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The directorship position of a financial institution plays a key role in the financial institution. In order to achieve stability and sustainability with respect to its operations, the financial institution is required to operate its business in compliance with the principle of corporate governance and the laws and regulations of the relevant authorities. The director of the financial institution is, therefore, a person who plays a direct role and has a direct responsibility to lead the financial institution towards achieving its set goals and objectives, including the expectations of the stakeholders of the financial institution, such as the shareholders, customers, and depositors. In addition, the directors of the financial institution shall ensure that the operation of the financial institution is carried out with stability and sustainability. Therefore, the directors of the financial institution must understand their role and mission towards the financial institution and the stakeholders, as well as the business of the financial institution and other rules and regulations.

The change in environment and new challenges in respect of the financial institution system, such as the development of innovations and technology, which are being increasingly applied to enhance financial services, the international supervision standards which emphasize on the roles and responsibilities of the board of directors of the financial institution, the risk-based supervision and remuneration which would be aligned with the risks, the financial institution’s increased involvement as a financial group, and the changes in laws or criteria that affect the operation of the financial institution. All of the above changes and challenges affect the roles and responsibilities of the directors
of the financial institution, both directly and indirectly. The directors of the financial institution must stay abreast of and be prepared to respond the changes in circumstances at all times.

The Handbook for Directors of Financial Institutions is a revision of the Handbook for Directors of Financial Institutions B.E. 2544 (2001) to be in line with the changing environment. The Handbook Working Group has studied and compiled relevant information in respect of the laws, regulations, policies, guidelines, or handbooks of the regulatory authorities, domestically and abroad, such as the Directors’ Handbook for Listed Companies, or guidelines or handbooks for the directors of financial institutions abroad and of overseas regulatory authorities, and codes of conduct of commercial banks, in revising of this Handbook.

The Handbook Working Group hopes that the Handbook for Directors of Financial Institutions, edition B.E. 2559 (2016), will reinforce the efficient performance of duties by the directors of the financial institution in any exercise of discretion or decision-making as part of their roles and responsibilities which will, in turn, contribute to the sustainable stability of the Thai financial system.
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Chapter One
The Importance and Roles of the Boards

The boards of directors of financial institutions (the “Boards” or the “Board”) are groups of persons entrusted by the shareholders with management authority over the financial institutions. The Boards, therefore, should carry out the management in the best interests of the financial institutions, the shareholders, the depositors, and other stakeholders, and are responsible to the society and the stability of the financial system. As the Boards assume the supervisory role in the administration of the management and the promotion of good corporate culture and values, the Boards should take the lead in setting the business strategies and direction of the financial institutions. The Board members are obligated to devote their time and exercise their best efforts in performing their duties (fiduciary duties); supervise the business professionally (due professional care); exercise their reasonable discretion in the course of business with due diligence and care (duty of care); make decisions based on complete information that a reasonably prudent person would exercise in similar circumstances based on the Business Judgment Rule; perform their duties honestly (duty of loyalty); refrain from seeking personal benefit or benefit for their groups, as well as refrain from participating in any decision-making process in which they may be an interested party in order to avoid any conflict of interest.

In light of the above, the Boards shall have the following roles and responsibilities at minimum:

- To formulate the business strategies, business operation policies, and risk management policies, including the suitable and acceptable level of risk appetite in order to attain the goals of the financial institutions, and ensure that the management carry out the business in line with the established strategies and policies (oversight);
• To establish the corporate culture and values of the financial institutions with regard to the principles of corporate governance and social responsibility and carry out the business by taking into consideration the risks to the financial institutions;

• To promote the communication among the employees at all levels of the financial institutions in order to create awareness of the corporate culture and values and a standard of performance to maintain the quality of work;

• To promote communication between the financial institutions and the regulatory authority to ensure compliance with the policy guidelines, rules, regulations, and practice guidelines of the regulatory authority by the financial institutions;

• To ensure the accurate and complete disclosure of information by the financial institutions in a transparent manner (duty of disclosure and transparency);

• To ensure the business operation of financial institutions is in compliance with the applicable laws, regulations, and rules and promote public morality (duty of obedience);

• To ensure that a remedial process is in place to remedy any errors detected by the examiner under the law, the external auditors, the internal audit unit, and the compliance unit of the financial institutions;

• To ensure that the financial institutions have a monitoring process in place for the selection of the external auditors to ensure that the independence of the auditors in evaluating the performance of the management;

• To safeguard the interests of the stakeholders and maintain the safety and soundness and stability of the financial institutions on a sustainable basis by ensuring that in their business operation, the
financial institutions should not place emphasis on short-term gains and shall take into consideration any potential risk to which the financial institutions may be exposed;

- To ensure that the financial institutions have a charter in place in which the responsibilities and accountabilities of the Boards are identified and the roles and responsibilities of the Boards, the president, and the management are clearly separated.

1. Important Missions of the Boards

1.1 Safeguarding the Interests of the Financial Institution, Shareholders, Depositors, and Other Stakeholders

The Boards, as the representatives of the shareholders in overseeing the operation of financial institutions and safeguarding the interests of the shareholders, should direct and supervise the business to ensure that the business operation is carried out effectively in order for the financial institutions to achieve stability of their financial and operational positions and enhance their competitiveness, business value, and stability in the long term, as well as to safeguard the interests of all stakeholders, for example, the shareholders, the depositors, customers, investors, the business sector, financial institution partners domestically and abroad, as well as to treat the stakeholders equitably (fair dealing).

1.2 Building the Credibility of Financial Institutions to the Public

Financial institutions are important organizations in the overall financial and economic system and their credibility in the views of the public is crucial. Therefore, the business operation must be carried out in compliance with the laws, regulations, and rules in a transparent manner. Then the Boards are required to supervise and ensure that the financial institutions establish a clear policy on this matter. In particular, material information must be sufficiently disclosed to the public and be easily accessible in order that any person who wants to use such
information, whether the stakeholders or the general public, receives information which is accurate and adequate for their decision-making and assessment of the risks related to financial institutions in matters such as the making of deposits and investments, etc.

1.3 Creating Corporate Value for the Professionalism and Corporate Culture of Financial Institutions

The Boards’ roles in encouraging the creation of a corporate culture and values that promote professionalism and take into account the principles of corporate governance, corporate social responsibility, and other risks that have an impact on the financial institution shall embrace the following:

- To promote the establishment of a corporate culture and values, and to give support to ensure that the corporate culture and values are put into practice. The corporate culture and values must be communicated to the employees of all levels and the Board members shall conduct themselves as role models for the executives and the staff members in line with the “tone from the top” approach;

- To promote the establishment of a documented code of conduct and a code of ethics that prescribes the recommended practices and the poor corporate governance actions for the employees, as well as the corporate governance policy, and to ensure that the code of conduct, the code of ethics, and the policy guidelines are reviewed at regular intervals or as prescribed in the criteria;

- To foster good practices of the Board members and senior executives, e.g. leadership attributes, decision making processes, communication skills, and the capacity for change; and

- To ensure that the employee feedback and complaints process, including the whistleblowing protection process are in place.
1.4 Maintaining the sustainability of Safety and Soundness and Stability of Financial Institutions

In addition to the duty of generating returns and safeguarding the maximum interests for the stakeholders, the Boards are obligated to drive and promote the long-term safety and soundness and stability of the financial institutions, without causing social and environmental burdens, and ensure that the management adheres to the principles of corporate governance. Accordingly, the Boards are obligated to encourage financial institutions to adopt the appropriate principles of sustainable banking in the business operation, while taking into account their social and environmental responsibilities, and the principles of corporate governance in order to foster an environment which will lead to a sustainable financial institution system.

The Boards have an obligation to ensure that in the information relating to their social, environment, and corporate governance activities is appropriately disclosed by taking into consideration the reporting frameworks that are acceptable domestically or at an international level. The information may either be disclosed in the annual report or in a separate individual report.

1.5 Promoting Good Governance

One of the important duties of the Boards is to ensure that financial institutions have principles of good governance and efficient management in place which comprise of the following factors, for example, the requirement of the employees to comply with the risk framework and the communication of the risk framework to the employees; the encouragement of ethical conduct in the sale of financial products; and the supervision of financial institutions in giving priority to compliance with the applicable standards for anti-corruption and anti-money laundering and combating the financing of terrorism (AML/CFT).
1.5.1 Promotion of Governance

The Boards play a major role in promoting corporate governance. The Boards should appropriately adopt the principles of corporate governance and put them into practice. The “Recommended Practices” and “Poor Corporate Governance Actions” described in Annex 2 are examples of putting the principles of corporate governance into practice. The Boards’ role also includes developing and communicating documented corporate governance and codes of business ethics which describe the code of employees’ conduct to other staff members in the organization, competitors, customers, and external agencies or parties for strict compliance by the executives and the employees.

In connection with the above, the Boards are advised to take into account the principles of risk governance in their organizational risk management framework as follows:

- To consider and approve a strategic and risk appetite framework suitable for the business operation of financial institutions proposed by the risk management unit and the risk management committee;
- To supervise the business operation in compliance with the established strategies and risk appetite framework;
- To set up a mechanism for the effective and smooth communication of risk information and risk culture among the Boards and the sub-committees;
- To encourage the senior executives to convey the risk culture from the top and to act as role models for the executives and the staff members;
- To ensure that the management complies with the established risk appetite framework;
• To monitor the performance of the duties of the risk management committee;

• To evaluate the overall risk appetite framework and conduct a review of the framework.

1.5.2 Supervision of Market Conduct

It is important for the Boards to emphasize consumer protection and the financial institutions’ responsibilities to their customers. The Boards must ensure that the employees, who provide financial services, are supervised in order that the sales and after-sales process adopted is ethical, fair, and meets the customers’ requirements. The Boards are obligated to ensure that the established principles comply with the policy guideline and criteria of the Bank of Thailand or the relevant laws. The roles of the Boards in promoting market conduct are detailed in Annex 6.

1.5.3 Supervision of Compliance with Rules of Other Regulatory Authorities and Relevant Laws (e.g. Anti-corruption/AML/CFT)

In addition to complying with the rules of the Bank of Thailand, the Boards have the duty to supervise the financial institutions to strictly comply with the rules of other regulatory authorities and the relevant law. For example, the Office of the National Anti-Corruption Commission (“NACC”) requires the sub-committees to have the roles and responsibilities to establish an anti-corruption system and promote and support the anti-corruption policy by communicating the policy to the employees and all related parties, including its agents, intermediaries, advisors, service providers, and business partners for them to adhere to the policy. The Board is also obligated to review the system and measures in place to ensure that they are suitable and correspond to the change in the business, the regulations, the rules, and the legal requirements.
Furthermore, the Boards must cause the financial institutions to prepare a whistleblowing policy or an announcement on lodging complaints of the employees in order to enable the stakeholders to communicate, report or lodge complaints in the event of their finding any misconduct or inappropriateness, as well as to establish measures for protection of the persons who lodge complaints as a result of reporting misconduct or lodging complaints, and the other related rules of the NACC.

Furthermore, the Anti-Money Laundering Office ("AMLO") requires that the Boards ensure that policies and systems are in place to prevent the financial institutions from engaging in money laundering activities and providing financial support to terrorism by strictly complying with the laws governing money laundering and combating the financing of terrorism, as well as the relevant laws and the practice guidelines prescribed by the AMLO. In addition, the Boards are required to establish secondary policies and measures to respond to money laundering and combating the financing of terrorism policies and other rules set by the AMLO, for example, the Know Your Customer/Customer Due Diligence (KYC/CDD) policies whereby the level of information required in the Know Your Customer approach is established; the prohibition of the opening of an account in an anonym or fake name; and paying special attention to transactions with unusual trading volumes, etc.

