

Unofficial Translation
by the courtesy of The Foreign Banks' Association

**This translation is for the convenience of those unfamiliar with the Thai language.
Please refer to the Thai text for the official version.**

17 October 2006

To Managers

All Commercial Banks *

No.: ForNorSor. (22) Wor. 122/2549 Re: Permission for Commercial Banks to
Conduct Securitisations

The Bank of Thailand (BOT) has issued the Notification Re: Permission for Commercial Banks to Conduct Securitisations to grant general permission allowing commercial banks to act as an originator to sell assets for the purpose of Securitisation and to perform other Securitisation related functions in accordance with the regulations prescribed by the BOT.

The BOT would like to advise the following.

1. By virtue of Section 9 bis of the Commercial Banking Act B.E. 2505 and as amended, the BOT revokes the Circular letter No.: ThorPorTor. NorGor. (Wor) 1146/2536 dated 30 June 1993 Re: Asset sale of a commercial bank for conducting Securitisation. In addition, the BOT revoke the definitions of “Special Purpose Vehicle”, “Securitisation” and “Asset” under Article 2 and Article 3 of the Circular letter No.: ThorPorTor. Ngor (Wor) 2456/2541 dated 2 July 1998 Re: Permission for Commercial Banks to Conduct Securitisations by submitting the proposal to the Office of the Securities and Exchange Commission and to Act as a Servicer.

2. Enclosed herewith is the Notification of the Bank of Thailand Re: Permission for Commercial Banks to Conduct Securitisations dated 21 September 2006 published in the Royal Gazette, General Edition No. 123, Special Section 110 Ngor. dated 13 October 2006 and became effective from 14 October 2006 onward. The essence of the said Notification is the modification of the permission for commercial banks to conduct Securitisations. The previous requirement that commercial banks had to obtain prior approval from the BOT is amended to the BOT granting general permission for commercial banks to act as an originator to sell assets for Securitisation purpose and to perform other Securitisation related functions in accordance with the stipulations under the Notification of the Bank of Thailand. Whereby the originating bank shall notify the

*
excluding international banking facilities

BOT Supervision Group of its undertaking of such business within 15 days from the transaction date. Moreover, the BOT has also stipulated rules for conducting the business, capital treatment and large exposures limit herewith.

Retail banks intending to conduct Securitisations shall apply with the Supervision Group of the BOT on a case by case basis.

Please be informed and comply accordingly.

Yours sincerely,

(Mrs. Tongurai Limpiti)
Senior Director, Financial Institutions Policy Group
For Governor

Enclosure: The Notification of the Bank of Thailand Re: Permission for Commercial Banks to Conduct Securitisations

Prudential Policy Department
Tel 0-2283-6851

Note The Bank of Thailand will arrange a meeting on ...
 No meeting for clarification will be arranged.

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Notification of the Bank of Thailand
Re: Permission for Commercial Banks to Conduct Securitisations

1. Rationale of the Notification

1.1 To increase business channels and to improve liquidity for commercial banks as well as to reduce operation cost in commercial banking transaction.

1.2 To establish rules for bank engaging in businesses related to Securitisations transaction.

1.3 To require commercial banks conducting Securitisations to identify, measure, control, monitor and manage relevant risks as well as to apply proper capital charge for such risks.

1.4 To encourage commercial banks to make disclosure and thereby promoting transparency and good corporate governance in the market.

2. Statutory Power

By virtue of Section 9 bis of the Commercial Banking Act B.E. 2505 and as amended, the Bank of Thailand hereby grants permission to commercial banks to conduct Securitisations in accordance with the regulations under this Notification.

3. Scope of Application

This Notification shall be enforceable on all commercial banks under the law governing commercial banking except international banking facilities.

4. Content

4.1 Principle

4.1.1 Securitisation is one of the techniques to mitigate credit risk. The forms and structures of such business are numerous and vary depending on the need of the originator, investor, type and quality of the underlying asset. In addition to being an originator, investor of the securities issued by the special purpose vehicle or company to which asset are transferred; commercial bank may perform other related functions such as becoming first loss facility provider or servicer/back-up servicer, etc. In performing these different functions, commercial bank is exposed to different risks. Hence, commercial bank must apply capital charges appropriate to the various risks associated with each function.

