Bank of Thailand

29 May 2015

To Managers

All locally incorporated banks

Circular No. BOT.RPD. (21) C.29/2558 Dispatch of the Notification of the Bank of Thailand Re: Regulations on Components of Capital for Locally Incorporated Banks

The Federation of Accounting Professions has issued the Thai Financial Reporting Standard No. 13 on Fair Value Measurement, which has come into effect since 1 January 2015. Under this standard, fair value measurement of derivatives must take into account changes in creditworthiness of the counterparties (Credit valuation adjustment: CVA) and changes in commercial banks' own creditworthinesss (Debit valuation adjustment: DVA). Gains (losses) occurred from such valuation adjustments will be recognised through the statement of profit or loss. However, gains (losses) occurred from the DVA of derivatives shall not have any impact on commercial banks' capital because they are unrealised gains (losses) which are unable to absorb any loss. The Bank of Thailand hereby amends the Notification Re: Regulations on Components of Capital for Locally-incorporated Banks to address this issue.

The Bank of Thailand includes herewith the Notification of the Bank of Thailand No. FPG. 7/2558 Re: Regulations on Components of Capital for Locally-incorporated Banks, which has been published in the Government Gazette, Ordinance Edition, Volume 132, Special Section 120 (4) dated 22 May 2015 and come into force from the day following the date of its publication in the Government Gazette.

The essence of the aforementioned Notification is that commercial banks shall derecognise accumulated gains (losses) occurred from the DVA of derivatives from their Common Equity Tier 1 (CET1). This is in consistent with the adjustment of accumulated gains (losses) from the alternative approach in accounting of the Fair Value Option for debt securities issued by foreign bank branches. In addition, all three previously issued notifications of the Bank of Thailand regarding components of capital for locally-incorporated Banks are repealed, while the essences contents of those notifications are combined in this new Notification so that commercial banks could conveniently keep track of the regulations and comply with accordingly.

Please be informed and comply with accordingly.

BOT Notification No 7-2558 (28 September 2017)-check

Yours sincerely,

(Mr. Somboon Chitphentom)
Senior Director, Regulatory Policy Department
For Governor

Enclosure Notification of the Bank of Thailand No. FPG. 7/2558 Re: Regulations on Components of Capital for Locally-incorporated Banks

Regulatory Policy Department
Tel. 0 2283 5874, 0 2356 7439, 0 2283 5878
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Note: [ ] The Bank of Thailand will arrange a clarification meeting.
[X] No clarification meeting will be arranged.

Unofficial Translation

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

Please refer to Thai text for the official version

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The Notification of the Bank of Thailand

No. FPG. 7/2558

Re: Regulations on Components of Capital for Locally Incorporated Banks

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1. Objective

Since the Thai Financial Reporting Standard 13 on Fair Value Measurement has come into effect in Thailand as from 1 January 2015 (B.E.2558), the fair value measurement of derivatives shall take into account any changes in creditworthiness of counterparties (Credit valuation adjustment: CVA) and changes in commercial banks' own creditworthiness (Debit valuation adjustment: DVA). As a result, any gains (losses) arising from such valuation adjustments will be recognised in the statement of profit and loss, then ultimately reflect on Common Equity Tier 1 (CET1). However, the Bank of Thailand considers that gains (losses) arising from the DVA of derivatives should not have any impact on capital level of commercial banks since they are unrealised gains (losses). The Bank of Thailand, hereby, requires that commercial banks derecognise such items from their CET1 in order to be in line with the current regulations of the Bank of Thailand with regard to gains (losses) from changes in the fair value of debt securities arising from changes in commercial banks' own credit risk, from their CET1.

For this amendment of the Notification, the Bank of Thailand has combined the notifications of the Bank of Thailand regarding regulations on components of capital for Locally- incorporated Banks and the amendments thereof, as issued formerly, into this Notification so that commercial banks could conveniently keep track of the regulations and comply with accordingly.

2. Statutory Power

By virtue of Section 4, Section 29, and Section 71 of the Financial Institution Business Act B.E. 2551 (2008), the Bank of Thailand hereby issues the regulations on components of capital for locally incorporated banks as detailed herein.

3. Repealed/Amended Notifications

3.1 The Notification of the Bank of Thailand No. FPG. 13/2555 Re: Regulations on Components of Capital for Locally-incorporated Banks dated 8 November 2012

3.2 The Notification of the Bank of Thailand No. FPG. 1/2557 Re: Regulations on Components of Capital for Locally-incorporated Banks (No.2) dated 20 January 2014

3.3 The Notification of the Bank of Thailand No. FPG. 3/2557 Re: Regulations on Components of Capital for Locally-incorporated Banks (No.3) dated 16 April 2014

4. Scope of Application

This Notification shall apply to all commercial banks according to the law on financial institution business exception of foreign bank branches.

5. Contents

5.1 Definition

In this Notification,

"Commercial banks" means commercial banks according to the Financial Institution Business Act B.E.2551 with the exception of foreign bank branches.

5.2 Principle

The Bank of Thailand revises components of capital for commercial banks, which are Tier 1 and Tier 2 capital in accordance with Basel III by greater focusing on Common Equity Tier 1 Capital (CET1), the highest quality component of capital. Common Equity Tier 1 Capital (CET1) primarily constitutes of common shares, retained earnings and also includes some items of other comprehensive income in the shareholders' equity. For Additional Tier 1 and Tier 2, the qualifications of eligible instruments are improved to gain better quality as capital, to specify, such incentive conditions for early redemption of commercial banks are not allowed and the capability to absorb losses when the authorities decide to make intervention or give financial assistance to the commercial banks is required.