2. **Responsibilities of the Boards under the Laws**

Financial institutions and their directors are subject to the applicable laws, rules, and regulations. Among the laws, rules, and regulations applicable to the nature of the business operations and the products of financial institutions, the directors of financial institutions should be familiar with the following basic important laws:

1. Financial Institution Business Act;
2. Deposit Protection Act;
3. Exchange Control Act;
4. Laws relating to Electronic Transactions;
5. Anti-Money Laundering Act;
7. Securities and Exchange Act;
8. Public Limited Companies Act;

It is important for the directors of financial institutions to understand the laws and regulations related to the business operation of the financial institutions in which they hold a directorship, as well as the articles of association and the resolutions of the shareholders, as described in item 3.1 Duty of Care, to ensure that the performance of their duties and the business operation of the financial institutions are in compliance with the relevant laws. In practice, the directors of the financial institution may assign certain functions or responsibilities to a sub-committee or to the management to act on their behalf for close and efficient monitoring with appropriate supervision as the directors may be personally liable in the case of any damage. Please refer to Annex 1: Relevant Important Laws.

3. **Principles in Performance of Duties of the Boards**

3.1 **Duty of Care**

The Boards must perform their duties with due care in compliance with the laws, articles of associations, and resolutions of the shareholders. The directors of financial institutions must ensure that their management has furnished them with important information, such as the financial position of the financial institutions. In obtaining information, the Boards must consider independently whether the presenter of such information is credible and knowledgeable with regard to the information presented and that the opinions given to the Boards are adequate to support their decision-making.
In addition, the directors of financial institutions must decide whether any decision made is truly in the interests of the business and impacts on stakeholders’ interest, while observing any early warning sign of potential damage to the financial institutions based on their experience. The Boards should check with the management if they believe there may be possible violations of the law. The Boards shall act in good faith and exercise an adequate degree of due diligence under the framework and directions of the Business Judgment Rule as follows:

- The Boards shall not have any direct or indirect interest in any decision or resolution made (no conflicts of interest and no self-dealing);
- Decisions or resolutions of the Boards must be made on a fully informed basis;
- Decisions or resolutions of the Boards must be reasonable (rational decision).

Examples of the recommended practices and poor corporate governance actions for the Boards under the Duty of Care are presented in Annex 2.

3.2 Duty of Loyalty

The Boards must perform their duties honestly in the interest of the organization. The directors shall not seek benefits in their own interests or in the interests of their groups or exploit their positions or use inside information obtained as directors to seek benefits in their own interests or the interests of their groups or have any interests, directly or indirectly, in any transaction or activity of the financial institution. The directors shall not be involved in any transaction or activity of the financial institution in which they hold a directorship position or be involved in any transaction or activity which may give rise to conflicts of interest, for example, any purchase of assets, and directors’ loans, etc.
In addition, the Boards have the duty to monitor and look out for possible conflicts of interest which may arise among the executives at different levels of the financial institution.

Examples of the recommended practices and poor corporate governance actions for the directors of financial institutions under the Duty of Loyalty are presented in Annex 2.

3.3 Duty of Understanding

It is essential for the directors of financial institutions to be knowledgeable, competent, experienced, and have a comprehensive understanding of the financial institution business, financial institution risk management, and financial institution system at the appropriate level of banking and finance professionals, as well as IT risk management (Chapter Four, Clause 1(a)), and the nature of business operation in each business group of the financial institution, including knowledge and understanding in the related fields. In addition, the directors must be familiar with the knowledge and understanding of the businesses of the customer groups, competitors, and market ethics in order for them to be able to perform the duty of supervision of the management. Furthermore, the executive directors shall refrain from undertaking any act which may interfere with the management of the boards of directors of companies in the same business group, and refrain from undertaking any act that may affect the benefits of the shareholders of the companies in the same business group, by taking into consideration the sole benefits of the financial institution of which they are directors.

Additionally, the non-executive directors and the independent directors should give valuable opinions independently and shall not allow themselves to be under the influence of the management or the executive directors. In the case that any problem arises in such a manner that a lawsuit is initiated, the directors may not raise their own lack of knowledge or understanding as a defense.
3.4 Duty of Board Meetings

The board meeting is an important mechanism in performing the functions of the Boards. Therefore, attending meetings is considered an important duty of the directors of financial institutions to which they are jointly liable unless otherwise expressly indicated.

Notwithstanding the foregoing, Section 92 of the Public Limited Companies Act B.E.2535 (1992) provides that a director shall not be jointly liable for any resolution or any activity of the board of directors undertaken dishonestly or without exercising due care as required by law to which he or she does not agree if he or she can prove that:

(1) he or she did not participate in that activity or such activity was carried out in the absence of a resolution of the Board;

(2) he or she raised an objection at the meeting and the objection was recorded in the minutes of meeting, or he or she submitted a written objection to the resolution or activity in question to the chairman of the meeting within three days after the date of the meeting.

It is crucial for the Boards to ensure that the meetings are carried out effectively and the form and quorum and the roles of the secretary of the Boards be appropriately arranged, and this requirement is a part of promoting the principles of corporate governance in financial institutions.

Details of the relevant important laws and examples of the recommended practices and poor corporate governance actions for the directors are presented in Annex 1 and Annex 2.
Chapter Two
Qualifications and Duties of the Directors of Financial Institutions

1. Qualifications of the Directors of Financial Institutions

The directors of financial institutions must have the appropriate qualifications, competency, and experience being fit and proper to the positions and responsibilities to which they are accountable at the appropriate level for banking and finance professionals; and devote their time and effort in performing the duty as directors that supervise financial institutions; and must not have any prohibited characteristics under the law. The prohibited characteristics of the directors of financial institutions are described in 1.1 and 1.2 below. In addition, if such financial institution is a company listed on the Stock Exchange of Thailand, the directors of the financial institution must have the qualifications as required for the directors of companies listed on the Stock Exchange of Thailand.

1.1 The Prohibited Characteristics under Section 24 of the Financial Institution Business Act B.E. 2551(2008)

(1) Being bankrupt or having been discharged from bankruptcy for less than five years;

(2) Having been imprisoned by a final court judgment for an offense related to property committed with dishonest intent regardless of whether the sentence has been suspended or not.

(3) Having been dismissed or discharged from a government agency, a government organization or a state agency on a charge of committing a dishonest act in office;

(4) Having been a person with management authority holding a director position at the time the license of a financial institution was revoked;
(5) Having been removed from being a director, a manager or a person with management authority of a financial institution under Section 89 (3) (in the case that the financial institution, director or person with management authority had violated or failed to comply with the Financial Institution Business Act B.E. 2551 (2008), or the notifications issued by virtue of this Act) or Section 90 (4) (in the case that the position or the operation of the financial institution may cause damage to the public interest) or under the laws governing securities and exchange;

(6) Being a director, manager, employee, or a person with management authority of other financial institutions at the same time;

(7) Being a manager or a person with the management authority, other than a director, of a company that has been granted credit facilities, guaranteed, given an aval, or having contingent liabilities at that financial institution, with the exception of the holding of a non-executive director position or advisor of such financial institution;

(8) Being a political officer, a member of the House of Representatives, a member of the Senate, a member of a local council or a local administrator or a person holding any other political position as prescribed and notified in the notification of the Bank of Thailand;

(9) Being an officer of the Bank of Thailand or a person discharged from being an officer of the Bank of Thailand in accordance with the criteria prescribed and notified in the notification of the Bank of Thailand, with the exception of the case that such person is appointed by the Bank of Thailand for the purpose of rectifying the financial position or operation of the financial institution, or holding a position in a state enterprise financial institution in accordance with the laws on budget procedures;
(10) Being a person with any prohibited characteristics or disqualifications as prescribed and notified in the notification of the Bank of Thailand.

1.2 The prohibited characteristics under the Notification of the Bank of Thailand No. FPG. 13/2554 (2011), Re: Criteria for Approval of Appointment of Directors, Managers, Persons with Management Authority or Advisors of Financial Institutions

1.2.1 Honesty, Integrity, and Reputation:

(1) Having been removed from the position of director, manager, person with management authority or advisor of a financial institution or any securities company by the Bank of Thailand or the Office of the Securities and Exchange Commission, with the exception of the case that the prohibition period has lapsed or a waiver has been granted by the Bank of Thailand or the Office of the Securities and Exchange Commission;

(2) Having been accused or subject to a complaint, or subject to legal proceedings initiated, by the Bank of Thailand or the Office of the Securities and Exchange Commission, or any government agency, in the country or abroad, which has the duty to regulate and control financial institutions, on the charge of a fraudulent or dishonest act, with the exception that the case is final and the person was found not guilty;

(3) Having been accused or subject to a complaint, or subject to legal proceedings by any government agency other than those specified in (2), in the country or abroad, on the charge of a fraudulent or dishonest act in an financial case, with the exception that the case is final and the person was found not guilty;
(4) Having been or now being involved or engaged in an illegal business or a business that is deceptive to others or to the public;

(5) Having had or now having a personal record or conduct of unfair treatment, taking advantage of consumers, or participating or having participated in or assisted other person to engage in such conduct;

(6) Having had been or now being engaged in dishonest or fraudulent work behavior, or participated or assisted other person to engage in such conduct, including engaging in an act of discrimination, seeking personal benefits or benefits for their groups or participating in any decision-making which may have led to a conflict of interest;

(7) Having or having had conduct of negligence in supervision or operation which should be done and results in the financial institution’s violation of the laws, regulations, rules, internal operation manual, or resolutions of the meeting of the boards or shareholders by the financial institution.

1.2.2 Competence, Capability, and Experience

(1) Being a person holding other political positions under the law governing anti-corruption, as well as a person holding a committee member position of a vice minister or vice minister under the Regulation of the Office of the Prime Minister;

(2) Having been released for less than one year from being an employee of the Bank of Thailand in the position of Assistant Governor or Senior Director of the Group with the authority to determine the regulatory policy or examination/ supervision of financial institutions;
(3) Having or having had a record that shows a lack of accounting standards and financial reporting standards, risk management standards or other professional standards in business operations, such as concealing actual financial positions or operating results, willful avoidance of disclosure of material information, or having had a professional practice license revoked etc.

1.2.3 Financial Soundness

The directors of financial institutions must have the qualifications as required by the relevant laws and criteria for financial positions and must not have any financial problem which affects their abilities and capabilities to perform their duty as directors of financial institutions.

2. Important Roles of the Directors as Focused by the Bank of Thailand

In furtherance of the above, in general, the directors of financial institutions have an important role in carrying out the financial institution business with honesty and integrity and avoiding any issues related to conflict of interest with a view to prudently safeguard the overall benefits of the financial institutions, and to ensure that the principles of corporate governance are adopted and the corporate objectives, resolutions of meetings of the Boards and the shareholders, the articles of association, laws, and the orders of the Bank of Thailand are fully complied with, within the framework of the roles and responsibilities, at the level that banking and finance professional should have, which embraces the formulating of policies, and ensuring that a suitable work process and adequate resources are in place for implementing the policies, as well as a system for monitoring the implementation of the policies by the financial institution.
In addition to the general roles and responsibilities described above and in order to strengthen the long term stability of the financial institution system, it is crucial that the directors of financial institutions are particularly aware of the following four pillars of duties under the notification of the Bank of Thailand on the authority and duties of the directors of financial institutions considered as the most important roles by the Bank of Thailand:

2.1 Risk Management

(1) To possess adequate knowledge and understanding of the risks associated with financial institutions and risk management tools;

(2) To ensure that the management controls the risks associated with financial institutions at an appropriate and acceptable level in accordance with the policies approved by the Board;

(3) To ensure that the financial institutions have in place an effective risk management policy and system to be able to treat major risks and accommodate strategies, as well as to ensure that the risk management committee is able to perform its duties professionally, is independent and is not under any influence of the business unit;

(4) To ensure that the financial institutions have in place a risk reporting system whereby every material aspect will be clearly reported on a regular basis;

(5) To ensure that financial institutions review the risk management system on a regular basis, or every time an important incident occurs that may materially affect the stability of financial institutions.