4.1.2 The Bank of Thailand grants a general permission for commercial banks (except retail banks) to perform the function of an originator to conduct securitisations by submitting the proposal to the Office of Securities and Exchange

Commission and to perform other related roles such as servicer/back-up servicer, etc. [Such undertaking shall be] in accordance with the Bank of Thailand rules stipulated within this Notification. The said permission does not include permission to conduct

synthetic securitisations¹. Any commercial bank wishing to transfer credit risk by conducting synthetic securitisations must obtain approval from the Bank of Thailand prior to undertaking such business and is subject to other supervisory rules than those prescribed within this Notification. Commercial bank acting as an originator to conduct securitisations under this notification must notify the Supervision Group of the Bank of Thailand within 15 days from the asset transfer date (closing date) for every securitisation transaction. Non-originating commercial bank performing other functions related to such securitisation transaction need not notify the Bank of Thailand.

With regard to retail banks, the Bank of Thailand shall grant permission on a case by case basis. Retail bank wishing to conduct Securitisations must apply with the Supervision Group of the Bank of Thailand for each securitisation transaction since retail banks are subject to a more limited scope of business.

4.1.3 Commercial bank intending to conduct Securitisations must be able to identify, measure, control, monitor and manage relevant risks properly. Moreover, its board of directors and senior management shall set policies and procedures for conducting the various businesses related to securitisation transaction, for risk management, and for internal control to ensure that the businesses are conducted correctly and appropriately.

4.1.4 Commercial bank should take into account the maximum volume of each type of assets it is able to transfer to a special purpose vehicle or company to which asset are transferred. In addition, it should set an aggregate limit or ceiling for investment in the securities of the special purpose vehicles or company to which assets are transferred, that has the underlying assets in the same types of business or industries in order to prevent holding an inordinate amount of assets concentrating in some business or some industries. Moreover, the Bank of Thailand may prescribe additional regulations to control such amount.

4.1.5 Originating banks and non-originating banks performing other functions related to a securitisation such as servicer/back-up servicer, etc. must prepare, for the shareholders of the commercial bank and the public, the documents as annual reports or other type of reports to disclose information related to the structure or form of such business, as well as risk exposure from participating in various functions associated with a securitisation. Because of the wide range of complexity and functions related to

¹ [Synthetic securitisation means the use of financial derivative by commercial bank to mitigate all or partial credit risk without transferring the asset from its account book to the special purpose vehicle or the company to which assets are transferred in the same manner as the traditional securitisation. The risk of the investor of the synthetic securities is dependent on the repayment ability of the debt that is the Underlying Asset.

such business, each commercial bank may have different risk exposures. Commercial bank shall hence comply with the regulations under Article 4.2.6.

4.1.6 In the case where the commercial bank is the originator, it may invest in the debt instruments issued by the special purpose vehicle or the company to which assets are transferred holding the underlying assets, for not more than 10% of the value of such instruments in each tranche. Additionally, in the case where the originating bank provided firm underwriting for the special purpose vehicle or the company to which assets are transferred and has to invest more than 10% of the securities value in each tranche, the commercial bank shall dispose the debt instruments within 90 days to reduce its holding to no more than 10% of the value in each tranche.

If the Bank of Thailand discovers that any commercial bank invests in a substantial portion or all of the debt instruments issued by a special purpose vehicle or company to which assets are transferred with the intention to circumvent the abovementioned supervision, where the bank is not an originator but previously granted credits or invested in the underlying credits of such debt instruments, the Bank of Thailand may order the commercial bank to reduce its holding of the debt instruments or to deduct all of the excess amount from the commercial bank's capital.

4.2 Rules for conducting business

The key points of the regulation consist of:

Subject	Article
• Definition	4.2.1
• Permission	4.2.2
• Supervisory regulations for Securitisations	4.2.3
– Sale of assets	4.2.3 (1)
– Provider of credit enhancement	4.2.3 (2)
– Servicer/back-up servicer	4.2.3 (3)
– Provider of liquidity facility	4.2.3 (4)
– Securities underwriter	4.2.3 (5)
– Investment in securitisation securities	4.2.3 (6)
– Other functions	4.2.3 (7)
• Application for case by case permission	4.2.4
• Repurchase of assets from SPV	4.2.5
– Representations and warranties	4.2.5 (1)

Subject	Article
– Clean-up call	4.2.5 (2)
<ul style="list-style-type: none"> • Other regulations <ul style="list-style-type: none"> – Disclosure – Compliance with the law and other related guidelines – Authority to impose sanctions on commercial banks – Stipulation of addition regulations 	<p style="text-align: center;">4.2.6</p> <p style="text-align: center;">4.2.7</p> <p style="text-align: center;">4.2.8</p> <p style="text-align: center;">4.2.9</p>

4.2.1 Definition

In this Notification,

“Special Purpose Vehicle (SPV)” shall mean special purpose vehicle under the law governing special purpose vehicles for Securitisation purposes or company to which assets are transferred under the law governing securities and exchange that receives the transfer of assets from the originator and issue securities for investors.