5.3 <u>Components of Capital</u>

Total capital of commercial banks consists of Tier 1 and Tier 2 capital, as follows:

(1) Tier 1 capital are Common Equity Tier 1 Capital (CET1) and eligible financial instruments qualified as Tier 1 capital (Additional Tier 1) after deducted by items as specified in 5.4

(2) Tier 2 capital are eligible financial instruments qualified as Tier 2 capital, general provisions and surplus of provision after deducted by items as specified in 5.5

5.4 <u>Tier 1 Capital</u>

5.4.1 Common Equity Tier 1 Capital (CET1) consists of items eligible for CET1 after adjusted and deducted by the specified items, as follows:

(1) Items eligible for CET1:

(1.1) Issued and Paid-up share capital (with the exception of issued and paid-up preferred shares) including share premiums/discounts, and proceeds received from warrants of such shares, if these items are qualified as specified in Attachment 1

(1.2) Legal reserves

(1.3) Reserves appropriated from net profits at the end of accounting period in accordance with the approved resolutions from the Meeting of shareholders or the rules as specified by commercial banks, with the exception of reserves for assets devaluation, reserves for dividend payment and reserves for debt repayment.

(1.4) Net profits in the first half of the year after being appropriated in accordance with the approved resolutions from the Meeting of shareholders or profit in the second half of the year in accordance with the rules as specified by commercial banks.

(1.5) Other comprehensive income items in the shareholders' equity, which are:

(1.5.1) Accumulated other comprehensive income items, using the net value after adjusted with relevant income taxes:

- Revaluation surplus on lands, buildings or units in condominiums as specified by the Bank of Thailand in Attachment 2

- Gains (losses) from fair value measurement of AFS (available for sale) debt and equity instruments in accordance with accounting standards on accounting for investments in debt and equity instruments

- Gains (losses) arising from translating the financial statements of a foreign operation

- Gains (losses) from fair value measurement of derivatives used for hedging risks of cash flows (Cash flow hedge reserve)

- Gains (losses) from fair value measurement of derivatives used for hedging risks incurred from a net investment in a foreign operation

Any other comprehensive income item arising from re-measurements of the defined employee benefit projection using the actuarial techniques in accordance with the Accounting Standard No. 19 on Employee Benefits, commercial banks shall include these items after being adjusted by relevant income taxes with any other adjustments to retained earnings in accordance with the accounting standards. Such results shall be included in (1.4), if the net value in total shows profit.

(1.5.2) Other items from changes in shareholders' equity, such as, surplus (deficit) on business combination under common control.

(2) Regulatory adjustment items, which are any accounting items that shall not be included in commercial banks' capital, as follows:

(2.1) Changes in fair value measurement of derivatives instruments used for hedging cash flow risk (Cash flow hedge reserve) from hedge items in the statement of financial position which are not measured at market values; if the fair value of derivatives increases (gain), commercial banks shall deduct it from capital, but if the fair value of derivatives decreases (loss), commercial banks shall add it back to the capital, as if there is no recognition of such item.

(2.2) Accumulated gains (losses) from the alternative approach in accounting of the Fair Value Option in accordance with the International Accounting Standard 39 on Financial Instruments: Recognition and measurement, or the amendments thereof as details specified in Attachment 3 for the following instruments:

(a) Debt instruments

- Accumulated gains occurred from a decrease in fair value of debt instruments due to increases in commercial banks' own credit spread or from unreliable fair value measurement, commercial banks shall deduct it from the regulatory capital.

- Accumulated losses occurred from an increase in fair value of debt instruments due to decreases in commercial banks' own credit spread or unreliable fair value measurement, commercial banks shall add it back to the regulatory capital.

(b) Loans or financial asset instruments

- Accumulated gains occurred from an increase in fair value arising from unreliable fair value measurement, commercial banks shall deduct it from the capital.

- Accumulated losses occurred from a decrease in fair value arising from unreliable fair value measurement, commercial banks shall add it back to the capital.

(2.3) Accumulated gains (losses) occurred from any changes in commercial banks' own creditworthiness (Debit valuation adjustment: DVA) in accordance with Thai Financial Reporting Standard No. 13 on Fair Value Measurement. If there is a gain from commercial banks' own creditworthiness deteriorates (credit risk increases), the commercial banks shall deduct it from the regulatory capital. But, if there is a loss from commercial banks' own creditworthiness elevates (credit risk decreases), the commercial banks shall add it back to the regulatory capital.

(2.4) Other items as specified by the Bank of Thailand

(3) Items to be deducted from CET1:

(3.1) Net loss from each accounting period[1]; to be immediately deducted at the end of that accounting period

(3.2) Goodwill as shown as asset in the financial statements prepared in accordance with the generally accepted accounting standards, including any goodwill included in the equity investments of companies operating in financial business and financial supporting business[2], in accordance with accounting standards. The amount shall be net asset value after offsetting related deferred tax liability.

(3.3) Intangible assets[3], other than goodwill as shown as assets in the financial statements prepared in accordance with the generally accepted accounting standards. The amount shall be net asset value after offsetting related deferred tax liability.

