

# **Policy Statement on Reviewing of Credits, Loan, Liabilities and Credit-Like Transactions**

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**Policy Statement of Bank of Thailand**  
**Re: Reviewing of Credits, Loans, Contingent Liabilities and Credit-Like Transaction**

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**1. Rationale**

Previously, the Bank of Thailand set out a guideline on reviewing of credits, loans and contingent liabilities in order to encourage the financial institutions to enhance the efficiency of its internal control system and credit risk management to meet international standard.

The issuance of this Policy Statement serves a consolidation of guidelines regarding reviewing of credits, loans, contingent liabilities and credit-like transactions. There is no change to the essence of the guideline.

**2. Scope of Application**

This Policy Statement shall apply to all financial institutions under the laws governing financial institutions businesses.

**3. Repealed Notifications and Circular Letters**

Repealed notifications and circular letters are as set out in Attachment 1.

**4. Contents**

**4.1 In this Policy Statement**

(1) "Large Debtors"

(1.1) In case of the commercial banks, except retail banks, large debtors means debtor with credit line or outstanding balance of Baht 20 million and higher.

(1.2) In case of retail banks, financial companies and credit foncier companies, large debtors means debtor with credit line or outstanding balance of Baht 5 million and higher.

(2) "Retail Debtors"

(2.1) In case of the commercial banks, except retail banks, retail debtors means debtors with credit line or outstanding balance of less than Baht 20 million.

(2.2) In case of retail banks, financial companies and credit foncier companies, retail debtors means debtors with credit line or outstanding debt of less than Baht 5 million.

(2.3) Debtors who are granted installment loans with the large debtor's credit line and have repaid by installments, so that the outstanding balance becomes less than the credit line set out for a large debtor, and no additional funds can be drawn from such a credit line.

## **4.2 Rules**

### **4.2.1 Transaction types to be reviewed**

Financial institutions shall review credits, loans, contingent liabilities and credit-like transactions according to type of transactions which financial institutions may legitimately conduct and shall consider the review as a part of risk management control.

### **4.2.2 Review Plan**

Financial institutions shall set up an annual review plan and submit it to the board of directors (Board) for approval within 60 days from the last day of the calendar year. Such a plan shall be kept at the financial institutions for the examination by the Bank of Thailand's examiners. The financial institutions shall report progress as well as problems and obstacles of the review to the Board every quarter. Furthermore, the financial institutions shall keep and make available of the complete documents of all debtors having been reviewed to facilitate the inspection of the BOT.

### **4.2.3 Guidelines on selecting debtors to be reviewed on credits, loans, liabilities and credit-like transaction**

Financial institutions shall on an annual basis review the debtors having outstanding balance according to their classification as of the last day of the calendar year that is reviewed as follows:

#### **(1) Large debtors**

##### **(1.1) Commercial Banks and Retail Banks**

The aggregate credit risk rating received from the latest BOT's examination report shall be applied to determine the number of annual credit reviews for debtors classified as normal and special mentioned. The review should be carried out at least once every calendar year and shall comply with the following guidelines:

(1.1.1) In case where the overall credit risk is low, random reviews of no less than 25 percent of the credit granted to each debtor's class shall be conducted.

(1.1.2) In case where the overall credit risk is fairly low, financial institutions shall conduct random reviews of no less than 50 percent of the credit granted to each debtor's class shall be conducted.

(1.1.3) In case where the overall credit risk is medium, financial institutions shall conduct random reviews of no less than 75 percent of the credit granted to each debtor's class shall be conducted.

(1.1.4) In case where the overall credit risk is rather high and high, review all debtors shall be reviewed.

In performing random reviews, commercial banks and retail banks shall use the random sampling approach which is a reliable statistical method and such method should present a certain level of confidence and accuracy that is theoretically explainable. In addition, the Bank of Thailand may request a review on a specific group of debtors such as the group of debtors with debt restructuring or the group of relevant persons.

In the case of large debtors who are classified as substandard, doubtful and doubtful of loss, commercial banks and retail banks must review all debtors in such groups at least once every calendar year or more, depending on status and type of problems of each debtor.

(1.2) Finance Companies and Credit Foncier Companies

All large debtors of finance companies and credit foncier companies shall be reviewed at least once every calendar year.

(2) Retail Debtors

Financial institutions may choose to review each debtor individually or conduct random reviews at least once every calendar year. In carrying out such random reviews, commercial banks and retail banks shall choose the random sampling approach that is a reliable statistical method and such method should present a certain level of confidence and accuracy that is theoretically explainable. Financial institutions may perform random reviews according to the types of debtors or objectives of transactions such as credit card debtors, housing loan debtors and hire-purchase debtors.

The Bank of Thailand may instruct financial institutions to conduct review according to the specified number of debtors, which is a percentage of total number of retail debtors or a percentage of outstanding balance of retail debtors or group of retail debtors.