(6) To ensure that the financial institutions have in place a prudent credit and investment policy, that is suitable to the economic condition with special care taken in granting credit to any business
related to any directors with management authority or any major shareholders, which may constitute granting of improper favors and in which important risks are neglected; that a policy for non-performing loans or investment is in place; and that sufficient provision for non-performing debt is arranged to accommodate any potential damage.

2.2 Capital Adequacy

(1) To ensure that the financial institutions maintain their capital at a secure level, adequate to accommodate the current and future business operation, and to monitor the capital position on a regular basis;

(2) To ensure that the financial institutions have a capital adequacy assessment in place that is in line with the Basel framework, which consists of two major components

- Measurements of capital adequacy under unfavorable economic scenarios (stress test): Assessment of potential unfavorable economic scenarios or economic change which may have severe adverse impacts on the financial position and the ability of financial institutions to withstand any adverse impacts.

- Capital planning: Estimation of the capital resources at a level to meet the current and future business expansion in line with the business’s strategy which may increases risk weighted-assets and other risks that will affect the capital, including planning for capital increase at a sufficient level and in line with the conditions of money market and the capital market.

2.3 Compliance Role

(1) To ensure that an effective internal control is in place that embraces various transactions and reflects potential errors or wrongdoing in time to ensure that the financial institutions have carried out such business in compliance with the law, rules, and regulations of the relevant authority;
(2) To ensure that there is a system for reporting any incidents not in compliance with the relevant laws and regulations or the internal rules of the financial institutions in order to follow up and rectify such non-compliance to prevent any material damage or to prevent the material effect against the business.

2.4 Roles of Directors in Good Corporate Governance

(1) To honestly perform their duties and refrain from seeking personal benefits, engaging in discretionary behavior, treating other groups less favorably, and participating in any decision-making process in any transaction or business in which they may be an interested party, directly or indirectly; in order to avoid any conflict of interest, as well as to look out for any interference with decision-making that would expose the financial institutions to additional risks;

(2) To approve or establish important polices and strategies in carrying out the business and monitoring the performance duties of the management to be in compliance with the established policies and strategies;

(3) To ensure that the financial institutions formulate a documented corporate governance policy in which the interest of all stakeholders and fair business dealings with customers and the public are properly addressed;

(4) To perform their duties to the best of their abilities by attending the Board meetings whenever reasonably possible or refraining from being absent from any meeting without justifiable reason, and giving constructive opinions at meetings to the best of their efforts;

(5) To ensure that the financial institutions have an adequate and reasonable remuneration policy in place to appropriately motivate and maintain qualified staff members and uphold the value of the honest performance of duties. The remuneration rate of the directors should not be inappropriately linked to short-term gains so as to prevent the directors
from being motivated to increase risk exposure to a level higher than the level acceptable by the financial institutions, or to engage in any business that will render that the stability of the financial institutions is at risk;

(6) To ensure that the financial institutions have in place a system in which the duties are clearly segregated and that there is an appropriate check and balance system to prevent any activities undertaken with a view to gain benefits for themselves and their group or which lead to a conflict of interest.

3. Evaluation of the Performance of the Boards

In the interest of the performance of their duties, the Boards should have a performance evaluation system in place based on the following procedures.

(1) The criteria for performance evaluation of the Boards should be defined in order to evaluate the effectiveness of the Boards and their sub-committees. An individual director is required to conduct a self-evaluation at least once a year because the performance of an individual director contributes to the performance of the Board.

(2) The guidelines, procedures, and criteria for performance evaluation should be defined in line with the objectives of performing the duties of directors for the purpose of annual remuneration adjustments. Factors that should be taken into consideration are the roles and responsibilities in risk management, internal audit and control. The result of the performance evaluation should be compared to the industry-standard benchmarks which will reflect the Board’s shared value for the long-term sustainability of the business.

(3) The guidelines, procedures, and criteria for performance evaluation should be approved by the Boards. The criteria for performance evaluation should not be changed every year. In the case
of the occurrence of any incident whereby it is advisable that the criteria should be changed, a mutual decision of the Boards is required.

(4) The Boards may engage an independent agency, experienced in corporate governance, to conduct a performance evaluation of the Boards and their sub-committees at least once every three years and establish the performance evaluation guidelines and make recommendations on performance evaluation.

(5) The scope of performance evaluation of the Boards and individual directors of the financial institution should address the objectives of the performance of their duties

- The Boards should be evaluated based on the overall corporate strategies, approval of risk treatment strategies and acceptable risk level, and important decision making in a timely manner;

- An individual director should be evaluated based on his or her ability to apply competency and expertise appropriately to his or her roles, his or her attendance of meetings of the Boards, and participation in meetings of the Boards.

(6) The results of the performance evaluation of the Boards, their sub-committees, and individual directors should be summarized in a report and made available for inspection by the Bank of Thailand, as well as a report on the Boards’ meetings on the consideration of the results of the performance evaluation of their sub-committees.
Chapter Three

Roles of the Boards: Formulation of Strategies and Policies

The roles of the Board towards its duties and responsibilities can be described as forward looking. The Board must have a vision and set the direction of the strategies and policies of the financial institution so as to address the approach to convey strategies into policies which can be put into practice by the management in the interest of the sustainability of the financial institution. The Board also has a supervisory role in the business operation of the management to ensure compliance with the legal framework. Accordingly, the Board has the duty to balance the organizational expectation of achieving maximum profit within the framework of the relevant laws, regulations, rules, principles of corporate governance and effective management of the financial institution, and the Board must be accountable for its decision-making in respect of any action undertaken by the management on its instruction.

The roles of Board are to lead the organization to achieve long-term maximum benefits. The appropriate strategies and policies are derived from ideas, initiatives, and competence of the directors and the management. Accordingly, the important roles of the Board are described below.

1. Formulation of Strategies

The Board should procure the formulation of a long-term and short-term strategic or business plan. The short-term plan should set out clear and measurable targets and the performance of the management should be evaluated at regular intervals. The long-term plan should reflect the vision and notion of the Board in the business operation as a whole in respect of the future of the financial institution. The management should highlight any material deviations of the operations from such plans to the Board for decision-making and for regular monitoring of the
implementation. In addition, in order to avoid any potential risks, the strategic or business plan should include contingency plans to respond to any unexpected difficulty.

The development process of the strategic plan is an important factor in driving the financial institution towards becoming a learning organization. The strategic plan also serves as a channel whereby the Board can communicate the direction and policies to the executives and the employees.

2. **Formulation of Policies and Practice Guidelines**

The Board should formulate policies and ensure that practice guidelines are established for adoption by the management in implementing short or long-term strategic plans, particularly the core functions of the financial institution business such as credit, investment, asset and liability management, risk management, human resource management, financial disclosure, and audits. The purpose of formulating such policies is to clearly convey the organization goals to the management and to protect any errors in operation or decision-making.

The established policies should be flexible and adaptable so as to accommodate changes in the business environment. In an increasingly competitive financial business, clear policy statements will be critical in establishing a common understanding on the operational procedures of financial institutions and enhancing their competitiveness. After the policies have been formulated, the Board should arrange for clarification or establish an information-sharing system for every level of the organization in order for the employees to be aware of the performance standards and to maintain the work standards. The Board should further establish a process for periodically reviewing the policies or in accordance with the specified criteria to ensure that the policies are up-to-date and in line with the short-term and long-term strategic plans.
Furthermore, the development of new financial products must first be approved by the Board, in particular, financial products which particularly require the development of certain support systems or the engagement of experts. In addition, the Board should consider the reasonableness of the opinion of the management on the related risks and returns to be received by the financial institution, as well as the methods of risk management, monitoring, and assessment as well as the relevant operating results. A clear schedule and checklist for reporting the operating results must be specified and the operating results should be reported to the Board on a regular basis.

2.1 Formulation of Policies on Material Transactions of the Financial Institutions

2.1.1 Credit Transactions

The Board must have knowledge and understanding of the risks associated with and relevant to the granting of credit, in order to be able to determine and approve the framework and scope of risk that is suitable for the organizational strategies and the creation of an appropriate credit culture.

2.1.2 Treasury Management Transactions

The Board should assume the role of defining clear investment goals. Consideration must be given of the factors relating to the position and operation of the financial institution, as well as the related risks. The investment goals must be measurable. Accordingly, the Board should encourage ethical conduct and define the unfavorable nature and behavior concerning transactions between the financial institutions and insiders and their related parties.

2.1.3 Asset and Liability Management Transactions
The Board should assume the role of approving the risk policies and risk appetite that are suitable and consistent with the business model, the economic and competitive environment, and should also ensure that the regulations and practices meet the criteria specified by the financial institution and the official authority, as well as the liquidity contingency plan.

2.1.4 Customer Services and Financial Products and Services Transactions

The Board should assume the role of approving the policy on financial products and services, as well as the policy on customer service to ensure that an appropriate scope of practice is in place for the employees to comply with. The Board’s role also includes identifying clear recommended practices and poor corporate governance actions on the use of customer information and the disclosure of sufficient information of products and services for the decision-making of the customers. The Board may delegate a sub-committee to undertake this action and to supervise compliance with the policies approved by the Board.

2.1.5 Electronic Financial Service Transactions

The Board’s role consists of approving the policy on providing financial services via different banking channels which, in addition to branches, include electronic channels, e.g. electronic branches, internet banking, or mobile banking. The Board must take into account consistency with the business strategy of the financial institution, as well as understand the potential associated risks and rapid technology shifts. In this regard, the Board may delegate a sub-committee or an expert third-party advisor to formulate such a policy before proposing it for the Board’s approval.

The role of the Board in formulating the policy on entering into material transactions of the financial institution is set out in Annex 3.


2.2 Formulations of Policies on Outsourcing

The Board is responsible for ensuring that the policies on outsourcing are documented and clearly formulated in the business operation of the financial institution, including the IT outsourcing policy. Such policies should describe the factors to be considered in outsourcing and the important issues such as risk management in outsourcing, business continuity plans, the management of the transition period, and the policy to mitigate potential effects from outsourcing. In addition, the Board must ensure that the relevant persons duly comply with the criteria of the regulatory authority, both domestically and abroad. For further details, please refer to the Regulation on Outsourcing and the Regulation on IT Outsourcing issued by the Bank of Thailand.

2.3 Approval on Financial Institution Structure

The Board has the duty to approve the structure of the financial institution in order to institute the principles of corporate governance, and to establish an effective check and balance system in the organization by taking into consideration the principle of the three lines of defence through the command line for risk governance.

The Board should ensure that the directors of the financial institution have a diversity of skills, knowledge, and attributes desirable to achieve the goals of the financial institution. The skills matrix should be prepared. In addition, at least one non-executive director must have experience in the financial institution business. The compensation of the Board should be appropriate and the Board should maintain a balance of power between the executive directors and the non-executive directors. The policy on the composition of the Board and the director’s profiles should be disclosed in the annual report and on the website of the financial institution.
Furthermore, the Board’s role includes the establishment of the following sub-committees. The audit committee and the risk management committee comprise members who possess specific knowledge and expertise in order to lessen the burden of the Board in the case that a detailed review and in-depth analysis is required. In addition, the Board should establish a nomination committee, a remuneration committee, and other sub-committees as it may deem appropriate, for example, an executive committee, human resources management committee, governance committee, and an ethics and compliance committee.

### 2.3.1 Reasons for Establishment of Sub-committees

The Board plays an important role in establishing the policy framework and supervising the performance of the management. In practice, it is advisable for the Board to establish appropriate sub-committees chaired by specialists and experts to lessen the Board’s burden in respect of issues that require a detailed review and in-depth analysis. The audit committee and the risk management committee play a key role in reviewing the adequacy and effectiveness of the risk management policies and systems. In establishing sub-committees, the Board should define clear objectives, roles, responsibilities, and authorities; for example, the circumstances in which the sub-committee has the authority to make decisions on behalf of the Board and the circumstances in which the sub-committee must refer to the Board for its consideration, as well as the requirement for each sub-committee to report its performance on a regular basis. Notwithstanding the foregoing, the Board remains ultimately responsible for the performance and decisions of the sub-committees.