(3.4) Deferred tax assets (DTA) as shown as assets in the financial statements prepared in accordance with the generally accepted accounting standards. The amount shall be net asset value after offsetting by related deferred tax liability (DTL), as follows;.

(a) Unused portion of tax loss carry-forward;

(b) Temporary differences between accounting value of assets or liabilities in the statement of financial position and tax position, or temporary differences between accounting profits and tax profits, such as allowance for doubtful accounts;

(C) Unused tax credits carryforward;

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[1] Including net loss from the calculation of the net value in total of the accounting items to be adjusted with retained earnings in accordance with the accounting standards, such as an adjustment transaction arising from re-measurement of the defined employee benefit projection using the actuarial techniques in accordance with the Accounting Standard No. 19 on Employee Benefits, and any adjustment for accounting errors, etc.

[2] Commercial banks shall refer to a definition of financial business and financial supporting business as specified in the Notification of the Bank of Thailand Re: Regulations on Consolidated Supervision.

[3] A definition of intangible assets shall refer to the generally accepted accounting standards but excluding leasehold rights.

To clarify, DTL to be deducted from DTA in 5.4.1 (3.4) shall not include DTL related to goodwill and intangible assets which have already been used in 5.4.1 (3.2) and 5.4.1 (3.3).

(3.5) Shortfall of provisions only in the case where commercial banks apply the Internal Rating-Based Approach (IRB Approach) for the calculation of credit risk-weighted assets in accordance with the regulations specified in the Notification of the Bank of Thailand Re: Regulations on the Caculation of Credit Risk-Weighted Assets for Commercial Banks under the IRB Approach.

In this respect, shortfall of provisions means the difference between expected loss (EL) and total eligible provision, only in the case where the total eligible provision is less than the expected loss.

(3.6) Gains occurred from securitisation transactions that results in an increase of commercial banks' capital; where the commercial banks operate in relevant businesses in securitisation process and expect to receive future margin income.

(3.7) Proceeds paid by commercial banks for own stock buyback under the Public Limited Companies Act and in accordance with the accounting standard on treasury stock.

(3.8) Reciprocal cross holding of equity instruments between commercial banks and companies operating in financial business or financial supporting business[2] that is intended artificially inflate the capital position of commercial banks, commercial banks shall fully deduct such portion of cross holding investment from capital. This also includes the investments in warrants of such companies.

(3.9) Investments in equity instruments[4] of finance companies and credit foncier companies, including warrants of such companies for both direct and indirect[5] investments.

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[4] Including all investments in banking and trading books. In the case where commercial banks invest in equity instruments of such companies (long position) while having transactions to sell such instruments (short position), commercial banks shall offset such positions, provided that the positions are identical (in opposite direction) and of the same type of investment: direct / indirect investment only.

[5] Indirect investment in this Notification means the case where commercial banks have positions on derivatives for debt and equity instruments, which commercial banks are the buyers of such instruments or it is likely that commercial

(3.10) Investments in equity instruments and warrants issued by companies operating in financial business and financial supporting business[2], except companies under the scope of regulatory consolidation (full consolidation), companies providing supporting functions for financial institution systems or companies acquired from debt restructuring[6], commercial banks shall consider the following proportions of shareholding in order to calculate an amount of investments to be deducted from Common Equity Tier 1.

(a) In the case where commercial banks do not own more than 10% of the issued common shares of such company, the calculation shall be as follow:

- Commercial banks shall compare the sum of direct and indirect[5] investments in equity instruments[4], warrants, and eligible financial instruments qualified as Tier 1[7] and Tier 2[8] capital of the companies as specified in 5.4.1 (3.10) (A) with 10% of commercial banks' Net Common Equity Tier 1[9]. In consequence, commercial banks shall use the sum of such investments, only the amount exceeding 10% of Net Common Equity Tier 1 to be deducted from their capitals by applying a corresponding deduction approach (Pro-rata basis), as detailed in Example 1 in Attachment 4.

- The sum of investments that do not exceed 10% of commercial banks' Net Common Equity Tier 1[9], commercial banks shall include this amount in the calculation of risk-weighted assets in proportion to an investment in each company (pro-rata basis), as detailed in Example 1 in Attachment 4. For investments in the banking book, commercial banks shall apply the methods as specified in the Notification of the Bank of Thailand Re: Regulations on the Calculation of Credit Risk-

banks will end up to buy such instruments in the future (long position), excluding such instrument investments through mutual funds or related persons of commercial banks.

[6] Including (1) companies operating in financial supporting business to facilitate the business operations of financial institutions and overall financial institution system, such as National Credit Bureau Co., Ltd., National ITMX Co., Ltd. etc. (2) companies acquired from debt restructuring and (3) companies under liquidating process

[7] In the case that insurance company and securities company could issue financial instruments qualified as Tier 1 capital, and commercial banks invest in such instruments

[8] In the case that insurance company and securities company could issue financial instruments qualified as Tier 2 capital, and commercial banks invest in such instruments

[9] In this case, Net Common Equity Tier 1 means Net Common Equity Tier 1 of commercial banks after being deducted by items under 5.4.1 (3.1) – (3.9)

Weighted Assets for Commercial Banks under the Standardised Approach (SA) or the Notification of the Bank of Thailand Re: Regulations on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Internal Ratings-Based Approach (IRB). For investments in the trading book, commercial banks shall apply the methods as specified in the Notification of the Bank of Thailand Re: Regulations on Supervision of Market Risk and Capital Requirements for Market Risk of Financial Institutions.