“Securitisation” shall mean transfer of assets from an originator to an SPV where the SPV issues securities to sell to investors by offering a return based on the cash income from the transferred assets.

“securitisation securities” shall mean instruments issued by an SPV, which could be in the form of debt instrument or unit trust.

“underlying assets” shall mean rights to claim or other rights that incur future income stream regardless of its certainty, for example, mortgage loans or concession right to collect tolls. In addition, it shall be in accordance with the definition under the Royal Decree on Special Purpose Vehicle for Securitisation B.E. 2540 and as amended. However, it shall not include the following underlying assets.

1. Borrowings for the purpose of securities purchase (Margin Accounts)²
2. Instruments regarded as capital of the investing commercial bank³

² The Bank of Thailand does not permit commercial banks to extend credit to purchase securities since it is a business exclusive to securities companies only.

³ For example, Bank A issues a subordinated debt to be regarded as its capital; whereby Bank B is the investor of the said subordinated debt. Subsequently, Bank B sells Bank A’s subordinated debt to an SPV to issue securitisation securities to sell to investors. Then, if Bank A invests in the SPV’s Securities, it shall be deemed that it is a repurchase of the subordinated debt regarded as the capital which would reduce Bank A’s capital fund.

3. Collateralized debt obligations (CDOs)
4. Financial derivatives and all types of derivative embedded transactions
5. Other assets announced by the Bank of Thailand

“SEC Office” shall mean the Office of the Securities and Exchange Commission.

4.2.2 Permission

The Bank of Thailand grants a general permission for commercial banks except retail banks to conduct Securitisation business subject to the following regulations.

1) Commercial bank must prepare operating plans for the various functions relevant to the Securitisation business in writing. In addition, the plans must be approved by the bank’s board of directors and must contain the following details.

1.1) Readiness of operations such as business policy, operating procedures, scope of responsibilities, operation oversights, risk management, internal control, documentation and maintenance of evidential documents, etc.

1.2) Human resource readiness.

2) In the case where commercial bank is an originator to conduct Securitisation by submitting the proposal to the SEC Office, it shall observe the following rules.

2.1) Originating bank shall not hold shares in the SPV for more than 10% of the total share value.

2.2) Commercial bank must advise the Supervision Group of the Bank of Thailand in writing within 15 days from the asset transfer date (closing date). Moreover, the summary of the features of the Securitisation, containing the following details, must be provided in the letter.

(1) Structure of the Securitisation, type of assets transferred to the SPV and various functions pertaining to the Securitisation.

(2) Shareholding structure of the SPV including structure of the securities offered by the SPV to the investors.

(3) Conditions for repurchase of the assets of the originating bank including criteria or principal and interest repayment priority to investors and various service providers.

(4) If the originating bank, in addition to selling the assets, performs other roles such as servicer/back-up servicer, etc., the commercial bank shall advise the Supervision Group of the Bank of Thailand of the scope of its roles in such business. Furthermore, it shall also observe the rules stipulated by the Bank of Thailand pertaining to such roles.

3) In the case where commercial bank undertaken any business that incurs financial risks, as:

a) Provider of credit enhancement meaning any action that causes the commercial bank to be liable for losses to the SPV or the investors of the securities.

b) Servicer/back-up servicer where the scope of such service obliges the commercial bank, in performing such role, to assume the liability on behalf of the debtors regardless of whether in full or partially.

Commercial bank taking on such roles must have the following qualification and shall comply with the following stipulations.

3.1) Being of sound financial standing and having good performance, and enabling of making full provision in accordance with the Notification of the Bank of Thailand regarding worthless or irrecoverable assets and doubtful assets that may be worthless or irrecoverable of commercial banks. It must have ratio of capital to assets and contingent liabilities of no less than the rate prescribed by the Bank of Thailand as well as possessing the capability to maintain any other financial ratios that the Bank of Thailand may specially prescribe.

3.2) Possessing such operating systems that enable its board of directors to monitor risks arisen from the transaction such as warning indicators of the performance of the underlying assets' industry, increased risk, problems related to operating system and internal control, failure to comply with laws and regulations, etc.

