, complete, timely, reliable, and clearly assist in analyses and evaluations of operations following policies and regulations. Reports of items in non-compliance with operational guidelines are automatically reviewed as they occur. Rankings of debtors' credit quality are accurate and reported in a timely manner.

Loan department operations are efficient, manager set out and manage risks including risks relating to the structure and concentration of loans. Provisioning methods are appropriate and sufficient. Operations strictly comply with collateral policies.

Personnel have technical and managerial expertise. The turnover or leaving rate of key personnel is low. The committee in charge of the evaluation and approval of loans have appropriate qualifications and carry out their responsibilities for the benefit of the financial institution as a whole. Internal control systems are effective. Loan reviews and internal audits are competent and independent.

Adequate

The financial institution has loan policies which set out acceptable risk limits and the responsibilities of related parties. Loan policies and strategies have been approved by the institution's board of directors, and communicated to all relevant parties. There is a balance between loan market expansion and credit analyses.

The loan approval process is easy to understand with sufficient credit analyses and monitoring of loan quality/status. Risk measurement and risk control systems provide information which management is able to use in decision-making regarding changes in loan quality and market conditions. Methodologies for risk measurement and risk limits setting are reasonable and carried out by parties independent of the risk generating divisions. Risk systems and methodologies are appropriate for the complexity and size of the organisation with only slight deficiencies.

Credit risk measurement and risk management tools are able to provide adequate information. Said tools have been evaluated by independent parties, are continuously developed and up-to-date. Credit risk database systems are efficient, and may be used in analyses and evaluations of operations following policies and regulations. Reports of items in non-compliance with operational guidelines are reviewed from time to time. Rankings of debtors' credit quality are accurate and reported in a timely manner.

Loan department operations are acceptable, managers set out and manage risks including risks relating to the loan structure, loan concentration, and adequate provisioning for losses from loan portfolios. Collateral policies are clearly set out and appropriate.

Personnel have the required technical and managerial skills. The turnover or leaving rate of key personnel is at average levels and controllable. The committee in charge of the evaluation and approval of loans have appropriate qualifications though members may not always carry out their responsibilities for the benefit of the financial institution as a whole. Internal control systems are effective. Loan reviews and internal audits are competent and independent.

Weak

The financial institution has loan policies which do not clearly set out acceptable risk limits or responsibilities of related parties. Loan policies and strategies have not been communicated to all related parties. Aggressive loan market expansions outweigh prudent credit analyses. Loan approval processes are not clearly set out.

Credit analyses and monitoring of loan quality/status is insufficient considering existing risk levels. Risk measurement and risk control systems provide insufficient information to support management decision-making regarding changes in loan quality and market conditions. Methodologies for risk measurement and risk limits setting are not cogent or are carried out by parties not independent of the risk generating divisions. Risk systems and methodologies are insufficient or are inadequate for the complexity and size of the organisation.

Credit risk measurement and risk management tools are unable to provide useful information. Said tools have not been evaluated by independent parties, are not continuously developed to be up-to-date. Credit risk database systems are flawed and are unable to provide information for analyses and evaluations of compliance with legal stipulations. There is no reporting of items in non-compliance with legal stipulations. Rankings of debtors' credit quality do not accurately reflect the quality of debtors.

Loan department operations are not efficient, managers are unable to set out and monitor risks, and not enough attention is given to the diversification of risks. Provisioning methods are insufficient for loan portfolio losses. The financial institution lacks clear and appropriate collateral policies.

Personnel lack technical and managerial expertise. The attrition rate of key personnel is high. The committee in charge of the evaluation and approval of loans lack the appropriate qualifications and carry out their responsibilities for personal benefit rather than for the benefit of the financial institution as a whole. Internal control systems are ineffective. Loan reviews and internal audits are inefficient and lack independence.

Market Risk Ratings

Risk Levels

Low

Interest rate risk exposures, and market (price) risks from unhedged or illiquid positions are low. Most of the assets which are sensitive to changes in interest rates are short-term assets and/ or have floating interest rates. The financial management departments have low transaction levels. Currencies risks are not significant to the capital adequacy fund. Hedging transactions are well-able to remove risks. Transactions undertaken on behalf of clients usually concern speculation or trading of financial instruments which are liquid and easy to manage, and risk monitoring and controls are able to manage the level of transactions. There are no significant mismatches in long-term risk exposures, the institution is able to forecast cashflows and hedge against almost all its risks. Mismatches in currency positions are short-term and the majority of these have been hedged.

Current and future levels of income and capital adequacy fund are not sensitive to changes in interest rates or to exercising options instruments. Exposures to price risks are limited and therefore the potential loss to income and to the capital fund are not significant. Changes in interest rates, exchange rates, and price of equity instruments have only a small effect on the financial institution's credit facilitation business, income and capital adequacy funds. The risk exposures of subsidiaries and related companies have only small effects on the financial institution's market risks.

Medium

Interest rate risk exposures are at manageable levels. Price risks are at medium levels. Assets which are sensitive to changes in interest rates include both fixed and floating rate assets, and are at manageable levels. The financial management departments have medium transaction levels. Currencies risks exist but do not adversely affect the capital adequacy fund. Hedging transactions are able to remove some risks. The financial institution is able to carry out hedge transactions at reasonable cost.