(b) In the case where commercial banks own more than 10% of the total issued common shares of each companies:

- Commercial banks shall compare the sum of direct and indirect[5] investments in equity instruments[4] and warrants of the companies in 5.4.1 (3.10) (B) with 10% of commercial banks' Net Common Equity Tier 1[10]. In consequence, commercial banks shall use the sum of such investments only for the amount exceeding 10% of Net Common Equity Tier 1 to be deducted from Common Equity Tier 1 by applying a corresponding deduction approach (Pro-rata basis), as detailed in Example 2 in Attachment 4.

- The sum of the investments that do not exceed 10% of Net Common Equity Tier 1[10], commercial banks shall include this amount in the calculation of risk-weighted assets in proportion to an investment in each company (Pro-rata basis), as detailed in Example 2 in Attachment 4. For investments in the banking book, commercial banks shall apply the methods as specified in the Notification of the Bank of Thailand Re: Regulations on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Standardised Approach (SA) or the Notification of the Bank of Thailand Re: Regulations on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Internal Ratings-Based Approach (IRB). For investments in the trading book, commercial banks shall apply the methods as specified in the Notification of the Bank of Thailand Re: Regulations on Supervision of Market Risk and Capital Requirements for Market Risk of Financial Institutions. If a risk weight under the

[10] In this case, Net Common Equity Tier 1 means Net Common Equity Tier 1 of commercial banks after being deducted by items under 5.4.1 (3.1) – (3.10) (A)

aforementioned notifications[11] is less than 250%, commercial banks shall apply the risk weight of 250% instead.

(3.11) Other items as specified by the Bank of Thailand

(3.12) Tier 1 capital shortfall, where commercial banks do not have sufficient Additional tier 1 capital to satisfy all deductions

5.4.2 Eligible financial instruments qualified as Tier 1 capital (Additional Tier 1), consists of items eligible for Additional Tier 1 after deducted the specified items; as follows:

(1) Items eligible for Additional Tier 1:

(1.1) Non-cumulative preferred shares issued by commercial banks and proceeds received from warrants of such preferred shares

(1.2) Debt instruments issued by commercial banks with claims subordinated to depositors, general creditors and other subordinated debts, including debt instruments qualified as Tier 2 capital

(1.3) Premiums (or discounts) resulting from the issue of such instruments under (1.1) and (1.2) received by commercial banks[12]

Additional Tier 1 shall meet all criteria as specified in Attachment 5, and commercial banks shall submit a request for the inclusion of such instruments as Additional Tier 1 capital to the Financial Institution Applications Department, Bank of Thailand.

(2) Items to be deducted from Additional Tier 1:

(2.1) Buy-back of Additional Tier 1 issued by commercial banks; in the case where commercial banks would like to buy back Additional Tier 1,

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[11] In this context which depends on each case; are the Notification of the Bank of Thailand Re: Regulations on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Standardised Approach (SA), or the Notification of the Bank of Thailand Re: Regulations on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Internal Ratings-Based Approach (IRB), or the Notification of the Bank of Thailand Re: Regulations on Supervision of Market Risk and Capital Requirements for Market Risk of Financial Institutions.

[12] Only for the premium (discount) on par value received from the first-time offering of such instruments could be included.

commercial banks are required to comply with the regulations as specified in Attachment 5.

(2.2) Reciprocal cross holding of Additional Tier 1 between commercial banks and companies operating in financial business or financial supporting business[2] that is designed to artificially inflate the capital position of commercial banks, commercial banks shall fully deduct the whole amount of investments in Additional Tier 1 of such companies from commercial banks' own capital.

(2.3) Direct and indirect[13] investments in Additional Tier 1 of other commercial banks or other finance companies

(2.4) Direct and indirect5 investments4 in Additional Tier 1 of companies operating in financial business and financial supporting business2 with the exception of companies under the scope of regulatory consolidation (full consolidation), companies providing supporting functions for the financial institution system, and companies acquired from debt restructuring6, only in the case where commercial banks do not hold shares more than 10% of the total issued common shares of each company, commercial banks shall deduct amount from Additional Tier 1,by applying a corresponding deduct approach as specified in 5.4.1 (3.10) (A)

(2.5) Direct and indirect[5] investments[4] in Additional Tier 1 of companies operating in financial business and financial supporting business with the exception of such companies under the scope of regulatory consolidation (full consolidation), companies providing supporting functions for the financial institution system, and companies acquired from debt restructuring[6], only in the case where commercial banks hold shares more than 10% of the total issued common shares of each company, commercial banks shall fully deduct such investments from Additional Tier 1.

(2.6) Other items as specified by the Bank of Thailand

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[13] Indirect investments in eligible instruments qualified as Tier 1 capital of commercial banks or other finance companies include the following cases: (1) Commercial banks are the seller of credit linked notes or credit default swaps which underlying assets are eligible instruments qualified as Tier 1 capital of other financial institutions or (2) Commercial banks engage in debt derivatives which underlying assets are eligible financial instruments qualified as Tier 1 capital of other financial institutions, where commercial banks are the buyer of such debt instruments or it is likely that commercial banks will end up to receive such instruments in the future.