4) In the case where commercial bank is a transaction administrator of a Securitisation performing such duties such as allocating and administering the income from the right to claim transferred to the issuer of the securitisation securities, it shall comply with the rules and procedures stipulated in the transaction administration agreement.

Retail banks intending to conduct Securitisation business shall apply for approval with the Supervision Group of the Bank of Thailand on a case by case basis.

4.2.3 Supervisory regulations for Securitisation business

The Bank of Thailand stipulates the following rules for conducting Securitisation business according to the various functions.

1) Sale of assets for the purpose of Securitisation

Originating bank shall deduct underlying assets from its accounts and does not need to maintain capital fund for the disposed underlying assets, if the sale causes the commercial bank to derecognize the assets either entirely or partially under the following rules.

1.1) Commercial bank must sell the assets at fair value in accordance with the definition in the accounting standards.

1.2) Commercial bank must comply with the following sale conditions.

(1) Commercial bank must transfer all credit risk and returns associated with the assets to another person except where the originator still

incurs risk from performing other functions related to the Securitisation such as providing first loss facility, investing in the securities, etc.

(2) The transferor must not retain any control over the transferred assets. This also applies to the event that the transferor becomes bankrupt. In such an event, creditors of the transferor are not entitled to any claim on the transferred assets.

(3) The asset transferor must not have any obligation related to the asset quality to the investors.

(4) The SPV and investors have the right to pledge or mortgage the assets.

(5) The originator must not enter into any agreement to repurchase the assets except under the conditions of representations and warranties, and clean-up call which shall be in accordance with the stipulation of the Bank of Thailand under Article 4.2.5.

(6) The sale agreement of the assets must not contain any provision to the effect that originating bank may alter the underlying assets to improve the creditworthiness of the underlying asset pool except when the SPV sells the assets at fair value to other juristic persons unaffiliated with the originating bank. Moreover, the agreement must not contain any provision requiring the originating bank to assume further obligation over the first loss or any provision to increase yield to the investors or other service providers that are not the originator, in order to compensate for any deterioration of the quality of the underlying assets.

Furthermore, upon enforcement of the accounting principles for Securitisation of the Federation of Accounting Profession, commercial banks shall observe the Federation's accounting principles related to partial or full derecognition instead.

2) *Provider of credit enhancement*

Credit enhancement may be provided in 2 forms as follows

(a) Guarantee of the underlying assets shall mean a guarantee provided by a commercial bank to the SPV for any debtor in the underlying asset pool in an event of default, which will enhance the creditworthiness of the securitisation securities.

(b) First loss facility shall mean a guarantee on the first loss provided by a commercial bank to other investors in the securitisation securities in the event that the debtor is unable to pay interest or principal as scheduled. In other word, the commercial bank becomes a subordinated investor or a subordinated lender by providing subordinated debt to the SPV or any other facility which renders the bank to be responsible for the first loss of the underlying asset portfolio. An example is where commercial bank assumes the entire or partial debt by acting as a servicer/back-up servicer.

Commercial bank must evaluate the quality, default history, rate of loss of the underlying asset pool to determine the appropriate protection against

the first loss. There must be an external agency or an independent unit to certify the adequacy of the first loss protection as follows:

- The securitisation transaction that must be rated in accordance with the SEC regulations, originating bank must arrange for an assessment by a reliable credit rating agency approved by the SEC or an internationally accepted agency such as Fitch Ratings, Standard and Poor's or Moody's etc.

- If a rating from a reliable credit rating agency approved by the SEC is not required, the originating bank must arrange for an assessment by its independent unit, internal control unit or audit committee.

Maximum limit that an originating bank may guarantee in the first loss facility to all SPVs aggregately shall not exceed 25% of its tier 1 capital.

Commercial bank shall comply with the following rules upon assuming either of the 2 forms mentioned above.

2.1) Commercial bank must clearly specify the obligation or the amount of the loss that it must be responsible in the agreement and shall not assume any additional loss than that already specified.

2.2) Commercial bank must clearly specify the period of guarantee but does not necessarily fix the date which the agreement shall terminate. For example, the guarantee may be set to terminate upon the principal and interest being paid in full, etc.

2.3) Commercial bank must assess the credit risk of the underlying asset of which it is responsible, in accordance with its credit approval procedures. Additionally, the remuneration must be fair and commensurate with the market price (arm's length basis).

2.4) If the commercial bank wishes to revoke the credit enhancement agreement, it shall notify the SPV in advance for no less than 90 days to allow the SPV to find another party to assume such responsibility.