Mismatches in long-term risk exposures are manageable, while mismatches in cashflows are at medium levels and forecastable. There are long-term mismatches in currency positions, however, these have been effectively hedged at reasonable cost.

Income and the capital adequacy fund are somewhat sensitive to changes in interest rates or to the exercise of options instruments but the effects are not significant. Exposures to price risks are at medium levels, therefore significant potential loss to income and to the capital fund is limited. Changes in interest rates, exchange rates, and price of equity instruments do not have significant adverse effects on the financial institution's income and capital adequacy fund. The risk exposures of subsidiaries and related companies do not have significant effects on the financial institution's market risks.

High

Interest rate risk exposures and price risks are significant. Assets which are sensitive to changes in interest rates comprise mainly of long-term assets with fixed interest rates. The financial management departments have high transaction levels, involving volatile assets. Currencies risks have significant effects on the capital adequacy fund. Hedge transactions are unable to remove risks. Transactions to offset or hedge risk exposures are difficult and costly due to the size, maturity, complexity, or illiquidity of the market or the product/ instrument. Mismatches in long-term risk exposures are significant, and mismatches in cashflows are unhedged. There are long-term mismatches in currency positions with high hedging costs; said currency exposures are unhedged where some exposures are to illiquid currencies.

Income and the capital adequacy fund are highly volatile to changes in interest rates or to the exercise of options instruments resulting in significant losses to income and the capital fund. Changes in interest rates, exchange rates, and price of equity instruments significantly affect the financial institution's credit facilitation business, the institution's income, and its capital adequacy fund. The risk exposures of subsidiaries and related companies significantly affect the financial institution's market risks.

Risk Management

Good

The management understand all types of market risk which affect the short-term income and the long-term market value of the business. There are sufficient and timely risk monitoring, measurement and controls able to quickly respond to market changes. Related personnel have a good knowledge and understanding of market risks.

Risk management systems and processes are effective and aggressive in measuring risks and cover both on- and off-balance sheet transactions. Risk measurement tools and methodologies are appropriate to the size and complexity of the financial institution. Risk models are reliable and tested. Supporting documentation is up-to-date and provide meaningful and timely information. The assumptions used are appropriate and regularly reviewed. Product business strategies are set out and the services provided are consistent with the competitive environment in the market with only small deficiencies or errors. Research analyses and documentation are prepared regarding the risks of each new product prior to providing a service. There is appropriate interest risk management, and good liquidity management and marketing of the product.

The information provided to various levels of management within the organisation is able to provide comprehensible results from evaluations of policy risks, strategic risks, and compliance with risk limits including any exceptions (if any). The data is accurate, complete, reliable, and timely. There are regular reviews of reports of items in non-compliance with normal policy and operational procedures. Set risk limit structures clearly illustrate acceptable levels of risk under both normal and crisis conditions, and are communicated to all related parties. The objectives in hedging risks are reasonable and are also communicated to all related parties.

Parties responsible for the measurement, monitoring, and control of risks under set risk limits have the knowledge, skills and training, and are independent of risk generating divisions and of parties authorised to carry out decisions to undertake risks.

Adequate

The management understand the key aspects of market risks which affect the short-term income and the long-term market value of the business. There are appropriate and timely risk monitoring, measurement and controls able to respond to market changes. Related personnel have knowledge and understanding of market risks.

Risk management systems and processes are adequate and cover key risks. Risk measurement tools and methodologies are adequate, and despite small deficiencies or weak points, are appropriate to the size and complexity of transactions both on- and off-balance sheet. Risk models are reliable and tested. The accuracy of risk exposures are reviewed by independent parties. The management consider the risks of each new product before marketing it.

The information provided to various levels of management within the organisation is able to provide results from evaluations of policy risks, strategic risks, and compliance with risk limits including any exceptions. There is preparation of credit and market data for management from time to time on an ad-hoc basis. There are reviews of reports of items in non-compliance with normal policy and operational procedures, though these may not be timely. Set risk limit structures clearly illustrate acceptable levels of risk under both normal and crisis conditions, and are communicated to all related parties. The objectives in hedging risks are reasonable and are also communicated to all related parties.

Parties responsible for the measurement, monitoring, and control of risks under set risk limits have the appropriate qualifications, and are independent of risk generating divisions and of parties authorised to carry out decisions to undertake risks.

Weak

The management do not understand key aspects of market risks which affect the short-term income and the long-term market value of the business. Risk monitoring, measurement and controls are inadequate, and the institution is unable to respond to

market changes in a timely manner. Some management executives lack knowledge and understanding of key aspects of market risks.

Risk measurement tools and methodologies are inadequate and inappropriate to the size and complexity of the financial institution's business operations and both on- and off-balance sheet transactions. Calculations of market values of risk exposures are carried out too infrequently and do not cover all key products. There is insufficient evaluation of the risks of new products prior to their release in the market.