(2.7) Tier 2 capital shortfall, where commercial banks do not have sufficient Tier 2 capital to satisfy all deductions

5.5 <u>Tier 2 capital</u>

Tier 2 capital consists of eligible financial instruments qualified as Tier 2 capital, general provisions and surplus of provisions after deducted by the specified items, as follows:

5.5.1 Eligible instruments qualified as Tier 2 capital:

(1) Cumulative preferred shares issued by commercial banks and the proceeds received from warrants of such preferred shares

(2) Debt instruments issued by commercial banks with claims subordinated to depositors and general creditors

(3) Premiums (or discounts) resulting from the issue of such instruments under (1) and (2) received by commercial banks[12]

Eligible financial instruments qualified as Tier 2 capital shall meet all criteria as specified in Attachment 6, and commercial banks shall submit a request for the inclusion of such instruments in Tier 2 capital to the Financial Institution Applications Department, Bank of Thailand.

5.5.2 General provision

General provision is the provision held against assets classified as pass excluding any provision held against assets classified as pass which is already counted as specific provision[14]. The general provision shall be in accordance with the Notification of the Bank of Thailand Re: Regulations on Assets Classification and Provisioning of Financial Institutions. General provision is eligible for inclusion in Tier 2 capital, as follows:

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[14] Specific provision means a provision ascribed to identified deterioration of any particular assets and off-balance sheet items, including a decrease occurred from market value adjustments of debts and equity instruments holding for the purpose of trading and available for sale as well as any allowance for impairment, but excluding general provision that has already been included in Tier 2 capital.

(1) Commercial banks that opt to calculate credit risk-weighted assets using the Standardised Approach (SA) may include general provision as Tier 2 capital with a limit to the maximum of 1.25% of credit risk-weighted assets

(2) Commercial banks that opt to calculate credit risk-weighted assets using the Internal Ratings-Based Approach (IRB) may include general provision allocated to asset portfolios using the SA as Tier 2 capital with a limit to the maximum of 1.25% of credit risk-weighted assets calculated under the SA in accordance with the Notification of the Bank of Thailand Re: Regulations on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the IRB.

The amount of credit risk-weighted assets shall be in accordance with the Notification of the Bank of Thailand Re: Regulations on Capital Supervision for Commercial Banks.

5.5.3 Surplus of provision

Commercial banks may include the surplus of provision as Tier 2 capital up to a maximum of 0.6 percent of credit risk-weighted assets calculated using the IRB as specified in the Notification of the Bank of Thailand Re: Regulations on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the IRB.

The surplus of provision means the excess amount of total eligible provision that is greater than expected loss (EL).

5.5.4 Items to be deducted from Tier 2 capital:

(1) Buy-back of Tier 2 instruments issued by commercial banks; in the case where commercial banks would like to buy back Tier 2 instruments, commercial banks are required to comply with the regulations as specified in Attachment 6.

(2) Reciprocal cross holdings of Tier 2 financial instruments between commercial banks and companies operating in financial business or financial supporting business[2] that is designed to artificially inflate the capital position of commercial banks, commercial banks shall fully deduct the whole amount of investments in Tier 2 instruments of such companies from commercial banks' own capital.

(3) Direct and indirect[15] investments in Tier 2 instruments of commercial banks or other finance companies

(4) Direct and indirect[5] investments[4] in Tier 2 instruments of companies operating in financial business and financial supporting business with the exception of such companies under the scope of regulatory consolidation (full consolidation), companies providing supporting functions for the financial institution system, and companies acquired from debt restructuring[6], only in the case where commercial banks do not hold shares more than 10% of the total issued common shares of each company, commercial banks shall deducted the amount from Tier 2 capital by applying a corresponding deduction approach ,as specified in 5.4.1 (3.10) (A)

(5) Direct and indirect[5] investments[4] in Tier 2 instruments of companies operating in financial business and financial supporting business with the exception of such companies under the scope of regulatory consolidation (full consolidation), companies providing supporting functions for the financial institution system, and companies acquired from debt restructuring[6], only in the case where commercial banks hold shares more than 10% of the total issued common shares of each company, commercial banks shall fully deduct such investments from Tier 2 capital.

(6) Other items as specified by the Bank of Thailand

5.6 <u>Timing for regulatory adjustments</u>

Timing for regulatory adjustment to Tier 1 and Tier 2 capital is specified in Attachment 7.

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[15] Indirect investments in eligible instruments qualified as Tier 2 capital of commercial banks or other finance companies include the following cases: (1) Commercial banks are the seller of credit linked notes or credit default swaps which underlying assets are eligible instruments qualified as Tier 2 capital of other financial institutions or (2) Commercial banks engage in debt derivatives which underlying assets are eligible financial instruments qualified as Tier 2 capital of other financial institutions, where commercial banks are the buyer of such debt instruments or it is likely that commercial banks will end up to receive such debt instruments in the future.

5.7 Transitional arrangements

(1) For eligible financial instruments qualified as capital issued before 1 January 2013 (B.E.2556) but do not meet all criteria as specified in Attachment 5 and Attachment 6, commercial banks shall gradually deduct or phase out such instruments according to the details as specified in Attachment 8.

(2) For the following items to be included in Common Equity Tier 1 under 5.4.1 (1.5), or to be deducted from Common Equity Tier 1 under 5.4.1 (3), or to be deducted from Additional Tier 1 under 5.4.2 (2) or, to be deducted from Tier 2 capital under 5.5.4, commercial banks shall include or deduct such items in/from their capital according to the details as specified in Attachment 9.