### 2.3.2 Structure of Sub-committees

The Board should ensure that the structure or composition of each sub-committee is appropriate for the size and the business environment of the financial institution, as well as that the
experience and expertise of the individual members of certain sub-committees is appropriate. For example, the audit committee should be independent and be complied with relevant regulations. In carrying out their assigned duties, the sub-committees should be provided with the necessary information and support from the financial institution and should be permitted to contact or obtain advice from the staff members or advisors of the financial institution, if necessary, at the financial institution’s expense.

2.3.3 Class of Sub-committees

Each financial institution may have different number and class of sub-committees in which depend on several factors such as size, scope of risk management, and the specific nature of each financial institution. The surveys from Thai and oversea financial institutions reveal that financial institutions commonly establish the following classes of sub-committees: the audit committee, the remuneration committee, the nomination committee, the executive committee, the risk management committee, and the corporate governance committee. Also regulators tend to focus more on setting up sub-committees and may prescribe entities under supervision to set up certain sub-committees. Sub-committee members should be allowed to sit on more than one sub-committee, depending upon the size, suitability, and the need of each organization. The Board should therefore ensure that their particular sub-committees perform their functions in compliance with all the relevant laws, rules, and regulations at all times.

2.3.4 Roles of Sub-committees

(1) Role of the Audit Committee

The audit committee normally assists the Board in several key functions such as ensuring that external auditors remain independent from the management, and that the audit results are
objective and unbiased. The audit committee also assists the Board in monitoring the financial institution’s compliance with the Board’s policies, and in accordance with both internal and external regulations. Furthermore, the audit committee functions to ensure that appropriate and prompt actions have been taken to rectify any weaknesses of the control system and any non-compliance with the policies, laws, or regulations, or any other problems identified by the examiner, external examiner (such as auditor), internal audit unit, and compliance unit of the financial institution within a reasonable timeframe. Additional duties of the audit committee may be determined depending on the particular circumstances of each financial institution.

Membership of the audit committee is a demanding task that requires a high level of commitment. A person who will act as a qualified member of the audit committee should have sufficient training and skills and understanding of the potential issues to be dealt with by the audit committee. The Board should delegate authority to the audit committee to investigate any matters within their terms of reference, in addition to providing full access to the required information, along with the ability to obtain support from the financial institution and its staff members and external professional advice, at the financial institution’s expense, and when appropriate, invite independent advisors with relevant expertise to attend meetings.

(2) Role of the Remuneration Committee

The remuneration committee can be established by the Board to provide general guidelines with regard to the remuneration of directors, senior executives and key personnel. The remuneration committee should also make recommendations to the Board on the remuneration policy framework of the financial institution. The Board should give due consideration to the relevant remuneration policies and packages, as well as the amount and forms of remuneration for the senior
executives, which will be described accordingly in item 2.4: Employment, Remuneration, and Evaluation of Persons with Management authority.

(3) Role of the Nomination Committee

The Board may establish a nomination committee to be responsible for nominating potential qualified candidates for executive and non-executive director, and members of sub-committees, as well as any vacant senior management positions. The Board should give due consideration to the advice of the nomination committee, and make appointments based on the nomination committee’s recommendations. The nomination committee may also assist the Board in the development of policies concerning the succession of management positions, particularly the replacement of the holders of senior management positions. Such policies will also need to clearly define the required qualifications of each relevant management position. In large institutions, the succession plan may be applicable to positions ranging from the middle management level to the chief executive officer, while in smaller institutions the succession plan may only address successors to the chief executive officer.

The nomination committee must ensure that the most competent and qualified individuals who can contribute to the institution are appointed to the Board and key management positions in the interests of the stakeholders. Thus, the selection process should emphasize the track record, age, experience, competencies, and other relevant qualifications, as well as the possession of none of the prohibited characteristics as determined by the Bank of Thailand.

(4) Role of the Executive Committee

The Board may establish an executive committee to assist in operational matters that require the in-depth consideration of policies, operating procedures, human resources, and administrative
matters, including making recommendations to the Board on matters regarding budget allocation. The executive committee may also handle matters that normally would be at the discretion of the Board, but due to extraordinary circumstances require immediate attention. This may involve urgent matters that arise during periods which the Board is not scheduled to meet.

The executive committee has the duty to carefully review all of the pertinent facts and data when implementing key initiatives of the financial institution. In addition, the executive committee also has the duty to assist the Board in delegating and coordinating the activities of the other sub-committees. It is important to note, however, that the executive committee reports directly to the Board who shall be responsible for decisions which may have a direct or material impact upon the organization.

(5) **Role of the Risk Management Committee**

The risk management committee has the duty to establish the policy framework and the organization-wide integrated risk management guidelines which address important risks, as well as to monitor the risk management process to ensure that the risk management is at a suitable level and is in compliance with the established policies. In addition, the risk management committee directs the management to have measures in place for the appropriate protection, mitigation, and limitation of risks, in particular, in the case of the concentration of particular risks. The risk management committee may be delegated other duties, depending on the value, size and position of the assets and liabilities of the organization.

(6) **Role of the Governance Committee**

The governance committee is responsible for establishing the corporate governance policy of the financial institution
and the policy relating to the suitable structure, size, and composition of the Board and the sub-committees. In addition, the governance committee ensures that the Board has a process in place to promote awareness and understanding of the recommended practices in respect of the principles of corporate governance in the organization. The governance committee is accordingly required to supervise, monitor, evaluate, and report to the Board at regular intervals on the practice of corporate governance of the financial institution.

2.4 Employment, Remuneration, and Evaluation of Persons with Management Authority

2.4.1 Selection of Persons with Management Authority

The Board should appoint a nomination committee to be responsible for the establishment of policies, criteria, and procedures in selecting persons with management authority to ensure that the persons recruited have the required competencies and experience for their assigned roles and responsibilities. The persons with management authority should be knowledgeable; they should not have any conflict in

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1 According to the Notification of the Bank of Thailand No. FPG. 13/2554 (2011) on the Criteria for Approval of Appointment of Directors, Managers, Person with Management Authority or Advisors of Financial Institutions, the term “persons with management authority” means:

- Managers, deputy managers, assistant managers or executive directors of a financial institution, or any other persons holding an equivalent position, as the case may be;
- A person with whom the financial institution or the company entered into an agreement to grant such person management authority, whether in whole or in part;
- A person who, by circumstances, controls or commands managers, directors, or the management of a financial institution or company, to comply with his/her instruction in the making of policies or directing the operations of the financial institution or the company.
their perception and vision with those of the Board; and the persons with management authority and the Board should work in close coordination.

2.4.2 Determination of Remuneration

The determination of the appropriate remuneration is an essential factor in the recruitment of competent persons and to properly motivate all levels of staff members to dedicate themselves to the organization. The Board should determine the remuneration fairly and thoroughly. In this regard, it may appoint a remuneration committee to be responsible for not only the remuneration of the persons with management authority, but also the all work related to the management of the remuneration of the financial institution. The remuneration structure of the financial institution should support the creation of a good risk culture, that is, the staff members should be encouraged to exercise an appropriate level of risk in their conduct and perform their duties by taking the interest of the financial institution into consideration with particular attention to the incentive system or the variable remuneration system. The remuneration system should not motivate the staff members to take excessive risks and should be established in the same direction as the risk management strategy, and long-term interest of the financial institution. In addition, any potential risks associated with future damage must be taken into consideration in determining the remuneration of the staff members of the financial institution.

2.4.3 Evaluation of Competencies and Performance of Persons with Management Authority

The Board should determine the guidelines, criteria, and procedures for the evaluation of the performance of the persons with management authority. The criteria to be adopted must be concrete and reasonable and cover the evaluation of the operating results, the objectives, and the success of the financial institution, etc.
2.4.4 Replacement of Persons with Management Authority

The Board should have a recruitment and selection process in place for the replacement of key positions in the case of resignation or retirement, or in the case in which it is deemed necessary to remove a person with management authority to protect the interest of the organization and its shareholders. The criteria and procedures for such removal must be clearly specified.

Furthermore, the Board should have a succession plan policy, selection criteria, and career path development in order to fill the targeted position. The required qualifications and arrangements in the case of the loss of key employees must be clearly defined and standardized in a transparent manner.

2.5 Disclosure and Transparency

The financial institution shall establish an information disclosure policy that is consistent with the regulations and minimum standards prescribed by the regulatory authority under the law which shall be approved by the Board, its sub-committees, or the delegated person(s). Such policy shall prescribe the framework of information that must be disclosed and the internal control procedures relating to information disclosure, as well as the appropriate channels for disclosure. In addition, the financial institution should ensure that an evaluation is conducted on the appropriateness of the information disclosure and the accuracy of the information.

The Board should require its management to provide reports and information on various matters on a regular basis. It should also ensure that important information is correctly disclosed and that the information is always up-to-date, e.g. the names of the major shareholders, names of the directors and senior executives, as well as the names of the companies in which those persons hold positions,
information relating to the financial position, operating results, objectives of the organization, risk management, and all relevant policies, e.g. the remuneration policy. In regard to the material information that must be correctly and appropriately disclosed, if such information is not disclosed or the information disclosed is inaccurate, this will have an impact on the evaluation by or decision making of the users of the information. Therefore, the financial institution should disclose the underlying principles upon which the determination of the significance of information is based and whether or not the same must be disclosed to the public, and ensure that there is consistency in the determination process.

2.5.1 **Pillar 3 Disclosure Requirements**

The financial institution must disclose adequate information to the public, for example, the disclosure of information on the composition of its capital and the assessment and management of the risks associated with various aspects of its operation. As a result, the directors must place more emphasis on risk management. Furthermore, the information disclosed shall be easily accessible to all relevant parties and the public to ensure that they are able to receive accurate and appropriate information in assessing the risks associated with each financial institution. The information that must be disclosed in accordance with the disclosure requirements of Pillar 3 (market discipline) includes the capital structure and adequacy, and qualitative and quantitative information relating to the assessment of various risks associated with the financial institution and financial business groups. The financial institution shall clearly specify the disclosure channels and dates of disclosure as prescribed and notified by the notification of the Bank of Thailand.

2.5.2 **Disclosure Requirement under Accounting Standards and Financial Reporting Standards**
The information that must be disclosed in compliance with the accounting standards and the financial reporting standards is, for example, the disclosure of the overview of the operations and governance of the institution in the annual report including the rules applicable to the preparation and presentation of the report of the overview of the financial statement and other information which has been approved by the auditor, or information as prescribed by the notifications or requirements of the Office of the Securities and Exchange Commission in the case of companies listed on the Stock Exchange of Thailand, e.g. an explanation and analysis of the financial position and operating results (management’s discussion and analysis).

2.5.3 Disclosure of the Report of the Audit Committee

The information that must be disclosed in the audit report of the audit committee is, for example, the duties of the audit committee, the results of the internal audit, the activities carried out during the year, the opinion of the audit committee on the financial report, related party transactions, transactions that may involve conflicts of interest, and transactions that constitute a violation of the relevant rules, laws or regulations that the Board or executives are unable to rectify within the prescribed period.

3. Responsibility and Transactions with Stakeholders

The directorship position is not important due solely to the responsibilities with respect to a particular financial institution, but also due to the fact that it entails responsibilities relating to the stability of the economic and financial institution system of the country. This is because the economy of Thailand relies heavily on financial institutions as an intermediary for driving and facilitating financial services and payments in the market, both of which are dependent on the stability and efficiency of the financial institution system.
A financial institution is an organization the survival of which is dependent on the confidence of the public. If a financial institution takes inappropriate acts or is in a weak financial position, this may have ripple effects on the confidence and stability of financial institutions in the entire system as a whole. A financial institution must uphold the image of honesty, transparency, and integrity in order to build up public confidence in its operations and financial position.