The information prepared for various levels of management within the organisation is unable to provide accurate results of evaluations of policy risks, strategic risks, and compliance with risk limits including any exceptions. Further the information may not cover consolidated risks of all risk exposures. Credit and market data prepared for management is unreliable. There are no reports of items in non-compliance with normal policy and operational procedures. Risk limit structures are unclear and unreasonable, and are not communicated to all related parties. Further, risk limit structures do not reflect the risks which affect income and capital adequacy funds under both normal and crisis conditions. The objectives in hedging risks are unclear, unjustified and are not effectively communicated to all related parties.

Parties responsible for the measurement, monitoring, and control of risks under set risk limits do not have appropriate qualifications, and are not independent of risk generating divisions or of parties authorised to carry out decisions to undertake risks.

Liquidity Risk Ratings

Risk Levels

Low

The financial institution has sufficient liquidity to support future cash outflows with no difficulty.

The financial institution has no difficulty in obtaining capital funds even during adverse market changes. The effects of liquidity risks on income and the capital adequacy fund are small. Losses from subsidiaries and related businesses have a small effect on the organisation.

Income is stable with continuous growth. Loans are of good quality and generate consistent cashflows. Sources of deposits and borrowings are not concentrated, with many stable main deposit funds. Cash inflows balance cash outflows in every period, with cash inflows exceeding outflows. Deposits are stable and there is market acceptance of the organisation's reputation which helps give the institution an advantage regarding the cost of funds when raising funds from the market allowing the institution to easily raise funds from both financial and capital markets under both normal and crisis conditions.

The management is able to choose the sources of funds and raise funds in accordance to their needs with no effects on the organisation's main business operations.

Medium

The financial institution has sufficient liquidity to support future cash outflows with little difficulty.

The financial institution has few difficulties in obtaining capital funds even during adverse market changes. The effects of liquidity risks on income and the capital adequacy fund are manageable. Losses from subsidiaries and related businesses do not have significant effects on the organisation.

Income may not be stable nor have continuous growth, but the institution is able to manage its income. Loans are of adequate quality and generate satisfactory cashflows. Sources of deposits and borrowings have appropriate diversification or only small concentrations. The volatility of funding sources are at medium levels. Cash outflows exceed cash outflows in some periods. Some funding sources may have the same objectives as the financial institution in making investments, or funding sources may be affected by economic conditions in a similar manner to the financial institution. The financial institution can easily raise funds only from financial capital markets.

Sources of funds are sufficient. On- and off-balance sheet transactions and cashflows are balanced resulting in stable levels of liquidity, and initial costs are reasonable with no effects on the organisation's main businesses.

High

The financial institution has insufficient liquidity to support future cash outflows.

The financial institution's status does not facilitate the raising of capital funds during adverse market conditions. Losses from subsidiaries and related businesses significantly affect the organisation.

Income and/ or growth is volatile. There are problems regarding the quality of loans quality generating low levels of cashflows. Sources of deposits and borrowings have significant levels of concentration, and funding sources may be considerably volatile. Cash outflows exceed cash outflows. Some funding sources may have the same objectives as the financial institution in making investments, or funding sources may be affected by economic conditions in a similar manner to the financial institution. The financial institution does not have market acceptance, which may limit the raising of capital funds from financial and capital markets. Short-term liquidity needs may increase while medium-term and long-term liquidity fall.

The financial institution's source of funds and financial structure may be obstacles in maintaining liquidity under reasonable costs. Income and capital adequacy

funds may decrease due to higher funding costs, assets may increase without forward planning, or the quality of assets may depreciate significantly. The institution may have to implement contingency plans to increase liquidity, which may involve the sale or suspension of some of the institution's main businesses.

Risk Management

Good

The financial institution has comprehensively set out all the key liquidity risks in its risk management policies, also covering the forecasting and responses to market changes in a timely manner. The management have set out clear and appropriate policies and operational guidelines regarding the acceptance and management of risks. Internal control systems are effective, include the forecasting and responses to market changes in a timely manner, and liquidity planning is carried out as part of strategic planning, financial statement preparation, and financial management.

The tools and methodologies for measuring liquidity risks are appropriate to the size and complexity of the organisation, and are able report all significant capital inflows and outflows. Liquidity models and methodologies are reviewed, tested, documented, and developed and up-dated by independent parties. Said models and methodologies help provide useful and timely information to management for use in decision-making, based on reasonable assumptions which have been evaluated and approved. The management is attentive regarding the efficient management of the balance sheet, cashflows, and cost of funds. Further, shareholders are supportive regarding the evaluation and selection of funding sources.

Information used by management is timely, complete, and reliable; and may be used to clearly evaluate policy and strategic risks, and transactions in non-compliance with policies and normal operational guidelines. Set limits regarding loan structure, deposits, concentration of funds, and net capital flows help to clearly illustrate the risks to income and capital funds both in normal and crisis conditions. Further, said limits are communicated to all related parties.

Contingency plans regarding the raising of capital funds are comprehensive and are linked to risks management systems to enable the financial institution to respond to changes during crisis periods in an efficient and timely manner. Personnel who are responsible for the monitoring and control of liquidity levels have appropriate qualifications and sufficient training, and are independent of the risk generating divisions.