(2.1) Gains (losses) from fair value measurement of AFS (available for sale) debt instruments

(2.2) Gains (losses) arising from translating the financial statements of a foreign operation

(2.3) Gains (losses) from fair value measurement of derivatives used for hedging risks incurred from a net investment in a foreign operation

(2.4) Intangible assets

(2.5) Gain on sale related to securitisation transactions

(2.6) Investments in companies operating in financial business and financial supporting business according to 5.4.1(3.1)(A) and (B), 5.4.2 (2.4) and (2.5), and 5.5.4 (4) and (5)

For the items (2.4) and (2.6), the remaining portion that has not been due for the deduction, commercial banks shall calculate risk-weighted assets in accordance with the Notification of the Bank of Thailand on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Standardised Approach (SA) or the Notification of the Bank of Thailand on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Internal Ratings-Based Approach (IRB), for the items i the banking book, and in accordance with the Notification of the Bank of Thailand Re: Regulations on Supervision of Market Risk and Capital Requirements for Market Risk of Financial Institutions for the items in the trading book.

6. Effective Date

This Notification shall come into effect on the day followed its publication in the Government Gazette.

Announced on 8th May 2015

(Mr. Prasarn Trairatvorakul)
Governor
Bank of Thailand

Attachment 1

Criteria for inclusion of equity instruments in Common Equity Tier 1 (CET 1)

Common Equity Tier 1 means common shares and warrants of such commercial banks' shares to be met with all following criteria:

1. Represent the most subordinated claims in liquidation of the commercial banks.

2. Entitled to a claim on the residual assets that is proportional with issued commercial banks' shares after all senior claims have been repaid in liquidation.

3. Principal is perpetual and never repaid outside of liquidation (Except where shares Buy back is allowable under relevant law).

4. Does not create an expectation at issuance that the instruments will be bought back, redeemed or cancelled nor do the contractual terms provide any feature which might give rise to such an expectation.

5. There are no circumstances under which the distributions are obligatory. Non-payment is therefore not considered as an event of default.

6. Distributions are paid only after all legal and contractual obligations have been met and payments on more senior capital instruments have been made. This means that there are no preferential distributions.

7. Able to take the first and proportionately greatest share of any losses as they occur. Within the highest quality capital, each instrument absorbs losses on a going concern basis proportionately and pari passu with all the others.

8. The paid in amount is recognised as shareholders' equity in the statement of financial position.

9. Such instrument is classified as shareholders' equity in accordance with relevant Thai accounting standards.

10. Commercial banks have received -in full paid-in amount from issuing the instruments, where commercial banks shall not directly or indirectly have funded or supported the purchase of their own equity instruments. For example, in the case that subsidiaries or related persons of commercial banks purchase equity instruments of the

commercial banks, the Bank of Thailand shall not allow commercial banks to count such paid in amount from issuing such instruments invested by their subsidiaries or related persons, as capital.

11. Neither secured by collaterals, nor covered by guarantees or insurance of commercial banks or related persons of commercial banks that legally or economically enhances the seniority of the claim.

12. Only issued with the approved resolutions from the Meeting of shareholders or the board of directors of commercial banks, or persons appointed by the Meeting of shareholders of commercial banks in accordance with applicable laws.

13. Clearly and separately disclosed on the statement of financial position of commercial banks.

Attachment 2

Regulation on revaluation surplus on lands, buildings or units in condominiums to be counted as Common Equity Tier 1 of commercial banks

Commercial banks may include revaluation surplus on lands, buildings or units in condominiums in their Common Equity Tier 1 in accordance with the following regulations:

1. <u>Regulations on inclusion of revaluation surplus on lands, buildings or units in condominiums as Common Equity Tier 1</u>

Commercial banks shall request approval from the Bank of Thailand for an inclusion of revaluation surplus on lands, buildings or units in condominiums, which are parts of the shareholders' equity (other comprehensive income) in their Common Equity Tier 1.

Commercial banks may include such revaluation surplus up to the maximum of 100% of the increased value over the cost price but not exceeding to an amount approved by the Bank of Thailand. The net value after deducted by relevant income tax at the end of the month shall be applied.

2. <u>Revaluation method</u>

The revaluation process and accounting methods of lands, buildings or units in condominiums shall be conducted in accordance with relevant accounting standards.

3. <u>For the inclusion of increases in revaluation surplus on lands:</u> Commercial banks shall comply with following conditions:

3.1 Lands on which their revaluation surplus could be included in Common Equity Tier 1 shall meet all of the following criteria:

(1) Lands utilised for own operating business or for accommodation of employees of commercial banks or for welfare of employees of commercial banks in accordance with 80(2)(A) of the Financial Institutions Business Act B.E. 2551.

(2) Commercial banks shall have the sole proprietary or sole possession right in accordance with land's title deed and such land is not subject to any lien or encumbrance.

(3) Lands either located in this jurisdiction or other jurisdictions with the revaluation no longer than 6 months from the date shown in the revaluation reports issued by external appraisers in accordance with 3.2.

3.2 Commercial banks shall use the qualified external appraisers as specified in the Policy Statement of the Bank of Thailand on Appraisal of Collaterals and Non-performing Assets Acquired from Debt Repayment of Financial Institutions. The external appraisers shall be independent (without any relationship or any interest related to commercial banks).