3.1 Responsibility to the Shareholders

The Board is appointed by the shareholders in order to have the duty to be responsible for the supervision of the business of the financial institution on behalf of the shareholders and in the best interests of the shareholders. The shareholders must be able to monitor the Board’s management of the financial institution by means of receiving sufficient information and the disclosure of important information, whether financial or non-financial, that is accurate and complete, and in a timely and transparent manner. The shareholders’ meeting shall be convened in order to allow the shareholders to exercise their ownership right over the financial institution by means of casting votes in the appointment or removal of directors, raising questions with respect to information relating to the position and operations of the financial institution, as well as to give opinions on various matters that may have an impact on the operations of the financial institution.

3.2 Transactions with Major Shareholders, Related Persons, or Related Businesses

The Board should ensure that the transactions between the financial institution and its major shareholders, related persons and related businesses are in compliance with the law and criteria prescribed by the Bank of Thailand on an arm’s length basis, whereby all directors are required to clearly inform the Board in the case of any potential conflicts of interest and shall not be present at the time at which the
matter in which they have conflicts of interest is being considered as follows:

(1) The Board shall ensure that the transactions between the financial institution and its related persons or businesses is in compliance with the amounts prescribed by the law and ensure that a policy is in place in relation to the regulations and the steps to be taken in the case of related transactions.

(2) Transactions involving the granting of a credit facility or transactions similar to the granting of a credit facility or the guarantee of debts for the directors, manager, deputy managers, assistant manager or persons holding equivalent positions under different names, persons with management authority or their related persons must be in compliance with the relevant notifications of the Bank of Thailand.

(3) Directors with interest or related to any transaction shall not participate in the decision-making process or the management in relation to the related person or business in order to ensure that the decision-making is in the best interests of the financial institution and its shareholders.

(4) Transactions between the financial institution and its executive directors, major shareholders, and related persons involving the transfer of benefits of the financial institution to a related person are prohibited.

### 3.3 Responsibility to the Financial Consumers

The Board must oversee that the business operations of the financial institution are fair and that adequate information is disclosed so as to protect the financial consumers such as depositors, transferors, applicants for credit facility, and persons conducting other types of financial transactions, in order for them to have sound knowledge and an understanding of the features of the products or services in which
they are interested. The Board shall have guidelines and comply with the four fundamental consumer rights. The four fundamental rights are the right to receive accurate information, the right to choose financial products and services, the right to complain unfair treatment, and the right to redress for damage.

3.4 Responsibility to Employees

3.4.1 General Responsibilities to Employees

The Board has a duty and responsibility to the employees in respect of their quality of life in procuring that those employees’ welfare entitlement is adequate and fair considering their well-being. The Board should ensure that the financial institution undertakes various measures to maximize the efficiency of its employees’ work performance as follows:

(1) The Board shall provide a satisfactory and safe working environment;

(2) The Board shall promote on the fair and respectful treatment of all employees;

(3) The Board shall promote and encourage the employees to have opportunities for self development on a regular basis;

(4) The Board shall promote fair remuneration for all employees on the basis of a fair work performance evaluation;

(5) The Board shall maintain full confidentiality of the personal information of the employees and shall not exploit any such information for the purpose of obtaining other benefits;

(6) The Board shall not discriminate on sex, race, age, religion, or disability;
(7) The Board shall ensure that employees refrain from engaging in threatening conduct, whether verbally or physically, which may have an impact on the human dignity in the workplace;

(8) The Board shall establish a procedure for receiving the feedback and complaints of the employees.

3.4.2 Responsibilities to Whistleblowers

The Board shall ensure that an appropriate system and channels for reporting information or the indication of any fraud or corruption within the financial institution are in place as follows:

(1) A special or confidential communication channel (whistleblower hotline) has been established in order to allow the persons within the organization and the stakeholders outside the organization to safely report information or indications with respect to any fraud or corruption;

(2) Measures must be established for protecting whistleblowers who have reported the misconduct of a person or persons within the organization to ensure that they are treated fairly.
Chapter Four

Roles of the Boards: Supervision

The Board’s responsibility includes monitoring and supervising financial institution’ operations while the management is responsible for managing issues concerning day-to-day operations policies of the financial institution. The Board should ensure that the financial institution establishes appropriate policies and practices in order for its operations to comply with all relevant laws, rules, and regulations, and to cope with the changing environments to achieve safety and soundness and sustainability.

1. Risk Management

Risk management is the most critical factor for the operation of a financial institution business. The Board, therefore, is responsible for building an efficient corporate structure and creating corporate culture that will promote effective risk management, and must ensure that the management has identified the potential risks and established an proper risk management system and tools and that risk indicators, risk measurement methods, review and control processes for different types of risk, and risk policy are clearly defined and communicated to employees of all levels within the organization.

Risk management of the financial institution should be separated into three lines of defence as follows:

First Line refers to the business units that incur risks associated with day-to-day operations which is responsible for identifying, measuring, and controlling risks at the business unit level;

Second Line refers to the corporate risk management unit responsible for determining the policy on risk monitoring and reporting to the executives and the Board and a compliance unit which is
responsible for inspection of compliance with the requirements of
government agencies and of the financial institution; and

Third Line refers to an independent unit, for example, the internal
audit unit which is responsible for assessing the internal control system
and an external auditor.

The Board shall establish a risk management committee and assign
to it the responsibility to supervise the risk management as prescribed
by the regulatory authority under the law. The Board remains responsible
for the overall operations of the financial institution; therefore, the Board
should acquire knowledge and understanding and stay abreast of the
nature of the business, transactions involved in the operations of the
financial institution, and the risks associated with the financial
institutions. Consequently the Board shall have the following roles:

(1) The Board approves the risk management policy of the financial
institution, which addresses the key types of risks such as the credit risk,
market risk, liquidity risk, operational risk, and reputational risk. It shall
also determine the risk appetite and risk limit for various key aspects of
the financial institution.

(2) The Board ensures that the assessment and monitoring system
for the risk treatment by the management are in place and the level of a
particular risk is within the risk appetite and in compliance with the
policy. The Risk committee requires that the management has in place
adequate measures to prevent, rectify, and limit risks especially in cases
where there is a high level of risk concentration.

(3) The Board ensures that a system and procedures for reviewing
the overall risk management policy and system are in place and that such
review is conducted on a regular basis or in the case of a significant
event that may have an impact on the stability of the financial institution.
given the components and characteristics of risk, risk profile, risk appetite, and risk management strategies of the financial institution.

(4) The Board ensures that a risk status reporting system is in place and that all significant aspects of risks are clearly identified.

(5) The Board ensures that the capital estimate is conducted under unfavorable economic scenarios (stress test) by means of a simulation which mirrors the nature, quantity, and complexity of the transactions.

(6) The Board oversees that a sound corporate structure is established to encourage risk governance as follows:

(6.1) The risk management unit should have a chain of command that is independent from the business unit. A chief risk officer (“CRO”) is appointed to the risk management unit to be responsible for overseeing the overall risk management of the financial institution and foster a good understanding of linkage of different risks among the executive of the business unit so as to jointly develop a risk control and management system for implementation in the business unit.

(6.2) The risk management unit must be able to access the risk management information of the related financial business within the group of financial institutions for managing risks and preparing a risk profile.

(6.3) The CRO should directly report to the Board or the risk management committee.

(6.4) The Board and the risk management committee should jointly evaluate the performance of the CRO and establish a succession plan.

(6.5) In order to create a corporate risk management culture, the consideration of the remuneration and incentives payment to employees in various work units should be linked or consistent with the level of due care exercised in managing risks.
Furthermore, due to the changing environment that affects the operations of the financial institution has been continuously increasing, for example, the new innovations and technology applying to financial services and the more complex financial products such as securities products and insurance products, the Board should take additional risks into account as follows:

(a) IT Risk Management

At present, information technology (IT) is a key mechanism that drives the business by means of increasing the efficiency and developing financial products and services. However, at the time, cyber attacks are rapidly becoming more complex and larger in number parallel to the more extensive use of technology and the internet network. In light of this fact, it is important that the Board takes IT and cyber risks into due consideration, as well as IT and cyber security measures and preparedness to handle cyber security threats to ensure that the IT system of the financial institution is secured, safe, accurate, reliable, and is capable of providing continuous services to the public as follows:

(1) To ensure that a comprehensive IT risk management framework which is adequate and in compliance with international standards is in place and that such framework is reviewed on a regular basis.

(2) To ensure that a work unit that will be responsible for overseeing IT risk and cyber security management is established in line with the “three lines of defence” principle.

(3) To ensure that comprehensive risk management procedures are in place and that they include the regular assessment of IT and cyber risks and the reporting requirements of crucial IT and cyber risks to the Board in order to be able to monitor the level of crucial IT and cyber risks of the financial institution.
(4) To create an enterprise-wide IT risk awareness culture by promoting the awareness of IT and cyber risks and continuously encouraging its employees to acquire adequate knowledge of IT risk prevention.

(5) To ensure that there is adequate development and training of new employees in IT and cyber risk management.

(6) To ensure and promote the cooperation among different financial institutions and the relevant agencies for the purpose of encouraging regular and continuous coordination and sharing of information and warnings among financial institutions and joint development of a cyber security guideline, contingency plan, and the skills required for cyber threat responses; and to ensure that cyber threat response exercises are conducted to prepare the financial institution to respond to increasing cyber threats in line with the development of information technology.

The Board should receive adequate training from experts to gain knowledge and understanding of the new technology and the associated risks, as well as the principles of IT risk management and cyber security governance principles in order to be able to formulate appropriate policies and strategies to apply the new technology in the financial institution safely.

(b) Market Conduct Risks

The Board shall oversee that procedures for controlling the compliance of the business operations with the rules or guidelines on providing services or selling financial products (market conduct) are in place. It shall also have prevention measures in relation to risks associated with misconduct arising from providing services and the complaint handling procedure. The Board’s roles on promoting market conduct are details in Annex 6.
2. **Internal Control and Internal Audit**

The Board must establish an audit committee and assign to it the authority and responsibilities in supervision of the management as prescribed by the regulatory agencies of the financial institution. The audit committee has a duty to supervise the operations of the financial institution to ensure compliance with the policies of the Board, as well as the relevant rules and regulations, for the purpose of ensuring that errors of the control system, violations of the policies, laws, rules, or regulations, and other issues as identified by the examiner, external auditor, the internal audit unit, and the compliance unit, are rectified in a timely manner. The audit committee shall also oversee that the auditor is independent from the management and that the audit results are impartial and unbiased. The roles of the Board in internal control and internal audit are detailed in Annex 4.

3. **Compliance**

The Board has a duty to oversee the compliance risk management. The Board shall approve the compliance policy and determines the rights and duties of the compliance unit in accordance with the documented compliance function charter which describes the roles, duties, responsibilities, independence, and rights to access information. A report on the significant information shall be given to the Board on a regular basis, and the Board shall have the duty to evaluate the performance of the compliance unit on an annual basis, as well as to give an approval on the annual compliance report.

4. **Financial Business Group**

The relationship between the financial institution and companies in financial business group may expose the financial institution to risks such as credit risk, liquidity risk, and reputational risk. If a company in the financial business group faces financial difficulties, the impact thereof
may spread to the financial institution. Particular companies in a financial business group that relies heavily on the market confidence will lead to liquidity and financial problems.

The Board must, therefore, arrange that a process is in place to ensure that the parent company has a process to receive information and understand the risks associated with each company in the group and the overall risks of the financial business group and that the risk management is in place for the financial business group as follows:

- A risk management committee of the financial business group must be established to control, monitor, inspect, and oversee the operations in compliance with the risk management policy formulated by the parent company.

- A risk management policy of the financial business group must be formulated and approved by the board of directors of the parent company and submitted to the Bank of Thailand every year or every time such policy is changed within 30 days from the date of the approval of such change by the Board of Directors of the parent company.