Adequate

The financial institution has adequately set out the key liquidity risks and policies to manage liquidity, and sufficient internal control to respond to market changes. The management has carried out sufficient planning regarding liquidity risk management, implementation, and internal controls. Liquidity planning is carried out as part of strategic planning, financial statement preparation, and financial management.

The tools and methodologies for measuring liquidity risks are appropriate to the size and complexity of the organisation, and are able report sources of significant capital inflows and outflows though tools and methodologies may have minor deficiencies. Liquidity models and methodologies are tested and reviewed. There is documentation and development of models and methodologies to be up-to-date. Liquidity models and methodologies help provide useful and timely information to management for use in decision-making. The management is attentive regarding the efficient management of the balance sheet, cashflows, and cost of funds. There are deficiencies regarding cashflow management, however, and shareholders show no interest in capital support issues.

Information used by management is timely, complete, and reliable; and may be used to help evaluate policy and strategic risks, and transactions in non-compliance with policies and normal operational guidelines. There are clear and reasonable limits regarding loan structure, deposits, concentration of funds, and net capital flows which are communicated to related parties throughout the institution. Further, said limits have been adequately applied to control risks which may affect income and capital funds under both normal and crisis conditions.

Contingency plans regarding the raising of capital funds support liquidity risk management, and may be implemented under crisis conditions. Personnel who are

responsible for the monitoring and control of liquidity levels have appropriate qualifications, and are independent of the risk generating divisions.

Weak

The financial institution has not adequately set out the key liquidity risks and liquidity management guidelines to respond to market changes. Liquidity management policies, operational guidelines, and internal controls are insufficient. Liquidity planning is not adequately integrated into strategic planning, financial statement preparation, and financial management.

The tools and methodologies for measuring liquidity risks are inadequate and inappropriate to the size and complexity of the organisation, and are unable report significant capital inflows and outflows. The institution has no liquidity models, or liquidity models and methodologies are not tested and reviewed. There is no documentation and development of models and methodologies to be up-to-date by independent parties, and liquidity models and methodologies are unable to provide useful information for management decision-making. The management give insufficient attention to cashflow statements, or there is no cashflow management at all. Shareholders are leary of providing capital support, management has not realistically evaluated the institution's ability to raise capital from capital markets, or management has given insufficient attention to the diversification of risks or have given only little consideration to the existing large funding sources and related risks.

Information used by management may contain errors. Limits regarding loan structure, deposits, concentration of funds, and net capital flows are unclear and unreasonable, and have not been effectively communicated to related parties. Further, said limits do not reflect an understanding of the effects of liquidity risks on income and capital funds.

There are deficiencies in contingency plans to raise capital funds resulting in management inability to resolve liquidity problems under crisis conditions. Personnel who are responsible for the monitoring and control of liquidity levels do not have appropriate qualifications, and are not independent of the risk generating divisions.

Operational Risk Ratings

Risk Levels

Low

Changes in personnel, products, or major businesses have only small effects on the financial institution. The organisational structure and hierarchy is clear, compact, and encompasses major businesses and/ or subsidiary businesses. Managerial authority is not limited to senior executives, nor is managerial authority unlimited. There is little non-compliance with decision-making authority nor set guidelines. Internal controls cover all major businesses with regular examinations by the middle office or by internal examiners. The management fully endorses monitoring of compliance with observation results from said examinations.

The financial institution has good contingency plans to support business operations under crisis conditions including backup plans, emergency plans, and recovery plans. Changes in external auditors do not have adverse effects on the organisation.

The amount and complexity of new and existing products and services may result in a low level of risk due to possible fraud, errors, suspension of operations, internal control failure, or deficiencies in system development.

The amount of aggregate transactions, the complexity of operational processes and system development have a small effect on the ability to generate income, capital adequacy funds, and the institution's reputation. The initiation of new strategic plans, the introduction of new technologies, or overseas operational expansions result in small operational risks and do not affect the financial institution's reputation. Information systems have been partially replaced, or upgraded, or small repairs have been carried out. No business under the financial institution has shown profits or growth which are higher than the norm.

The amount of wrongdoing, legal prosecution, client-issued claims, and losses are small and have no effect on the financial institution's reputation, value, ability to generate income, capital adequacy funds, nor on the institution's business opportunities.

No significant errors were found regarding business operations carried out between departments, business lines, and subsidiary businesses to indicate problems regarding the financial institution's operational systems. The features and scope regarding the implementation of transactions is able to limit risks from disregarding or breaking rules or regulations. The likelihood of loss due to changes in the market or public perception is low as the market and the public have a good opinion of the financial institution.

Employee turnover or leaving rate is low, there is no appointment of new employees to key positions, and increases or decreases in staff are small in the period following the previous examination.

Medium

The effects of changes in personnel, products, or major businesses do not materially affect the financial institution. The organisational structure and hierarchy is unclear and does not encompass some secondary businesses and/ or subsidiary businesses which are not main business operations. Some management executives have high levels or unlimited authority, however not in such a way as to cause problems to the financial institution. There is non-compliance with decision-making authority or set guidelines, but with no significant effects. Internal controls sufficiently cover major businesses and regular examinations are carried out by the middle office or by internal examiners. The management endorses compliance with observation results from said examinations.