For an application to include revaluation surplus on lands in other jurisdictions in Common Equity Tier 1, commercial banks shall hire external appraisers or external specialists in the jurisdiction where the land is located. The revaluation must be approved by an external auditor of commercial bank's branch in such jurisdiction.

3.3 When submitting the application, the commercial banks shall include every plot of lands in accordance with 3.1 simultaneously on a regular basis. The application could not be submitted more than once every 3-year.

3.4 Commercial banks shall report the inclusion of revaluation surplus on lands in Common Equity Tier 1, using Table 1 in this Attachment and shall clearly show the calculation of increases in revaluation on every plot of lands in accordance with 3.1, using Table 2 in this Attachment. Commercial banks shall also explain revaluation criteria and relevant information for the calculation. In the case where lands consist of several title deeds and where each deed has different revaluation values, commercial banks shall express an area of such lands in square wah including price per square wah for each title deed.

Revaluation on lands shall be approved by the external auditors of commercial banks whether such revaluation method and accounting practices are in accordance with the guidelines specified by the Bank of Thailand and Thai accounting standards.

3.5 When submitting an application for approval to include the revaluation surplus on lands in Common Equity Tier 1, commercial banks shall attach the following evidences as supplements to the application:

(1) A report showing the inclusion of revaluation surplus on lands in Common Equity Tier 1 using the Table 1 in this Attachment.

(2) A report showing the calculation of revaluation surplus on lands using Table 2 in this Attachment.

(3) Photocopies of title deeds showing the proprietary or possession rights on lands, only those of a head quarter and extensions to the head quarter e.g. training centres and branches in other jurisdictions

(4) A report showing details of revaluation on land from external appraisers in accordance with 3.2, only those of a head quarter and extensions to the head quarter e.g. training centres and branches in other jurisdictions

(5) Opinions from external auditors of commercial banks to confirm that such revaluation on land is in accordance with the regulations of the Bank of Thailand, and the related procedures and accounting practices are in accordance with generally accepted accounting standards

In addition, commercial banks shall keep all records relating to such revaluation on land at their offices for any further examination of the Bank of Thailand, or submit photocopies of such documents to the Bank of Thailand upon request.

3.6 After receiving an approval from the Bank of Thailand, commercial banks shall include revaluation surplus on land, only the approved amount, in Common Equity Tier 1 (by showing as an item in other comprehensive income of shareholders' equity). The amount to be shown shall be the net value after deducted by relevant income tax and commercial banks shall also report such amount in the Data Management System (DMS).

3.7 In the case where the book value of land, which had been revaluated and approved to include the revaluation surplus in Common Equity Tier 1, is decreased due to asset impairment, commercial banks shall deduct such decreased amount from relevant items in other comprehensive income of shareholders' equity, resulting in the decrease in Common Equity Tier 1 at the same proportion. Commercial banks are also required to notify the Bank of Thailand within 7 days from the end of that month.

3.8 In the case where commercial banks no longer utilise or sell lands that had been revaluated and the revaluation surplus had been included in Common Equity Tier 1, commercial banks shall report the termination of utilisation or sales of such lands to the Bank of Thailand within 7 days from the end of the month that such lands are recorded as properties for sale or the transfer of rights is registered. The revaluation surplus that had been included in Common Equity Tier 1 shall be fully derecognised at the end of that month.

4. For the inclusion of revaluation surplus on buildings or units in condominium, commercial banks shall comply with the following conditions:

4.1 Buildings or units in condominiums that the revaluation surplus could be included in Common Equity Tier 1 shall meet all of the following criteria:

(1) The buildings or units in condominiums are built on the land which commercial banks have proprietary or possession rights according to land's title deed and such lands are not subject to any lien or encumbrance.

(2) The buildings or units in condominiums shall be utilised for own operating business or for accommodation of employees of commercial banks or for welfare of employees of commercial banks in accordance with Section 80(2)(A) of the Financial Institutions Business Act B.E. 2551.

(3) Commercial banks shall have sole proprietary of the buildings or units in condominiums without any lien or encumbrance.

(4) The buildings or units in condominiums shall be covered by fire insurance in full value and commercial banks are the sole beneficiary of claims.

(5) The buildings or units in condominium either located in this jurisdiction or other jurisdictions with the revaluation no longer than 6 months from the date shown in the revaluation report issued by the external appraisers as specified in 4.2.

4.2 Commercial banks shall use qualified external appraisers as specified by the Bank of Thailand in the Policy Statement of the Bank of Thailand on Appraisal of Collaterals and Non-performing Assets Acquired from Debt Repayment of Financial Institutions. The external appraisers shall be independent (without any relationship or any interest related to commercial banks).

For an application to include the revaluation surplus on buildings or units in condominiums in other jurisdictions in Common Equity Tier 1, commercial banks shall hire external appraisers or external specialists in the jurisdiction where a building or unit in condominium is located. The revaluation must be approved by an external auditor of a commercial bank's branch in such jurisdiction

4.3 When submitting the application for buildings or units in condominiums, the commercial banks shall include every building or unit in condominiums that is in accordance with 4.1 simultaneously on a regular basis. The application could not be submitted more than once every 3-year.

4.4 Commercial banks shall report the inclusion of revaluation surplus on buildings and units in condominiums in Common Equity Tier 1, using Table 1 in this Attachment. The calculation of value of buildings or units in condominiums and the calculation of increases in revaluation surplus on buildings or units in condominiums in accordance with 4.1 shall be shown in Table 3 in this Attachment as well as the revaluation criteria and relevant information for the calculation.