The risk management policy of financial business groups is detailed in Annex 5.

Notwithstanding the foregoing, according to the criteria on holding the positions of directors, managers and persons with management authority of the financial institution may hold one or more of the following positions: the chairman of the board, the executive director or the authorized director in other companies of not exceeding three business groups. Companies incorporated as a result of the debt restructuring process shall be counted as a company in the same financial business group to which the financial institution belongs and shall be deemed a different group from the financial institution.
Chapter Five
Regulatory and Supervisory Roles of the Bank of Thailand

The Bank of Thailand regulates and supervises financial institutions to ensure compliance with the laws and regulations in order that the activities of the finance and banking business are carried out effectively and do not cause any damage to the public. It is, therefore, essential for the Board to develop a clear understanding of the Bank of Thailand’s roles, as well as to supervise and ensure the safety and soundness of the financial institution with a view to maintain the stability of the overall financial system.

1. Development of Regulatory and Supervisory Roles

Changes in the financial environment and new challenges in the business operations of financial institutions have direct and indirect implication on the roles and responsibilities of the Board, for example, innovations and new technology being increasingly introduced and the international standards of regulatory and supervisory frameworks having placed greater influence on the roles of the Board, particularly in the area of risk governance and remuneration with a greater focus on risk profile. Furthermore, financial institution offered variety of financial services through the group members of the financial institution as well as changes in relevant laws and regulations have direct and indirect consequences on the role of Board.

Accordingly, it is crucial that the Bank of Thailand, as a regulator, continuously develops its regulations based on the risk-based approach. The risk-based supervision is aimed at assessing the efficiency and effectiveness of risk management by the Board. In order to ensure that each financial institution is effectively managed and has in place proper and adequate human resource and systems for supervising and controlling relevant risks, namely strategic risk, credit risk, market risk,
liquidity risk, operational risk, reputational risk, IT risk and conduct risk, the Board must have thorough understanding on an overall risk and interaction among them while the risk management system must be suitable to the level of complexity and risk factors of each financial institution.

Since a financial institution operation under corporate governance and risk management framework is considered as key success factors to competitive advantage and sustainability of the financial institution, the supervision executed accordingly by the Board and the Bank of Thailand not only safeguards Thai’s financial system, but also enhances the competitiveness of financial institutions.

2. **Objectives of Supervision**

The Bank of Thailand has continuously supervised financial institutions in accordance with the risk-based approach which is in line with the internationally-accepted risk-based supervision. In its supervision of each financial institution, the Bank of Thailand will emphasize on the assessment of the risks and quality of risk management in significant activities (SA) and the assessment of the efficiency of organization management in line with the principles of corporate governance, which should be consistent with the strategic plan for organization management and risk management.

The Bank of Thailand performs an on-site examination at the office of each financial institution based on the asset size, complexity, risks, and environmental conditions of the financial institution. Financial institutions which are commercial banks incorporated in Thailand are subject to the on-site examination at least once a year. In addition, the Bank of Thailand also conducts an off-site examination, close and continuing monitoring of the operational status of each financial institution and the financial system as a whole in order to identify the trends and potential change to the operating results and important risks,
taking into account the factors with a potential impact on the financial institution from different perspectives and dimensions in order to provide impartial recommendations on deficiencies and suggestions to the financial institution regarding factors that should be rectified, so as to prevent the financial institution from causing damage in its business operation. The Bank of Thailand also performs a follow-up on the examination so as to determine whether the financial institution has fully complied with the recommendations of the examiner of the Bank of Thailand, and gives advice to the financial institution in complying with the provisions of the relevant laws, criteria and regulations.

While the examiner of the Bank of Thailand may provide opinions or recommendations as stated above, the Board remains primarily responsible for the operating results of the financial institution. Therefore, it is advisable for the Board to have a comprehensive understanding of the position of the financial institution and not solely rely on the report of the examiner of the Bank of Thailand in identifying problems and setting solutions. During the examination, the examiner of the Bank of Thailand may have a meeting with the Board and the management of the financial institution to request information or discuss issues and to give comments and recommendations. In this regard, the Board and the management must provide information honestly and transparently.

In order to promote transparency and effective communication with financial institutions, the Bank of Thailand will give a briefing on the results of the examination with the senior executives or the Board in an exit meeting to discuss the results of the examination and critical issues from the examination, which will serve as an opportunity for the senior executives and the Board to raise questions and express different opinions, as well as to provide additional information.

After the briefing of the examination results, the examiner of the Bank of Thailand will send a letter and examination report to inform the
financial institution of the key issues and concerns that the financial institution must rectify, and the financial institution rating based on the regulatory perspective. The results of the examination are rated based on seven levels: from the very good level (no issues requiring attention from the Bank of Thailand) to the very poor level (inefficient management, close supervision required, and it is very likely that the financial institution will not be able to continue the business operation). The Board must supervise that the financial institution solves problems or rectifies defects or weakness as recommended by the examiner of the Bank of Thailand (if any) within a reasonable period of time.

3. **Appointment of Financial Institution Directors**

According to the law governing public limited companies, directors shall be selected by a shareholders’ meeting. In the case of a vacancy in the Board for reasons other than the termination of the term of office by rotation, the Board may select a substitute director but he or she shall hold office only for the remaining term of office of the director whom he or she replaces. In addition, according to the law governing the financial institution business, any appointment or extension of the term of directors also requires approval from the Bank of Thailand, for which the Bank of Thailand will take no longer than 15 days upon receiving the application together with the complete relevant documents for consideration. If the Bank of Thailand does not raise any objection or inform the results of consideration within the specified period, it shall be deemed that the Bank of Thailand has granted approval on that appointment.

In its consideration for approval of any appointment of a director by the Bank of Thailand, the candidate must possess appropriate qualifications, competency, and experience (being fit and proper) and does not have the prohibited characteristics under the law governing the financial institution business and the additional prohibited characteristics prescribed in the Notification of the Bank of Thailand on Criteria for
Approval of Appointment of Directors, Managers, Persons with Management Authority or Advisors of Financial Institutions. In addition, the Bank of Thailand may take other information into consideration, as the case may be.

If it later appears that the approved person possesses the prohibited characteristics under the law governing the financial institution business, the Bank of Thailand has the authority to revoke the approval which has been granted.

4. Supervision of Related Party Transactions

Any related party transactions must be in accordance with the relevant laws, criteria, and regulations which contain the provisions on, restrictions on the types and values of transactions, criteria on the approval process of entering into of transactions, and reporting requirements to the Bank of Thailand. If the financial institutions fail to comply with such laws, criteria, and regulations, it might be exposed to increased reputational risk and may be required to rectify its practices to comply with the actions instructed by the Bank of Thailand. The Board must supervise that the financial institution put in place a policy on related party transactions which is consistent with the laws, criteria, and regulations prescribed by the Bank of Thailand.

The Bank of Thailand has issued regulations to control or prevent any conducts of improper credits, investment undertaking contingent liabilities in related party transactions, such as:

(1) No credit or credit-like transaction is granted to or debt guarantee for directors, managers, deputy managers, assistant managers, or other equivalent positions, persons with management authority of the financial institution or its related persons, with the exception of the granting of credit, entering into of credit-like transactions, or the placement of debt guarantee that have been approved prior to his
entering into the position or the restructuring of existing debts, the granting of welfare credit, and the granting of credit in the form of a credit card, subject to the criteria prescribed by the Bank of Thailand;

(2) No credit or investment is granted to major shareholders or no contingent liability is created in favor of major shareholders or any business with related interests in accordance with the criteria prescribed by the Bank of Thailand.

If the Bank of Thailand finds that a financial institution violates such rules or regulation, the Bank of Thailand has the authority to instruct the financial institution to rectify such breach subject to the conditions and timeframe prescribed by the Bank of Thailand.

5. **Supervision of Financial Business Groups**

Although the business operation in the financial business group would create business opportunities, the complexity of the business or the risk from the concentration of transactions that may arise due to the relation of the affiliated businesses would also increase the overall risk of the group. This may affect the operational status and overall stability of the financial institution group. In principal, the Board of each company would be responsible for the corporate governance of the company in which it serves as the director. However, as a part of financial business group, the Board of Directors of each company in the group shall also consider the potential effect of the policies of other companies in the financial business group on the company in which he holds a directorship position.

The Bank of Thailand shall take action as it deemed appropriate to ensure that the financial business group has an adequate and appropriate risk management system to manage the risks, with the management of risks that may affect other companies in the group. The Bank of Thailand shall take into account the report submitted or the examination results
upon reviewing the operations of the financial institution. The financial business group should disclose the information to the public on the risks that may affect each other and the risk from the related party transactions between the group companies with transparency. The Bank of Thailand assume that the consolidation of financial business group would not cause any negative affect on the supervision by other regulatory authorities.

6. **The Board and the Bank of Thailand**

The sustainable stability of the financial institution depends on the corporate governance of the Board, which includes the independence, a comprehensive understanding of the financial institution system and its supervision, and, most importantly, attention and a sound understanding of the financial position of the financial institution.

The Bank of Thailand would like the directors of the financial institution to consult with the Bank of Thailand with respect to its status in good faith and openly, which will allow the Board to be able to better perform their duties. The Bank of Thailand’s comments in respect of the operation of the financial institution shall be in compliance with the laws, criteria and regulations. Therefore, the consultation in good faith between the Board and the Bank of Thailand will result in acceptable and prompt conclusions, which will eventually benefit the financial institution itself.

The Board shall pay attention to the issues identified or the comments provided by the Bank of Thailand and shall attend the meetings between the Bank of Thailand and the financial institution’s management, in order to take this opportunity to provide opinions that may differ from the opinions of the examiner of the Bank of Thailand, to seek advice or provide further information on any issue so as to obtain a mutual solution, which will lead to the appropriate and timely rectification of the issues.
Annexes
Annex 1
Key Relevant Laws

It is advisable that the directors of financial institutions are familiar with and regularly acquire an up-to-date understanding of the legal framework for the operations of the financial institution business as follows:

<table>
<thead>
<tr>
<th>Legal Knowledge</th>
<th>Relevant Laws</th>
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<tbody>
<tr>
<td><strong>For Business Operations:</strong></td>
<td>Examples:</td>
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<tr>
<td>For the operation of the financial institution business, accepting deposits,</td>
<td>• Financial Institution Business Act</td>
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<tr>
<td>foreign exchange, funds transfer and payment services, insurance agent, sale of</td>
<td>• Deposit Protection Act</td>
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<td>investment instruments and provision of electronic payment (e-payment) services</td>
<td>• Exchange Control Act</td>
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<td></td>
<td>• Life Insurance Act and Non-Life Insurance Act</td>
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<td>• Securities and Exchange Act</td>
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<td>• Royal Decree Regulating the Electronic Payment Service Business</td>
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<td>• Electronic Transactions Act</td>
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<td><strong>For the Juristic Person Status of the Business:</strong></td>
<td>Examples:</td>
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<tr>
<td>For financial institutions which are limited companies, public limited</td>
<td>• Civil and Commercial Code</td>
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<tr>
<td>companies or state enterprises</td>
<td>• Public Limited Companies Act</td>
</tr>
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<td></td>
<td>• Securities and Exchange Act</td>
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<td></td>
<td>• Act Establishing Financial Institutions as State Enterprises</td>
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<tr>
<td><strong>Other Laws</strong></td>
<td>Examples:</td>
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<tr>
<td></td>
<td>• Anti-Money Laundering Act</td>
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<td>• Counter Terrorism Financing Act</td>
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<td>• Consumer Protection Act</td>
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<td>• Competition Act</td>
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<td>• Criminal Code</td>
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<td>• Debt collection Act</td>
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Scope of Director’s Responsibilities under the Legal Framework