The financial institution has contingency plans to support business operations under crisis conditions including backup plans, emergency plans, and recovery plans for main businesses which are sufficient to resolve potential operational problems. Changes in external auditors do not have adverse effects on the organisation.

The amount and complexity of new and existing products and services may increase risks from possible fraud, errors, suspension of operations, internal control failure, or deficiencies in system development.

The amount of aggregate transactions, the complexity of operational processes and system development have impacts on risks, reputation, income and capital

adequacy funds. There are risks from setting and implementing new strategic plans, however risks are at manageable levels. The initiation of new technologies, or overseas operational expansions do not result in overly high operational risks. Information systems have been partially replaced, upgraded, or repaired. The financial institution has businesses which have shown very high profits or fast growth, but are not cause for concern.

The amount of wrongdoing, legal prosecution, client-issued claims, and losses are not at significant levels and do not have impacts on the financial institution's reputation, income, capital adequacy funds, or business opportunities. The financial institution does not have a past history of serious filings for prosecution or legal action. There are some errors regarding business operations carried out between departments, business lines, and subsidiary businesses which may cause problems to the financial institution's operational systems. However, said errors were discovered in time. The features and scope regarding the implementation of transactions may result in risks from disregarding or breaking rules or regulations. The likelihood of loss due to changes in market or public perception is not at significant levels, as may be evaluated from the level of prosecution cases, losses, claims, and client perception.

Employee turnover or leaving rate is at medium levels, there are appointments of new employees to a few key positions, and there are not significant increases or decreases in staff since the previous examination.

High

Changes in personnel, products, or major businesses have material effects on the financial institution. The organisational structure and heirarchy is unclear and does not encompass main business lines and/ or subsidiary businesses. Many management executives have high levels of personal authority or unlimited authority. There is non-compliance with decision-making authority or set guidelines. Internal controls are insufficient and lack regular examination by the middle office or internal examiners. The management gives no support regarding compliance with observation results from examinations.

The financial institution has contingency plans to support business operations under crisis conditions including backup plans, emergency plans, and recovery plans but these are insufficient and do not cover major departments within the organisation. Changes in external auditors have adverse effects on the organisation.

The amount and complexity of new and existing products and services may increase risks from errors or deficiencies. Operational processes are not systematic, inefficiencies in system development, the amount of aggregate transactions, the complexity of operations, and system development have impacts on reputation, income and the capital adequacy fund. The initiation of new technologies, or overseas operational expansions have sizeable impacts on operational risks. There are significant changes to Information systems. The financial institution has businesses which have shown excessively high profits or growth levels.

The amount of wrongdoing, legal prosecution, client-issued claims, and losses are high and have material significance having impacts on the financial institution's reputation, income, capital adequacy funds, or business opportunities. The financial institution has a past history of client claims and serious filings for prosecution. There are significant deficiencies in business operations carried out between departments, business lines, and subsidiary businesses causing problems to the financial institution's operational systems. The features and scope regarding the implementation of transactions may significantly increase risks from the disregard or breaking of rules and regulations. The likelihood of loss due to changes in market or public perception is high, due to prosecution cases, losses, and claims.

Employee turnover or leaving rate is at high levels, there are appointments of new employees to many key positions, and there are large increases or decreases in staff since the previous examination.

Risk Management

Good

The financial institution has set out risk management policies and acceptable risk levels which have been approved by the financial institution's board of directors.

Policies and operational procedures for major new products and services have been considered and approved by the institution's board prior to their release, where said policies support the achievement of strategic targets and are regularly reviewed and evaluated. Communications throughout the organisation are efficient. There is delegation of authority to approve items/ transactions which are not compliant with normal policies and operational procedures.

The financial institution's board of directors have given the responsibilities of risk management to working group independent from divisions whose operations are risk-generating. Audit committees are independent. The management forecasts potential risks and is able to, efficiently and in a timely manner, manage risks arisen from changes in the operational procedures, development of operational systems, or by bringing in new technologies, changes in the market or from government regulations which may impact the financial institution's reputation.

There are efficient amendments to deficiencies regarding policies, operational processes, personnel, and internal controls. Regular risk evaluations are carried out for all products and services, including transaction risks, risks of non-compliance with rules and regulations, and reputation risks. The management endorses operational procedures which are consistent with the organisational culture, and supports the operations of all its departments until success is achieved.

The financial institution is able to carry out its operations and control the risks from its products and services within acceptable levels, following the organisation's operational rules and following the rules and regulations of the supervisory authorities. It is able to carry out the monitoring, controlling and auditing extensively. The institution has handbooks for all business operations and carries out independent examinations of all its operations. The institution takes care to prevent conflicts of interest, and allocates resources to enable timely operations. The institution tests the accuracy and reconciliation of data and various reports. There is monitoring and reporting of transactions/ items not in compliance with normal policies and operational guidelines to management at appropriate times.

Internal examinations encompass all key risk operations. Database and information systems are efficient. Reports to management may have minor deficiencies

but provide sufficient information that is accurate and timely for management decision-making.