Capital Maintenance

(1) Commercial bank acting as a guarantor shall calculate the capital charges by using the risk weight of the underlying asset and use the credit conversion factor of 1.

(2) Commercial bank providing first loss facility shall observe the following.

- Non-originating bank shall deduct the amount which it is responsible to each SPV from its total capital on the transaction date.

- Originating bank shall deduct the amount which it is responsible to each SPV from its total capital on the transaction date. However, the Bank of Thailand stipulates that the capital charge to be deducted for each SPV shall not exceed the amount of capital to be maintained if such underlying assets were to remain in accounts of the originating bank. Furthermore, if it should be discovered that the actual loss exceeds the amount of the capital charge, the originating bank shall set additional provision for the amount equivalent to the actual loss incurred by the quality deterioration of the underlying assets up to the amount responsible by the commercial bank. In

addition, if the examiner of the Bank of Thailand discovers that commercial bank provides any implicit support, he/she may instruct the commercial bank to apply additional capital charges.

Large Exposure Calculation

(1) Commercial bank acting as a guarantor shall regard the guarantee as a contingent liability. Hence, it must add the amount under the guarantee agreement to the amount of credits, investments and contingent liability it extends to such debtor and at the end of the day, such amount shall not exceed 25% of the commercial bank's tier 1 capital in accordance with the Notification of the Bank of Thailand Re: Prescription on Ratio of the Credit Granted, Investments and Contingent Liabilities by a Commercial Bank to any person to its capital funds dated 19 January 2006 and as amended.

(2) Commercial bank providing first loss facility in any of the various forms shall observe the following.

- Where the commercial bank is a provider of a subordinated loan to an SPV, or is a servicer/back-up servicer that assumes responsibility on behalf of a debtor, whether in full or partially, to an SPV, or is a provider of liquidity facility, not subject to the rules under Article 4), it shall count the following persons in the calculation of large exposure according to the Notification of the Bank of Thailand Re: Prescription on Ratio of the Credit Granted, Investments and Contingent Liabilities by a Commercial Bank to any Person to its Capital funds dated 19 January 2006 and as amended.

(a) SPV

The amount of subordinated loan provided by commercial bank, or the amount it assumed obligation on behalf of a debtor as the function of servicer (back-up servicer), or the amount provided as liquidity facility to the SPV when added to the amount of credits, investments and contingent liabilities extended to such SPV at the end of the day shall not exceed 25% of the commercial bank's tier 1 capital.

(b) underlying assets that are corporate loans

Commercial bank shall calculate the amount of subordinated loans to SPV, or the amount it assumed obligation on behalf of a debtor as the function of servicer (back-up servicer), or the amount provided as liquidity facility to the SPV, not subject to the rules of Article 4), for each underlying credit exposure, by using the proportionate method. The apportioned credit extended to each debtor in the underlying asset shall be added to the credits, investments and contingent liabilities extended to such debtor and at the end of the day, it shall not exceed 25% of the commercial bank's tier 1 capital.

Commercial bank shall establish an internal control system to prevent its exposures to exceed the rate prescribed by the Bank of Thailand and shall have proof available for the inspection of the Bank of Thailand or to submit to the Bank of Thailand upon request.

- Where commercial bank is an investor of the securitisation securities that it also is responsible for the first loss tranche, it shall comply

with the large exposure regulation as prescribed for investors in the securities in Article 6).

- For any other case, commercial bank shall consult with the Supervision Group of the Bank of Thailand on a case by case basis.

3) *Servicer/Back-up servicer*

To be a servicer/back-up servicer of a Securitisation transaction shall mean to provide services as a collecting agent for an SPV or as a back-up collecting agent in the event of the bankruptcy or inability to perform its duty of the servicer. The responsibilities include managing assets for the SPV, making investment or finding additional benefits from the right of claim transferred to the SPV, acting as an agent for the SPV in collecting or undertaking legal enforcement on the debtors as well as preparing accounting and reports, safekeeping documents, making tax or insurance payments and any other duty pertaining to loan collection. In providing such services, commercial bank must observe the following rules.

3.1) Remuneration received by commercial bank must be fair and commensurate with the market price and the commercial bank shall have first priority to be compensated from such duty.

3.2) Commercial bank shall not assume any other risk in addition to becoming the servicer/back-up servicer such as becoming responsible for the debt obligation on behalf of the debtor, fully or partially. If the commercial bank assumes such responsibility, fully or partially, it shall be deemed that such commercial bank is a provider of first loss facility and must comply with the regulation related to capital and large exposure that applies to providers of first loss facility.