<table>
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<tr>
<th>Relevant Laws</th>
<th>Directors’ Responsibilities</th>
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<tbody>
<tr>
<td>Directors should possess the required qualifications and shall not possess the prohibited characteristics prescribed by the Bank of Thailand for the entire duration of their directorship.</td>
<td>Review the qualifications of directors in accordance with the law, in terms of the prohibited characteristics and desired qualifications, such as:</td>
</tr>
<tr>
<td><strong>Directors’ qualifications and prohibited characteristics:</strong></td>
<td>• <strong>Integrity</strong>: the director demonstrates the attitude of adherence to the principles;</td>
</tr>
<tr>
<td>(1) Section 24 of the Financial Institution Business Act</td>
<td>• <strong>Reputation</strong>: the director has a good track record in respect of ethics and is willing to dedicate his or her time to acting as a director;</td>
</tr>
<tr>
<td>(2) Criteria for Approval of Appointment of Financial Institution Directors as prescribed by the Bank of Thailand²</td>
<td>• <strong>Knowledge</strong>: the director has degree or background related to the financial business and the laws relating to the operation of financial institutions, and possesses professional qualifications, and has been awarded a certificate for directorship training;</td>
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<tr>
<td>(3) Other relevant laws</td>
<td>• <strong>Experience</strong>: the director has management and supervision skills;</td>
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<td></td>
<td>• <strong>Competency</strong>: the director has achievements in management and</td>
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² Notification of the Bank of Thailand No. FPG. 13/2554 on the Criteria for Approval of Appointment of Directors, Managers, Person with Management Authority or Advisors of Financial Institutions
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<tr>
<th>Relevant Laws</th>
<th>Directors’ Responsibilities</th>
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<td></td>
<td>professional experience/certification in accordance with the professional standards and certification of employment;</td>
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<td></td>
<td><strong>Financial position and status</strong>: the director has a certificate showing his or her financial position from financial institutions or other agencies;</td>
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<td></td>
<td><strong>Independence</strong>: the director has disclosed his or her interest related to the financial institution.</td>
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**Nomination and Appointment of Directors of Financial Institutions**

| (1) Financial Institution Business Act |
| (2) Public Limited Companies Act and Securities and Exchange Act |
| (3) Other laws, such as the Act Establishing Financial Institutions as State Enterprises |

|               | The candidates must be fully qualified and competent in accordance with the requirements of the financial institution, and must not possess the prohibited characteristics for the entire duration of their directorship. This will result in a wide variety of qualifications of the members of the Board. |
|               | The director nomination process must be formal and transparent. If the financial institution is a listed company or state enterprise for which the law prescribes that the appointment of directors requires a resolution of the shareholders, such process has to be complied with in all respects. |
### Directors’ Performance of Duties

<table>
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<tr>
<th>Relevant Laws</th>
<th>Directors’ Responsibilities</th>
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<tr>
<td>(1) Financial Institution Business Act and Notification of the Bank of Thailand³</td>
<td>• A written request for approval must be sent to the Bank of Thailand in accordance with the law, whether in the case of the appointment of new directors or the renewal of office, along with a complete set of supporting documents. The Bank of Thailand shall be informed in writing of any change of directors, resignation, death or change of duties of a director.</td>
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<tr>
<td>(2) Civil and Commercial Code/Public Limited Companies Act</td>
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<tr>
<td>(3) Other relevant laws</td>
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<tr>
<td>(4) Principles of corporate governance / principles of good management practices</td>
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</table>

### Compliance with the Principles of Corporate Governance⁴

1. Directors shall exercise their discretion in good faith, with responsibly and due care, and without conflicts of interest.

2. Directors shall formulate the strategies, action plan, and target, and ensure that the system and resources are adequate for the business operation in order to generate returns to the shareholders and create long-term credibility of the financial institution. This refers to the determination of the vision,

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³ Notification of the Bank of Thailand No. FPG. 15/2552, Re: Authority and Responsibilities of Directors of Financial Institutions Deemed Most Important by the Bank of Thailand

⁴ OECD Principles of Corporate Governance, 2015
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<th>Relevant Laws</th>
<th>Directors’ Responsibilities</th>
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<tr>
<td>strategies and shared values that take into account the responsibility to the depositors, savers, investors and persons with interest, such as the debtors, and the trade partners.</td>
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<td>3. There shall be a clear separation between the chain of command of the Board and the executives, as well as between the chain of command of the internal auditor and the executives, to ensure a balance of power.</td>
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<tr>
<td>4. The performance of the Board and remuneration policy shall be reviewed. The policy on the payment of remuneration shall be formulated in line with the operating results, strategies, risks, and the long-term stability of the financial institution. The directors shall monitor the management to report complete information relating to the core operating of the financial institution at the appropriate time as follows:</td>
<td>Remedial measures to be</td>
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<td>• Management of liquidity risks</td>
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<td>• Adequacy of capital, classification of debtors, investment value, provision, and debt obligations</td>
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<tr>
<th>Relevant Laws</th>
<th>Directors’ Responsibilities</th>
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<td>implemented in the case that the actual performances are not acceptable level comparing with the targets or are not in line with the business environment or financial intuition condition.</td>
<td>5. The directors shall ensure compliance with the law and ensure that any misconduct or action which is in conflict with or in avoidance of the law is rectified. The directors shall ensure that the orders of the examiner of the Bank of Thailand and the opinion of the external auditor are strictly complied with, and that the operations of the financial institution are adjusted to be in line with any changes to the law and the regulations relating to the financial institution business and other authorized businesses. The directors shall also give their full cooperation in the promotion of state policies.</td>
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### Annex 2

**Recommended Practices and Poor Corporate Governance Actions**

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<tr>
<th><strong>Recommended Practices</strong></th>
<th><strong>Poor Corporate Governance</strong></th>
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<tbody>
<tr>
<td><strong>Duty of Care</strong></td>
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<tr>
<td>• To establish and make available a clearly-defined set of criteria on accountability for access by all staff members in the organization</td>
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<tr>
<td>• To define a clear scope of the authority and the limitations of the sub-committees, in particular, the executive committee, to avoid any confusion as to the duties of the sub-committees and the authority the sub-committees to take action</td>
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<tr>
<td>• To develop the organizational structure and assignment of authority of the financial institution to ensure that there is an appropriate check and balance system within the financial institution; for example, chairman and CEO shall not be the same person</td>
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<tr>
<td>• To set the term of independent director by considering on lacking of independency which should not more than 9 years upon first appointment</td>
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<td>• To place emphasis on and promote the role of the internal audit unit, the compliance unit, and the risk management unit through the sub-committees, and instruct the units above to rectify any</td>
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<tr>
<td><strong>Recommended Practices</strong></td>
<td><strong>Poor Corporate Governance</strong></td>
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<td>errors which may have an adverse impact on the financial institution</td>
<td>• To be negligent the performance of sub-standard work of the financial institution without exercising due care</td>
</tr>
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<td>• To ensure that a proper investigation is conducted without delay if any suspected violation of the law is discovered or there is an action that may damage the financial institution at any level of the organization</td>
<td>• To act as a rubber stamp on issues proposed by the management without an adequate understanding of the issues proposed for consideration</td>
</tr>
<tr>
<td>• To give opinions and make decision independently and impartially and encourage all directors to have a clear understanding of their roles and to perform their duties without being under the influence of the management or other relevant third parties</td>
<td>• To underestimate the role and responsibilities of the sub-committees, especially the audit committee and executive committee</td>
</tr>
<tr>
<td>• To evaluate, on a regular basis, whether the operations of the financial institution meet the specified goals</td>
<td>• To appoint members of the sub-committees without due consideration of their actual competence,</td>
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<tr>
<td>• To monitor the performance of the executive officers</td>
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<tr>
<td><strong>Recommended Practices</strong></td>
<td><strong>Poor Corporate Governance</strong></td>
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<tr>
<td>• To arrange orientation sessions for new directors on the accountability, roles, and responsibilities of the Board, the sub-committees, the core businesses of the organization, the major risk areas, and compliance issues</td>
<td>qualifications and experience</td>
</tr>
<tr>
<td>• To have an open and honest communication with the examiner of the Bank of Thailand</td>
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<tr>
<td>• To be proactive in responding to issues of concern raised by the Bank of Thailand or the examiner of the Bank of Thailand</td>
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<tr>
<td>• To diligently acquire knowledge, attend training sessions, and make enquiries to obtain sufficient information for decision-making in the best interest of the performance of directorship duties</td>
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<td>• To evaluate the performance of the directors on a regular basis to ascertain whether the set goals are met</td>
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**Duty of Loyalty**

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<tr>
<td>• To undertake any act in the best interests of the financial institution, and ensure that conflicts of interest are handled in accordance with the regulations governing the practices of the financial institutional (if any) or with the following manners:</td>
<td>• To undertake the business of the organization in one’s own interests</td>
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<tr>
<td></td>
<td>• To improperly take business opportunities away from the</td>
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</table>
In the case of a potential conflict of interest concerning a particular director at a Board meeting, that director must notify the chairman of the meeting and abstain from voting or excuse himself from attending such meeting at the time at which votes are cast concerning that particular matter;

If a director wishes to personally pursue a business opportunity, which could be construed as a conflict of interest, then that particular director must first inform the chairman of the meeting and ask him or her to call a Board meeting to decide whether or not a conflict of interest exists. In such meeting, it is the duty of the relevant director to transparently provide the Board with sufficient information for decision-making, and to abstain from involvement in the Board’s decision on that issue.

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<tr>
<th><strong>Recommended Practices</strong></th>
<th><strong>Poor Corporate Governance</strong></th>
</tr>
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<tr>
<td>• The directors who will be appointed as members of the Audit Committee should be independent directors.</td>
<td>• To misuse inside information for the purpose of personal gain or for other inappropriate reasons</td>
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<td>• The remuneration committee should comprise only of non-executive directors and the chair of the committee must be independent director.</td>
<td>organization or allow others to do so</td>
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<tr>
<td><strong>Recommended Practices</strong></td>
<td><strong>Poor Corporate Governance</strong></td>
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<tr>
<td><strong>Duty of Understanding</strong></td>
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<tr>
<td>• To have a comprehensive understanding of the institution's financial position and review the financial institution's financial statements on a regular basis</td>
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<td>• To use the findings of the auditors</td>
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<td>• To give due consideration to the audit results by the regulatory authorities</td>
<td>• To neglect warning signs that indicate the violation of the risk policies determined by the financial institution</td>
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<tr>
<td>• To be aware of any actions of the organization which expose the organization to significant risks and key indicators of non-compliance within the financial institution</td>
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<td><strong>Duty of Board Meetings</strong></td>
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<td>• To be well-prepared for Board meetings and other meetings by verifying and exploring the relevant information and important issues on which he or she will make a decision or give an opinion</td>
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<tr>
<td>• To attend the Board meetings. If the directors are appointed as members of any sub-committee, the directors shall attend all of the meetings of those subcommittee, and shall not be absent without justifiable reason</td>
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<tr>
<td><strong>Recommended Practices</strong></td>
<td><strong>Poor Corporate Governance</strong></td>
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<tr>
<td>• To ensure that in the preparation of the minutes of the meetings, each issue, process, and action is prioritized according to its importance, and that the minutes of the meeting contain complete and comprehensible information that can be verified</td>
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<tr>
<td>• To ensure that the financial institution complies with the laws, rules, and regulations of the Bank of Thailand and other regulatory authorities, and to ensure that the Board realizes the importance of the annual audit report on the financial institution, as well as to ensure that the representatives of the Bank of Thailand are allowed to attend the relevant meetings to be informed of the progress of specific matters</td>
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Role of the Board in the Formulation of Policies on Material Transactions

1. Credit Transactions

The Board must have the knowledge and understanding risks that relevant to the granting of credit in order to be able to determine and approve the framework and scope of risk that is suitable for the organizational strategies and its credit culture. The proper credit culture shall lead to good credit standards by accumulating credit values, beliefs, and practices which reflect the standards and the values of the Board and the senior executives. The credit culture should be cultivated in a concrete manner and should be clearly specified and should be widely communicated within the financial institution. The credit culture should be evaluated on a regular basis in order to verify whether the employees understand the credit culture and perform their duties in accordance with the established standards. In establishing good credit culture,

1.1 The Board should formulate the policy on credit transactions while taking into consideration such important factors as target markets, credit portfolio structures, the expansion of each type of credit, risk concentration, risk limits and exemptions, as well as the policy for granting credit to businesses in which the directors, persons with managing authority or major shareholders are involved, in order to prevent the giving of improper favor and neglecting important risks, the policy for the management of non-performing loans or investment, and the policy for provision on non-performing debts.