Senior management and executive management of main departments have the knowledge and management expertise. There are appropriate hiring or employment processes, and staff training to improve the aptitude of personnel. Assessments of performance and remuneration are appropriate and are not dependent on the ability to generate short-term profits, or profits from trading without taking account of the quality of management and risk controls. Personnel receive sufficient training, have managerial expertise, and possess an understanding and knowledge of operations to achieve success following given strategies and within acceptable risk levels.

Adequate

The financial institution has set out adequate risk management policies and acceptable risk levels which have been approved by the financial institution's board of directors. Policies and operational procedures for major new products and services have been considered and approved by the institution's board prior to their release. The policies may deviate from set strategies, but policies are adequately reviewed and evaluated by the board of directors. Communications within the organisation are good. The approval of items/ transactions which are not compliant with normal policies and operational procedures is carried out by authorised personnel at senior levels.

The financial institution's board of directors have given the responsibilities of risk management to working group independent from divisions whose operations are risk-generating. Examination committees are independent. There is responsiveness to risks associated with changes in operational procedures, development of operational systems, the introduction of new technologies, and changes in the market or government regulations which may impact the financial institution's reputation.

There are amendments to deficiencies regarding policies, operational processes, personnel, and internal controls. There is sufficient evaluation of risks for all products and services, and risks of non-compliance with rules and regulations.

The management provides for tools to control and lower risks from new products and services in a satisfactory manner, and monitors operational procedures to ensure they are consistent with the strategies, policies, acceptable risk levels, and the regulations of the Bank of Thailand.

There are systems to comprehensively and independently monitor, control, and examine operational procedures. There are sufficient handbooks which are regularly reviewed. The management is able to carry out monitoring to prevent conflicts of interest, and allocates resources to enable timely operations. Support is provided for divisions carrying internal control functions.

There are examination processes to adequately test accuracy and reconciliation of data, and report transactions/ items not in compliance with normal policies and operational guidelines to management at appropriate times. Internal examinations are carried out for some divisions. Database and information systems are satisfactory, though they may not be as efficient as they should. Management reports used for decision-making are provided from time to time according to management needs, but are not provided on a regular basis.

Senior management and executive management of main departments have sufficient knowledge and management skills. There are appropriate hiring or employment processes, and adequate staff training. Assessments of performance and remuneration are based on quality management and risk control abilities. Personnel possess management skills, receive sufficient training, and have an understanding and knowledge of operations to achieve success.

Weak

The financial institution has not set out sufficient risk management policies and acceptable risk levels, and said policies and risks have not been approved by the institution's board of directors. Policies and operational procedures for major new products and services have not been sufficiently reviewed nor approved by the board of directors prior to their release. Policies do not support the financial institution's strategies, and policies are not adequately reviewed and evaluated by the board of directors.

Communications within the organisation are not efficient enough. There is often non-compliance with policies and operational procedures.

The risk management committee's operations are not carried out efficiently nor independently of risk-generating divisions. Examination committees are not independent. The management do not forecast potential risks, and is unable to respond to risks associated with changes in operational procedures, development of operational systems, the introduction of new technologies, and changes in the market or government regulations which may impact the financial institution's reputation.

Deficiencies regarding policies, operational processes, personnel, and internal controls are not amended. There is insufficient evaluation of risks for all products and services. There are transactions risks, risks of non-compliance with rules and regulations, and reputational risks, and weaknesses in key operations.

There is insufficient planning for new products and services. There is insufficient monitoring of operational procedures to ensure achievement of strategic targets under acceptable risk limits, and with compliance with the policies and regulations of the Bank of Thailand.

Monitoring, internal control, and examination systems are inadequate, do not cover all key departments, and are not independent. Operational handbooks are not complete and lack regular reviews. There are weaknesses in management, conflicts of interest, and clear non-compliance with rules and regulations. Management is unable to appropriately allocate resources, there is a lack of support for divisions carrying internal control functions.

Examination processes to verify the accuracy of data and carry out account reconciliation are inadequate. There is insufficient reporting of transactions/ items not in compliance with policies and operational guidelines to management. Internal examinations are not carried out for all divisions with key risks. Management systems have weaknesses and management reports are inadequate for use in decision-making.

Senior management and executive management lack sufficient knowledge and management skills. Hiring or employment processes and staff training to improve personnel aptitude are inefficient. Assessment procedures for performance and

renumeration are inappropriate. Personnel lack knowledge and management skills, lack sufficient training, and lack an understanding and knowledge of operations to achieve set strategies under acceptable risk levels.

Assessment of Capital Adequacy Fund Positions and Income Generating Abilities

The capital adequacy fund and income generating abilities should be assessed simultaneously with the evaluation of the five risk types in order to determine the aggregate risk ratings. As such, ratings are not carried out for capital adequacy funds nor income generating abilities as aggregate risk ratings already take the effects of risks on capital adequacy fund and income generating abilities in account.

Factors Used to Assess Capital Adequacy Funds

1. The level and quality of capital adequacy funds are evaluated based on-:
 - The strength of the capital fund, based on capital fund levels after taking account of risk impacts;
 - The quality of capital funds, by evaluating the structure of Tier 1 and Tier 2 capital, and the ratio of Tier 1 and Tier 2 capital to risky assets.