3.3) Commercial bank must have, at the minimum, the following supporting systems and operational risk management system.

(1) Policies for operations, accounting and internal control must commensurate with the debt collection responsibilities as agreed with the counterparty.

(2) There must be an effective operational system and information technology system.

(3) There must be an accounting system and a system to maintain loan agreement documents related to the servicer function, separated from other functions of the commercial bank.

(4) Reports of each instance that the commercial bank acts as a servicer must be prepared separately according to the agreements between the commercial bank and the various employers including each SPV, to enable the bank and the various employers to examine and monitor the performance.

4) *Provider of liquidity facility*

Providing liquidity facility shall mean extending credits to an SPV for the purpose of making interest or principal payments to investors at specific intervals where there is a timing mismatch of the receiving and paying of principal and interest from the underlying assets and the credit facility is not intended to cover any losses. Commercial banks shall observe the following.

4.1) Commercial bank granted credit facility in this case must not also become a subordinated debt lender. In other word, the SPV must repay the commercial bank promptly upon receiving interest or principal payment from the underlying assets.

4.2) Commercial bank granted credit facility must be repaid within 3 months from the dated the credit is extended or may be repaid after the specified period if it is able to prove that the late repayment is not caused by the impairment of the underlying asset.

Commercial bank provided liquidity facility to an SPV must comply with the regulations on capital and large exposure prescribed by the Bank of Thailand for commercial banks providing credit facilities.

If Articles 4.1) and 4.2) are not observed or the commercial bank is unable to demonstrate that such credit is for the purpose of providing temporary liquidity, it shall be deemed that the commercial bank extended the credit acts as a first loss facility provider and it shall comply strictly with the rules prescribed for the first loss facility providers.

5) *Securities Underwriter*

Commercial bank shall observe the following rules.

5.1) Commercial bank shall comply with the regulation on underwriting of debt instruments under the Circular No.: ThorPorTor. SorNorSor. (11) Wor. 2122/2545 dated 11 September 2002 and as amended. The regulation includes qualification and criteria for preparing operational plans for such business such as risk management process, internal control system, administration system, accounting, etc.

5.2) Where originating bank is also an underwriter of the securities and must invest in the instrument as a result from its firm underwriting which may cause the bank to hold instruments in excess of 10% of the value of the securities in each tranche, it shall dispose the instruments within 90 days in order to reduce its holding to be within 10% of the value of the securities of each tranche.

Capital Maintenance

(1) Firm underwriting of securities is deemed to be a contingent liability. Underwriting bank shall maintain capital fund for the contractual obligation from the date it executes the underwriting agreement until the date the securities sale offer expires. Such contingent liability shall have a credit conversion factor equal to that of contingent liability under securities or instrument underwriting agreement prescribed by the Bank of Thailand which is equal to 0.5 and shall use the risk weight of the issuing SPV.

(2) If the commercial bank provided firm underwriting must invest in the securities left from the sale from the closing date of the offer, it shall record such securities in its trading book and maintain capital funds in accordance with the regulations under the Circular letter No.: ThorPorTor. SorNorSor. (21) Wor. 2738/2546 dated 30 December 2003 Re: Supervisory Principle for Market Risk of Financial Institutions and Related Reports, and as amended.

Large Exposure Calculation

Commercial bank performing as firm underwriter is deemed to having incurred contingent liability. Hence, it must add the amount under the underwriting agreement to the amount of credits, investments and contingent liabilities extended to such SPV and at the end of the day, the sum shall not exceed 25% of the commercial bank's tier 1 capital in accordance with the Notification of the Bank of Thailand Re: Prescription on Ratio of the Credit Granted, Investments and Contingent Liabilities by a Commercial Bank to any Person to its Capital funds dated 19 January 2006 and as amended.

6) *Investor of Securitisation Securities*

Commercial bank is able to invest in the securitisation securities which may be divided into various tranches according to the different risk exposures. In investing in such instruments, commercial bank shall observe the following rules.

6.1) If the commercial bank invest in the instruments that is in the first loss tranche which is responsible for loss incurred in the first place, it shall record such instruments in its banking book.

6.2) If the commercial bank invests in the instruments that is in second loss tranche or above, which are higher than the first loss tranche, it shall record such instruments in its trading book or banking book depending on the characteristics of the instruments.

6.3) Where an investor is also the originating bank, the Bank of Thailand permits the commercial bank to invest no more than 10% of the value of the instruments in each tranche. However, it shall not include the investment that the commercial bank must be responsible for the first loss tranche.