(3) Debtors who are exempt from review

Financial institutions do not have to conduct review on the following debtors:

(3.1) Debtors who are approaching the end of the proceeding, including debtors who are believed to be unable to make additional payments and it is clear that the status of debtors will not change in terms of the debt classification and allowance for doubtful debt.

(3.2) New debtors who are granted credits, loans, or credit-like transaction in that calendar year, except debtors having problems with repaying principal and/or interest or quality of debtors is significantly deteriorated..

#### **4.2.4 Contingent Liabilities Reviews**

Whenever credits, loans or credit-like transactions to debtors are reviewed, financial institutions shall review such debtors' contingent liabilities only on those with Credit Conversion Factor (CCF) specified by the BOT for calculating of required capital is equal to 1. Furthermore, financial institutions shall review the top 20 contingent liabilities associated with the granting of credits and loans (with CCF equal to 1) of customers who do not have outstanding balance on credits, loans, and credit-like transactions.

In this regard, Financial institutions shall refer to the Notification of the Bank of Thailand regarding regulation on credit risk-weighted asset calculation for commercial banks and finance companies, as the case may be, for the CCF of each type of contingent liability..

#### **4.2.5 Reviewing Guideline**

To achieve the objective of the quality assessment of the process mentioned above and to allow financial institutions to be aware of debtors' problems and participate in solving such problems before such debts become non-performing debt, financial institutions shall conduct qualitative review within the scope and minimum guidelines as follows:

(1) Review the transaction process under financial institutions' policy, the procedure and accuracy of the considering and approving systems which are in accordance with the rules and instructions for operation, and credit approval level authorized.

(2) Review completeness of supporting documents according to the nature of transactions/group/individual debtor, especially the completeness and legislative enforcement of contract and collateral.

(3) Review the assessment of debtors' capability to repay debt in a continuous manner such as analysis of debtor's cash flow or analysis of major financial ratios based on the most recent financial statement available and analysis of debtor's performance, etc.

(4) Review accuracy of asset classification, recording of information about collateral in accordance with actual condition and official stipulations, and provision made against doubtful debt.

(5) Review the of the proceeding with debtors who face difficulty in repaying debt. The review shall specify debtors' status and step of the procedure that the financial institution is taking against debtors, such as debt restructuring, the case proceedings (specify the step), collateral enforcement, etc., as well as brief details of the proceeding.

(6) Review the compliance with the law and official regulations

In addition, financial institutions should review debtors with regard to the following issues for continuous follow-ups and supervision of debtors including analysis of external factors which may cause significant impacts to the debtor's status and operations:

(1) Assessment of debtor monitoring system after the transaction has been conducted for some period of time such as recording of meeting with debtors or reporting on the visit to the debtors' businesses, reporting on money spending in accordance with the objective of the loan, recording of significant changes which may affect debt repayment capability, etc;

(2) Assessment of other qualitative data such as changes in the structure of the board of directors/ executives with significant roles in administering the debtors' operation, changes in the shareholding structure, analysis on debtors' industry and tendency in the debtors' business operation;

(3) Assessment of internal control and risk management system.

#### **4.2.6 Setting review procedure and responsibility**

Financial institutions shall review transactions via an independent process separate from the transaction approval process and clearly determine the

power and duties of reviewers. In addition, such reviewers shall not be related to the approval of transaction and collateral assessment.

In case financial institutions face personnel limitation, the Bank of Thailand has, temporarily, allowed financial institutions to appoint employees who are not directly related to such debtors' transaction to review such debtors until financial institutions can resolve their personnel problem or until the Bank of Thailand has informed financial institutions to act in accordance with the guideline on the independence of the reviewer.

#### **4.2.7 Preparing of review related reports**

Financial institutions shall prepare reports as follows:

##### **(1) Large Debtors**

Financial institutions shall prepare the report in accordance with the Bank of Thailand's guideline on submission of Data Set

##### **(2) Retail Debtors**

Financial institutions shall prepare the report in accordance with the tables summarizing the review of retail debtors' by random sampling; Table 1 will be used for commercial banks, retail banks and finance companies and Table 2 will be used for credit foncier companies. Such reports shall be kept at financial institutions.

In this regard, financial institutions shall retain documents and evidences on all types of reviews and reports for the Bank of Thailand's examination.

#### **5. Effective Date**

This Policy Statement shall come into force from **4 August 2008** onwards.