2. The management's ability to anticipate capital needs and set out business plans for growth taking account of past growth, based on consideration of the following.
 - The feasibility of financial and business forecasts over a 3-5 year horizon, by evaluating the likelihood of forecasts, feasibility of assumptions, and consistency with expected or forecasted economic conditions.
 - Plans for growth have incorporated estimates of additional capital funds required as well as recapitalisation plans. For example, the amount of additional Tier 1 and Tier 2 capital that would be needed to resolve problems regarding the ratio of capital funds to risky assets over any time period in case of credit expansion.

3. Components of balance sheet items, market risks, loan concentration risks, trends in loan quality, and other risks including risks from transactions outside normal business operations and risks from off-balance sheet items.

4. The following should be taken into account when entering into the capital market or when considering capital sources, including backing from shareholders.

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- The readiness of shareholders to provide backing and recapitalisation if necessary;
 - The ability to find new associates for recapitalisation;
 - The financial institution's reputation and market acceptance in case the institution needs to increase Tier 2 capital by issuing long term debentures.

5. Feasibility of profit levels and profit quality with respect to dividend payments, by considering if they are appropriate and consistent with levels of capital adequacy funds maintained by the institution, and reflecting the continuity and stability of future growth in profits and capital adequacy funds.

Factors Used to Assess Income Generating Abilities

1. Profit levels, trends, and stability based on the following considerations.

- The level of profits which would be high enough to strengthen capital funds and support business operations and risks relative to asset quality and asset growth. Other factors which may impact the quality, quantity, and trends in profits.
- The stability of profits, by assessing the volatility of profits from analysing differentials between interest rates received from performing assets and interest rate costs of capital; and interest rate differentials when non-performing assets are taken into account. Further, impacts from changes in economic condition, foreign exchange rates, interest rates, and industrial condition must also be analysed.
- Trends regarding business expansion and contraction of debtors in the institution's loan portfolio which would affect the financial institution's profit levels and profit trends

2. The quality and source of profits, based on evaluating the proportion of profits received from normal operations of the financial institution's main businesses such as from net interest income and fees, excluding irregular or unusual income items such as profits from the sale of property.

3. The level of expenses associated with operations, by assessing the propriety of expenses, for example, staff-related expenses and management salaries, which should not be excessively high relative to net income.

4. The consistency between the budget and business plans and set targets for income and business expansion. Budget allocations should be appropriate and sufficient to enable achievement of income targets.

5. Current provisions for loan loss and impairments are able to support risks without making additional provisions.

6. Risks from changes in interest rates, foreign exchange rates, and asset prices, which may lower interest differentials between interest rates paid and interest rates received, or which may cause marked-to-market losses.

7. The adequacy of profits to absorb losses which may arise from operational risks.

Composite Ratings

Composite ratings are an overall evaluation of a financial institution, based on assessments of the institution's positions and performance after taking account of the effects of risks. The weight attributed to each type of risk is based on the impact of each risk type on income and capital funds. There are a total of five composite ratings: level 1 for good, level 2 for above average, level 3 for average, level 4 for below average, and level 5 for weak.

Level 1

After accounting for risks, the financial institution's positions, performance, and capital funds are at very stable levels and are able to absorb the institution's existing risks.

The financial institution's operations are in compliance with all measures to promote stability and safety. The institution's operations are consistent with the institution's as well as the government's policies and operating procedures. Operations are lawful and in compliance with government regulations, internal policies and processes, whereby unusual items outside of normal operating procedures are few and not significant.

The board of directors and the management have the knowledge, the understanding, and the ability to adjust to different business conditions, and are able to respond to impacts from changes in external factors. The management and directors are conscientious regarding their role and responsibilities as well as to risk management. Said management and directors have set out appropriate policies and limits, reviewed the approval of policies and rules, and accurately and efficiently monitor and control the institution's positions. The institution has appropriate monitoring and reporting processes, and database systems support for the management. Database systems are able to provide the necessary information and analyses for decision-making in response to various changes in an appropriate and timely manner.

The management is able to specify and efficiently control all major risks arising from the organisation's business activities including the launch of new products and

changes in market conditions. Risk management procedures including risk specification, risk control, and risk monitoring, are efficient and appropriate to the size, complexity, and risks of the organisation.

Internal controls and examinations are appropriate and satisfactory given the organisation's size and transactions.

The are no important issues which require the attention of authorities.

Level 2

After accounting for risks, the financial institution's positions, performance, and capital funds are at stable levels and are able to absorb the institution's existing risks.

The financial institution's operations are in compliance with all measures to promote stability and safety. The institution's operations are consistent with the institution's as well as the government's policies and operating procedures. Operations are lawful and in compliance with government regulations, internal policies and processes, whereby unusual items outside of normal operating procedures are few and not significant.

The board of directors and the management have the knowledge, the understanding, and the ability to adjust to different business conditions, and are able to respond to impacts from changes in external factors. The management and directors are conscientious regarding their role and responsibilities as well as to risk management. Said management and directors have set out appropriate policies and limits, reviewed the approval of policies and rules, and accurately and efficiently monitor and control the institution's positions. The institution's database and reporting systems are satisfactory and are efficient in promoting stability and safety of the organisation. There may be a few deficiencies regarding all the above but they are not significant, and the board of directors and management are willing and able to resolve these.