Capital Maintenance

Capital charge for the investment in each tranche of the securities differs since the exposures are different. Commercial bank must assess the risk of the invested instruments and comply with the following rules:

(1) Commercial bank shall treat the instruments in its trading book in according to regulations under the Circular letter No.: ThorPorTor. SorNorSor. (21) Wor. 2738/2546 dated 30 December 2003 Re: Supervisory Principle for Market Risk of Financial Institutions and Related Reports, and as amended.

(2) Commercial bank shall treat the instruments in its banking book as follows:

Tranche of Instrument	Capital Charge	
	C.B. Investing in the Instrument is the Originator	C.B Investing in the Instrument is not the Originator
First loss tranche	<ul style="list-style-type: none"> The value or exposure shall be deducted from the total capital of the commercial bank, but shall not exceed the capital fund needed to be maintained if the asset still remains on the book. 	<ul style="list-style-type: none"> The value or exposure shall be deducted from the total capital of the commercial bank.
Second loss tranche or mezzanine tranche	<p>1) Where there are 2 tranches, the risk weight of this tranche shall equal to the average risk weight of the underlying asset.</p> <p>2) Where there are 3 tranches, the following shall be applied.</p> <p>2.1) C.B shall use the risk weight of 1, if the first loss facility has adequate protection against the risk, where the adequacy of the first loss tranche must be assessed by an external rating agency or an independent unit of the originating bank.</p> <p>2.2) C.B. shall deduct such value or exposure from its total capital, if the first loss facilities has inadequate protection against the risk.</p>	<ul style="list-style-type: none"> Same as the originator.
Senior or above tranche	<ul style="list-style-type: none"> The risk weight of the instruments in this tranche is equal to the average risk weight of the underlying asset. 	<ul style="list-style-type: none"> Same as the originator.

Large Exposure Calculation

Commercial bank investing in the securities shall count the following persons in the large exposure calculation under the Notification of the Bank of Thailand Re: Ratio of the Credit Granted, Investments and Contingent Liabilities by a Commercial Bank to any Person to Capital funds dated 19 January 2006 and as amended.

(1) SPV that is the issuer of the securities

Value of the instruments issued by each SPV invested by commercial bank when added to the amount of credits, investments or contingent liabilities extended to such SPV, at the end of the day, shall not exceed 25% of the commercial bank's tier 1 capital.

(2) Underlying assets that are corporate loans

Commercial bank shall calculate the investment in each debtor in the underlying assets by using proportionate method. The investment in the securities is apportioned by the ratio of the debtors in the underlying assets. The apportioned investment in each debtor in the underlying asset when added to the amount of credits, investments or contingent liabilities extended to such debtor, at the end of the day, shall not exceed 25% of the commercial bank's tier 1 capital.

Commercial bank shall establish an internal control system to prevent its exposures to exceed the rate prescribed by the Bank of Thailand and shall have evidence for the inspection of the Bank of Thailand or to submit to the Bank of Thailand upon request.

Aggregate Limit or Investment Ceiling

The Bank of Thailand may prescribe an aggregate limit or investment ceiling of a commercial bank in securities, which the underlying assets concentrate too highly in one business or industry, in order to prevent excessive concentration risk.

7) *Other Securitisation Functions*

Other roles related to Securitisation are 1) registrar⁴, 2) arranger⁴, 3) debenture holders' representative/trustee⁴, 4) financial advisor⁵, 5) swap counterparty⁶ which are previously granted by the Bank of Thailand. Commercial bank shall strictly observe the regulations already prescribed by the Bank of Thailand.

4.2.4 Application for case by case permission

The principles prescribed within this Notification are minimum supervisory framework for Securitisation business since rules cannot be provided for

⁴ Circular letter No.: ThorPorTor. SorNorSor. (11) Wor. 2122/2545 dated 11 September 2002
Re: Permission for Commercial Banks to Undertake Securities Business and as amended.

⁵ Circular letter No.: ThorPorTor. ChorKor. (Wor.) 516/2535 dated 18 March 1992 Re: Extension of the Business Scope of Commercial Banks and as amended.

⁶ Circular letter No.: ThorPorTor. ForSorWor. (21) Wor. 1300/2548 dated 20 July 2005 Re: Clarification of Financial Derivatives and as amended.

every type and structure of Securitisations. Hence, if the structure of any Securitisation of a commercial bank does not follow the framework and rules prescribed within this Notification or if any commercial bank would like to perform other Securitisation functions beyond those granted by the Bank of Thailand, it must first consult with the Supervision Group of the Bank of Thailand which approval shall be granted on a case by case basis.