**Repealed Notifications and Circular Letter of Bank of Thailand with regard to  
Reviewing of Credits, Loans, Contingent Liabilities and Credit-Like Transaction**

<b>No.</b>	<b>Issued Date</b>	<b>Type of Document</b>	<b>Document No.</b>	<b>Subject</b>
1	28 Feb 2007	Circular Letter	ThorPorThor ForNorSor.(21) Wor. 357/2007	Regulations on Reviewing of Credits and Contingent Liabilities
2	28 Feb 2007	Circular Letter	ThorPorThor ForNorSor.(21) Wor. 358/2007	Regulations on Reviewing of Credits and Contingent Liabilities
3	28 Feb 2007	Circular Letter	ThorPorThor ForNorSor.(21) Wor. 359/2007	Regulations on Reviewing of Loans and Contingent Liabilities
4	28 Feb 2007	Circular Letter	ThorPorThor ForNorSor.(21) Wor. 360/2007	Regulations on Reviewing of Loans
5	2 Nov 2007	Circular Letter	ThorPorThor ForNorSor.(21) Wor. 2142/2007	Cancellation of Submitting a Reviewing of Credits and Contingent Liabilities Plan

Table 1

Confidential  
 Financial Institution's Name.....  
 Summary of Review of Retail Debtors by Random Sampling  
 As at .....

Unit: Thousand Baht

Description	No. of cases (A)	Outstanding Balance		Random Sampling			Percentage		
		Transactions (B)	Contingen t Liabilities (C)	No. of cases (D)	Transactions (E)	Continge nt Liabilities (F)	No. of cases (D)/(A)	Transactions (E)/(B)	Continge nt Liabilities (F)/(C)
1. Group/Type of Retail Debtors									
1.1									
1.2									
1.3									
1.4									
1.5									
1.6									
1.7									
1.8									
1.9									
1.10									
2. Total*									

- Remark:
- \* Aggregate amount in the boxes showing total percentage of numbers of cases, transactions and contingent liabilities means the aggregate amount of numbers of cases, transactions and contingent liabilities from the random sampling of all groups/ types to the total number of cases, transactions and contingent liabilities of the retail debtors.
  - Only used by commercial banks, retail banks and financial companies

## **Explanation for Preparation of Table of Review Summary on Retail Debtors by Random Sampling (Table 1)**

### **A. General Statement**

1) Table summarizing the review of retail debtors by random sampling (Table 1) is a summary report on reviewing of transactions which are credits, loans, credit-like transactions and contingent liabilities of retail debtors by the random sampling in accordance with a statistical method to select retail debtors to be reviewed by the commercial banks, retail banks and financial companies.

### **B. Definition of the descriptions**

1. "Group/Type of retail debtors" means group or type of retail debtors that the commercial banks, retail banks and finance companies have classified by type of transactions, namely credits, loans and credit-like transactions and contingent liabilities; or by objective of the transactions in order to be able to review by the random sampling in accordance with the statistical method such as credit card debtors, housing loan debtors and hire-purchase debtors, etc. Financial institutions shall include the following items in the table:

1) No. of cases and outstanding balance of the transaction which are the amount of credits, loans and credit-like transaction and liabilities of each retail debtor group.

2) No. of samples reviewed in terms of number of cases, outstanding balance of each retail debtor group, and

3) Percentage of random sampling to number of cases and to outstanding balance of each retail debtor group.

2. Total percentage of random sampling of the review of retail debtors' transaction and contingent liabilities to total transactions and contingent liabilities of retail debtors means the percentage of random sampling of reviews of transactions and contingent liabilities of all retail debtors group/type combined.

Table 2

Confidential  
 Financial Institution's Name.....  
 Summary of Review of Retail Debtors by Random Sampling  
 As at .....

Unit: Thousand Baht

Description	Outstanding Balance		Random Sampling		Percentage	
	No. of Cases (A)	Loans (B)	No. of Cases (C)	Loans (D)	No. of Cases (C)/(A)	Loans (D)/(B)
1. Group/Type of Retail Debtors						
1.1						
1.2						
1.3						
1.4						
1.5						
1.6						
1.7						
1.8						
1.9						
1.10						
2. Total*						

Remark: 1. \* Aggregate amount in the boxes showing total percentage of numbers of cases and loans means the aggregate amount of numbers of cases and loans from the random sampling of all groups/ types to the total number of cases and loans of the retail debtors.

2. Only used by credit foncier companies

## **Explanation for Preparation of Table of Review Summary on Retail Debtors by Random Sampling (Table 2)**

### **A. General Statement**

Table summarizing the review of retail debtors by random sampling (Table 2) is a summary of review report on loan granted to the retail debtors by random sampling in accordance with a statistical method by the credit foncier companies.

### **B. Definition of the descriptions**

1. “Group/Type of retail debtors” means group or type of retail debtors that the credit foncier companies have classified by type or objective of the loans in order to be able to review by random sampling in accordance with the statistical method. Financial institutions shall include the following items on the table:

- 1) No. of cases and outstanding balance of the loans of each retail debtor group;
- 2) No. of samples reviewed in terms of number of cases and outstanding balance of each retail debtor group; and
- 3) Percentage of random sampling to number of cases and to outstanding balance of each retail debtor group.

2. Total percentage of random sampling of the review of retail debtors’ loans to total loans of retail debtors means the percentage of random sampling of reviews of all retail debtors group/type combined.

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