The management is able to specify and efficiently control all major risks arising from the organisation's business activities including the launch of new products and changes in market conditions. Risk management procedures including risk specification, risk control, and risk monitoring, are effective though there may be some insignificant

deficiencies which are acknowledged by the management. Risk management is satisfactory considering the size, complexity, and risks of the organisation.

There may be some weaknesses and deficiencies regarding internal controls and examinations, however these are not significant and can be resolved under the process of normal business operations.

The are no important issues which require special attention from authorities.

Level 3

After accounting for risks, the financial institution's positions, performance, and capital funds may not be sufficient to absorb the existing risks, though the percentage of capital adequacy funds as defined by law are not below minimum regulatory limits.

The financial institution may have carried out certain operations in non-compliance with the law and with government regulations with significant effects.

The board of directors and the management may not have carried out continuous and regular monitoring and control of business operations and risks, resulting in inability to resolve deficiencies in a timely and appropriate manner. Management and directors have little ability to adjust to changes in business conditions, and are prone to impacts from changes in external factors. The institution's database and reporting systems have significant deficiencies and if these are not fixed in a timely manner, they may cause wrongful decision-making which will have impacts on the position and stability of the organisation.

The management is able to specify and control the majority of the key risks arising from the organisation's business activities including the launch of new products and changes in market conditions. Risk management procedures including risk specification, risk control, and risk monitoring, are not yet satisfactory or have some significant deficiencies which must be fixed. Given the size, complexity, and risks of the organisation, if existing deficiencies are fixed in a timely manner, risk management levels will be acceptable.

There are many deficiencies regarding internal controls; there may be non-compliance with policies, processes, or stipulations; or there are items which continually do not comply with normal operating procedures which may impact the stability and safety of the organisation if these items do not receive attention and are not resolved by management.

Authorities may need to be given continued special attention, which may include the issue of both official* and unofficial instructions**.

Level 4

After accounting for risks, the financial institution's positions, performance, and capital fund levels are low and are not able to absorb the financial institution's existing risks. Assistance is required in terms of financial aid or other types of assistance from internal or external sources.

The financial institution has carried out operations in non-compliance with the law and with government regulations with significant repercussions.

The board of directors and the management lack the ability to set the framework and sufficiently control and monitor business operations and risks, or directors and management have not carried out continuous and regular monitoring and control of business operations and risks. The institution's database and reporting systems have significant deficiencies causing unsatisfactory or untimely recognition and resolution of problems and deficiencies, resulting in the inability to respond to business changes with severe impacts on the financial institution's performance.

The management does not acknowledge or is unable to sufficiently specify and control several of the financial institution's key risks. Overall risk management systems are unsatisfactory or unacceptable for the size, complexity, and risks of the organisation, and there are deficiencies in risk management procedures which require urgent resolution.

* Official instruction which is enforceable by law, such as instructing the financial institution to carry out or refrain from carrying out certain activities as set out by law, the imposition of fines, the dismissal of management, taking control of the business, temporary suspension, and the revocation of permits.

** Unofficial instructions such as requests for cooperation, instigating agreements with the financial institution's board of directors, instigating a memorandum of understanding (MOU).

Internal controls and examinations have many deficiencies and are not consistent with the institution's policies, processes or stipulations, requiring serious amendments as they may cause financial information and reports to be unreliable, and may have severe impacts on the organisation's stability and security if not appropriately resolved.

Authorities must pay close attention and monitor the institution, where authorities may issue official instructions* to help resolve the problems, or authorities may need to provide financial aid. The institution may be able to continue business operations of various problems and weaknesses are not satisfactorily resolved.

Level 5

After accounting for risks, the financial institution's positions, performance, and capital fund levels are low and are not able absorb the financial institution's existing risks. There is a high likelihood the institution must close business operations. Urgent external assistance is required in terms of financial aid or other types of assistance for the organisation's survival as the size and severity of problems are beyond the capabilities of the management to control or resolve.

The financial institution has carried out operations in non-compliance with the law and with government regulations with significant repercussions.

The board of directors and the management lack the ability to set the framework and sufficiently control and monitor business operations and risks, or directors and management have not carried out continuous and regular monitoring and control of business operations and risks. The institution's database and reporting systems have severe deficiencies causing unsatisfactory or untimely recognition and resolution of problems and deficiencies, resulting in the inability to respond to business changes with severe impacts the financial institution's performance.

* Official instruction which is enforceable by law, such as instructing the financial institution to carry out or refrain from carrying out certain activities as set out by law, the imposition of fines, the dismissal of management, taking control of the business, temporary suspension, and the revocation of permits.

The management does not acknowledge or is unable to sufficiently specify and control many of the financial institution's key risks. Risk management procedures are inefficient and inappropriate for the size, complexity, and risks of the organisation. Risks management systems are hopelessly flawed.

Internal controls and examinations have severe deficiencies with impacts on the survival of the organisation. Accounting records and reports are unreliable, and severe losses are likely if problems are not immediately fixed.

Authorities must give close, immediate and continual attention and monitoring over the institution. There is a high likelihood the institution will be unable to continue business operations.