1.2 The Board should oversee the control of the quality of credits by establishing credit analysis standards while taking into consideration the factors that are likely to affect the debt service capacity of debtors and conducting stress tests for assessing the value of the debt repayment
that the financial institution will receive from debtors, as well as the value of the collateral under the current economic conditions and the future economic conditions in the case of any change.

1.3 The Board should ensure that a loan classification system is established and the provision must be in place in which the potential risks associated with debtors becoming non-performing debtors are fully identified as prescribed by the relevant law, rules, and accounting standards, as well as a provision for the mitigation of the potential impact from debtors becoming non-performing debtors based on the statistics of the financial institution. The results of such loan classification should not be materially different from the classification by the examiner of the Bank of Thailand.

1.4 The Board should ensure a system for credit review by a unit that is independent from the credit unit in order to ensure compliance with the established policy and within the scope of the relevant law and regulations. The results of the review must be reported directly to the Board or to the relevant sub-committee. The report must contain details of the asset portfolio, for example, the concentration of debtor assets; investment; classification of assets and assets with material problems; the provision and reserve to accommodate the relevant damage; and accurate, complete, and up-to-date information for decision-making of the Board.

2. Treasury Management

Apart from the income from granting credits, income from investment has become increasingly important. Accordingly, effective investment management, asset allocation, and maintenance of liquidity at the appropriate level are the factors contributing to the generation of income with stability.
2.1 The Board should comprehend with the relevant laws and regulations in order to ensure that the management formulates a policy and review investments to ensure compliance with the laws, in the terms of the types and the volume of the investments of the financial institution.

2.2 The Board should establish investment targets based on clear and measurable factors, for example, the target rate of returns, the level of risk appetite, the amount of liquid assets that must be maintained, the placement of collateral for investment, and the sources of funds, and must also review the policy and investment targets on a regular basis.

2.3 The Board should ensure that the management has a system to monitor and control risks and to assess the impact of any changes of interest rates or exchange rates, or other risks such as credit risks, liquidity risks, and compliance risk, and the results of such assessment must be reported to the Board.

2.4 The Board should ensure that the management reviews the compliance with the law and the accounting standards of every investment, and that the audit committee should focus on the performance of duties by the internal audit unit in verifying the accuracy and completeness of the accounting system and preparing reports in accordance with accounting standards, whereby investments in securities are categorized into different categories according to the investment objectives.

3. **Asset and Liability Management**

Asset and liability management (ALM) means the management of the structure of assets and liabilities in the financial statements, which reflects the management of liquidity risks, risks associated with interest rates, exchange rates, and the prices of equity instruments and commodities. In carrying out the asset and liability management,
3.1 The Board should approve the policy and risk appetite that are consistent with the business model, and the economic and competitive environment, and ensure that the regulations and practices are in accordance with the criteria of the official authority and the financial institution, as well as that the liquidity contingency plan is in place.

3.2 The Board should establish a liquidity policy with clear conditions by specifying the source of funds to be secured in the event of a lack of liquidity. In addition, the Board should assess the level of market risk which may occur from changes of interest rates, exchange rates, prices of equity instruments and commodities; as well as any liquidity risks that will affect the capital of the financial institution, the expected rate of return, and the operation acceptable to the financial institution.

3.3 The Board should clearly define the roles and responsibilities of the relevant persons in reporting and monitoring the management of the senior executives to be in accordance with the plan and targets, and to report the results to the Board on a regular basis and in a timely manner.

3.4 The Board should ensure that the financial institution is equipped with tools, operating systems, and operating procedures that serve its operation in a stable and transparent manner in accordance with the principles of corporate governance.

3.5 The Board should ensure that the operation of the financial institution complies with the official rules, policies, plan, and target, as well as protect the interest of stakeholders, such as its shareholders and depositors.

4. **Customer Service and Financial Product Sales**

Due to the increasingly complicated transactions of financial institutions, the Board should ensure that the financial institution gives
fair treatment to all related parties, including the customers of the financial services. In addition, the Board should encourage the financial institution to establish corporate governance, and enhance its stability, competitiveness, professionalism, and integrity in protecting the interests of its customers. In so doing,

4.1 The Board should approve the policy on providing financial services to the customers and the policy on selling financial products, as well as the scope of appropriate conduct in complying with such policy. The recommended practices and poor corporate governance actions with respect to the use of customer information and the disclosure of sufficient information of products and services for customer decision-making must be clearly defined.

4.2 The Board should ensure that the management has a system and practices in place that are consistent with the established policy, as well as the appropriate procedures in compliance with the law governing the business operation of the financial institution and other related businesses in order to prevent any issues or problems in the provision of services.

4.3 The Board should maintain the confidentiality of its customers as required by law, provided however that customer information may be disclosed with the consent of the customer owning such information or in the case that disclosure is required by law.

4.4 The Board should ensure that the management has an efficient information system and internal control system in order to ascertain whether any transactions are not in compliance with the policy or are not provided for in the agreements made with customers, for example, a transaction that exceeds the customer’s credit limit, investment in unauthorized securities, or whether a transaction in a customer account involves unethical behavior, and should ensure that the results of all corrective action are reported to the Board.
4.5 The Board should ensure that the management has corrective measures in place in response to any actions remarked on by the examiner of the Bank of Thailand or any other regulator under the law.

4.6 The Board should provide channels for customer complaints, and establish measures to appropriately handle issues raised by customers in order to maintain its relationship with its customers, and refrain from demanding bribes, benefits, gifts, or any property, and entertainment in any form that demonstrates intent to give improper favor to customers.
The position as a member of the audit committee requires devotion as well as experience and substantial training in the relevant matters. An audit committee member whose performance of duties is of high quality should therefore have a sound understanding of the matters in the scope of responsibilities of the audit committee.

The Board should grant the audit committee the authority to investigate matters or issues within its scope of responsibilities. The audit committee shall receive adequate information and support from the financial institution and its personnel, and shall be entitled to seek the advice of a third party advisor, at the expense of the financial institution. The audit committee should be authorized to invite third party experts to attend its meetings.

Role of the Board

1. To ensure that the financial institution has an efficient and comprehensive internal control system in place that is able to reflect the potential issues resulting from non-compliance with the law, rules, and regulations prescribed by the authorities, as well as the orders of the Bank of Thailand in a timely manner.

2. To ensure that the financial institution has a system in place for reporting any activities not in compliance with the law, or not in compliance with the internal rules and regulations of the financial institution.

3. To ensure that the financial institution has formulated and documented a clear policy on the principles of corporate governance, which takes the appropriate interest of all of the stakeholders into consideration and is fair in term of business, and does not take advantage
of the customers and the public in all respects, whether with regard to credit facilities, deposits, off-balance sheet transactions, or other matters.

4. To ensure that the financial institution has an appropriate and adequate remuneration policy in place in order to motivate and retain high-quality personnel, as well as to uphold the principle of the performance of work in good faith.

**Role of the Audit Committee**

1. To verify that the financial institution has an appropriate and efficient internal control and internal audit system in place.

2. To ensure that the operations of the internal audit unit is efficient, staffed by qualified personnel with an appropriate work system independent from the work units that are subject to evaluation, that the personnel perform their duties in compliance with the internal audit standards as prescribed by the financial institution or the internal auditor in accordance with internationally-accepted and professional internal audit standards, and in accordance with the practice guidelines of the Bank of Thailand governing the guidelines for internal audit of financial institutions, and the efficiency of the performance of such work unit should be reviewed by the audit committee.

3. To review the annual report of the Board on the accuracy and efficiency of the internal control of the financial institution, the financial results, and compliance with the applicable laws, rules, regulations, and the control of information and technology.

4. To review any material items in the financial reports to ensure the accuracy and integrity of the financial reports and the explanations relating to the operating results of the financial institution.
5. To immediately inform the Board of any information in respect of defects and weaknesses in the internal control system and ensure that those defects and weaknesses are immediately rectified.

6. To have meetings for discussion with the external auditor and internal auditor on an annual basis at which the executives are not required to attend.

7. To formulate a whistle-blowing policy and ensure that the executives establish whistle-blowing channels for filing complaints or reporting sensitive information, which must not disclose the identity of and prevent any adverse impact upon the person who has filed the complaint.

8. To establish internal control guidelines and an internal control system for anti-corruption, controlling and monitoring risks associated with corruption in the financial institution and the financial business group, and ensure that those guidelines are communicated to and incorporated into the training of employees at all levels for their understanding and compliance.
Annex 5
Risk Management Policy of Financial Business Groups

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<tr>
<td>1. Key risks of the financial business group and each company in the group</td>
<td>1. Policy and requirements relating to intra-group transactions</td>
</tr>
<tr>
<td>2. Processes and methods for risk assessment and measurement</td>
<td>2. Determination of the proportion of key transactions</td>
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<tr>
<td>3. Risk control and risk management</td>
<td>3. Requirements on providing a guarantee by a company in the group to a third party</td>
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<tr>
<td>4. Business continuity management (BCM)</td>
<td>4. Other requirements on providing services between the companies in the group, for example, transactions must be on arm’s length basis.</td>
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<td>5. Business continuity plan (BCP)</td>
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Risk Monitoring and Internal Control

The risks of the financial business group can be mitigated if there is a good and effective monitoring system and internal control system as follows:

1. The parent company shall ensure that the companies in its financial business group establish:
   - A good internal control system;
   - An adequate monitoring system.

2. The risk management committee of the financial business group should:
   - Evaluate the risk management of the financial business group;
• Report the results of the evaluation to the board of directors of its parent company;
• Conduct the risk evaluation at least once a year;
• Immediately report any incident that may affect the stability of the financial business group.

3. The parent company must review its risk management policy by:

• Seeking the approval of its board of directors;
• Reporting any changes to the Bank of Thailand.
Annex 6
The Role of the Board on Promoting Market Conduct

The Board must ensure that the guidelines on market conduct are in compliance with the relevant supervisory policy guidelines of the Bank of Thailand, such as the policy on banking products disclosure requirement and the policy guideline on the sale of securities and insurance products through commercial banks (cross-selling) in order to promote the customer knowledge and understanding of the nature of and risks associated with the products, as well as to enable the customers to select the products that best suit their needs, position, and that involve acceptable risks. The guidelines on market conduct can be summarized as follows:

- The financial institution must disclose information on its products that is up-to-date, clear, accurate, and relevant to the decision-making of the customers in a timely manner. The customers must be provided with material and comparable information in order for them to be able to compare and select the product which best meet their needs and suit their acceptable risk level.

- The marketing, advertising, and public relations materials must be clear and must not be misleading. They must disclose accurate information for the benefit of the customers’ decision-making. Furthermore, such materials must not be targeted towards highlighting promotional prizes and gifts rather than promoting the understanding of the information on the products themselves.

- The financial institution must maintain the confidentiality of the customers’ information, unless the consent of the customer is obtained for such disclosure, or unless disclosure is required by law. The financial
institution must exercise due care to ensure that the information disclosed is within the scope as permitted by the customer.

- The financial institution should establish adequate and effective systems, procedures, methods, and practices regarding the management of customer complaints, as well as appropriate guidelines for compensating its customers for any damages.
Handbook Working Group

The Handbook Working Group comprises members from the Financial Institutions Policy Group and Supervision Group, Bank of Thailand.

Cover and Artwork

Communication Department, Bank of Thailand