4.2.5 Repurchase of assets from SPV

Originating bank must not purchase the assets back from an SPV except under the following cases.

1) Representations and warranties shall mean conditions specified in advance that if the underlying assets that originating bank transferred to the SPV contains features that do not match the conditions of the purchaser and the originator previously specified in writing prior to the transfer date, the commercial bank is able to transfer the new assets matching the agreed conditions to the SPV. Examples of such conditions are repayment history, ratio of credits to collateral, etc. Commercial bank, however, must comply with the following rules.

1.1) Repurchase conditions must be in line with general market practice and the originating bank must be able to inspect and verify the various stipulated conditions pertaining to the repurchase to determine if it is able to comply with during the transferring period.

1.2) Commercial bank has examined the quality of the transferred underlying assets prior to setting various conditions requiring repurchasing of unqualified assets.

1.3) Repurchase conditions shall not be linked with the deterioration of quality of the underlying assets, SPV's business conduct, or issued instruments.

2) Clean-up call shall mean where commercial bank has the right to purchase remaining assets from the SPV at the conclusion of the project where the value of the remaining assets is no more than 10% of the value of the assets transferred to the SPV. Commercial bank purchasing the assets may be the originator or service/back-up servicer and the following rules shall be observed.

2.1) Purchase price must be at fair value on the date of repurchase.

2.2) Commercial bank is able to purchase the remaining impaired assets from the SPV. However, the purchase price must be at fair value on the date of the repurchase and the commercial bank must not be obligated to the investors for the losses of the underlying assets.

4.2.6 Disclosure

1) Originating bank must prepare relevant document such as annual report or other type of reports to disclose, at the minimum, the following information to the stakeholders.

1.1) Objective, process and procedures of the Securitisation including information of the assets, which are type of assets, volume of disposed assets, quality of disposed assets, provision for losses, etc. This is to allow the stakeholders to understand Securitisation risk as well as for the investors to recognize investment risk, prepayment risk, and interest rate risk from late payment and losses from the default of the assets.

1.2) Where the originating bank performs other roles of a Securitisation project which incurs exposure to the bank, it shall disclose, for the benefits of the stakeholders, its obligation to the SPV such as value of securities investment or risk arisen from performing such functions, etc.

1.3) Detailed information on accounting policy of the transactions such as recording as sale or borrowing, income recognition of the sale, etc.

1.4) Investment in the securitisation securities is not deemed as deposit or loans to originating bank. Hence, information disclosed by commercial bank to stakeholders must not be intended to advertise or mislead the investors.

Furthermore, commercial bank shall comply with the regulation on disclosure stipulated in the accounting practice for Securitisation as well.

2) Non-originating bank performing other Securitisation functions where it may be a servicer, provider of credit enhancement, or provider of liquidity facility to an SPV, etc. and which may incur exposure, shall prepare relevant documents such as an annual report or other type of reports, in order to disclose its obligation to the SPV, such as value of securities investment or risks arisen from such functions, etc. for the benefits of the stakeholders. Furthermore, commercial bank shall also comply with the regulations on disclosure stipulated in the accounting practice for Securitisation.

4.2.7 Commercial bank must conduct audits to ensure strict compliance with relevant laws and regulations. For example, it must observe the accounting standards or guidelines of the Federation of Accounting Profession, etc.

4.2.8 The Bank of Thailand is empowered to impose sanctions on commercial banks in accordance with the law governing commercial banking or to reserve the right to require commercial banks to obtain approval from the Bank of Thailand prior to undertaking any transaction, in the following cases.

1) Any commercial bank breaches or fails to comply with the regulations within this Notification;

2) Any other case deemed by the Bank of Thailand that may affect the public's security and welfare.

4.2.9 The Bank of Thailand may amend or impose additional regulations, procedures or conditions related to Securitisation business for commercial banks to observe as deemed appropriate. The Bank of Thailand may prescribe aggregate limit or ceiling for investment in securities or types of assets in the Securitisation as well as instructing commercial bank to increase capital charges for Securitisation business if

discovered that it has larger exposures than the normal capital charges. Moreover, commercial bank that is an investor or an originator shall submit reports in the format or data sets as prescribed by the Bank of Thailand.

5. Effective Date

This Notification shall become effective from the day following its publication in the Royal Gazette onward.

Notified on 21 September 2006

(M.R. Pridiyathorn Devakula)
Governor
The Bank of Thailand