In any case, the revaluation of buildings and units in condominiums shall be approved by an external auditors of commercial banks whether such revaluation method and accounting practices are in accordance with the guidelines specified by the Bank of Thailand and Thai accounting standards.

4.5 When submitting an application for approval to include the increases in revaluation surplus on buildings or units in condominiums in Common Equity Tier 1, commercial banks shall attach the following evidences as supplements to the application:

(1) A report showing the inclusion revaluation surplus on buildings and units in condominiums in Common Equity Tier 1 using Table 1 in the Attachment 1.

(2) A report showing the calculation of revaluation surplus on buildings and units in condominiums using Table 3 in the Attachment.

(3) Photocopies of documents showing the proprietary or possession rights in units in condominiums, only those of a head quarter and extensions to the head quarter e.g. training centres and branches in other jurisdictions

(4) Photocopies of documents showing the proprietary or possession rights in land where the building is located, only those of a head quarter and extensions to the head quarter e.g. training centres and branches in other jurisdictions

(5) Photocopies of fire insurance policies in accordance with 4.1 (4)

(6) A report showing details of revaluation on buildings and units in condominiums prepared by an external appraisers in accordance with 4.2, only those of a

head quarter and extensions to the head quarter e.g. training centres and branches in other jurisdictions

(7) Opinions from external auditors of commercial banks to confirm that such revaluation on buildings or units in condominiums is in accordance with the regulations of the Bank of Thailand and the related procedures and accounting practices are in accordance with generally accepted accounting standard.

In addition, commercial banks shall keep all records relating to such revaluation on buildings or units in condominiums at their offices for any further examination of the Bank of Thailand, or submit photocopies of such documents to the Bank of Thailand upon request.

4.6 After receiving an approval from the Bank of Thailand, commercial banks shall include revaluation surplus on buildings or units in condominiums, only the approved amount, in Common Equity Tier 1 (by showing as an item in other comprehensive income of shareholders' equity). The amount to be included shall be the net value after relevant income tax and commercial banks shall also report such amount in the Data Management System (DMS).

In addition, commercial banks shall deduct the depreciation of the buildings which the increases in revaluation surplus had been approved to include in Common Equity Tier 1 from relevant items of other comprehensive income in shareholder's equity. This results in the decrease of Common Equity Tier 1 at the same proportion to the deducted amount by depreciation as shown in the surplus on asset revaluation account.

4.7 In the case where the book value of the buildings or units in condominiums, which had been revaluated and approved to include the increases in revaluation surplus in Common Equity Tier 1, is decreased due to asset impairment, commercial banks shall deduct such decreased value from relevant items in other comprehensive income of shareholder's equity, resulting in the decrease in Common Equity Tier 1 at the same proportion to the amount of impairment at the end of that month. Commercial banks are also required to notify this situation to the Bank of Thailand within 7 days from the end of that month.

4.8 In the case where commercial banks no longer utilise or sell buildings or units in condominiums that had been revaluated and the increases in revaluation surplus had been included in Common Equity Tier 1, commercial banks shall report the termination of utilisation or sales of such buildings or units in condominiums to the Bank of Thailand within 7 days from the end of the month that such buildings or units in condominiums are recorded as properties for sale or the transfer of rights is registered. The increases in revaluation surplus that had been included in Common Equity Tier 1 shall be fully derecognised at the end of that month.

5. In the case where commercial banks write off worthless or irrecoverable assets (assets classified as Doubtful of Loss) from the accounts or under-record provisions for such assets in accordance with Section 60 of the Financial Institutions Business Act B.E. 2551, commercial banks are required to deduct the value of such assets only for the amount that has not yet been written off from the accounts or the amount that the provision has not been covered from the increases in revaluation surplus on lands under 3.6 and the increases in revaluation surplus on buildings and units in condominiums under 4.6 before included in Common Equity Tier 1.

In the case where there are decreases of worthless or irrecoverable assets that has not yet been written off from the accounts or increases in the provision for such assets, commercial banks shall show details of the inclusion of increases in revaluation surplus in Common Equity Tier 1 using Table 1 in the Attachment. If commercial banks would like to include more amount of the increases in revaluation surplus in Common Equity Tier 1, commercial banks shall notify the Bank of Thailand by showing details in such Table.

6. <u>The calculation of increases in revaluation surplus in foreign currencies</u>

When revaluating lands, buildings and units in condominiums located in other jurisdictions, commercial banks shall calculate the increases in revaluation surplus in foreign currencies, then convert into Thai Baht by using the exchange rate in accordance with the Notification of the Bank of Thailand Re: Guidance on Accounting Practices for Financial Institutions at the end of the reporting month.

Table1

Bank..............................

The inclusion of revaluation surplus on lands, buildings and units in condominiums in Common Equity Tier 1

For the year ....

Items / No.	Unit : Baht
1 revaluation surplus on lands under Table 2	....
2 revaluation surplus on buildings and units in condominiums under Table 3	....
3 <u>Less</u> worthless or irrecoverable assets that has not yet been written off from the accounts or worthless or irrecoverable assets without fully covered provisions	(..................)
4 revaluation surplus on lands, buildings and units in condominiums to be included in Common Equity Tier 1	....

Hereby to certify that this report is true in all respects

Authorised signature...

(...)

Position ....

Table 2

Bank ....

The calculation of revaluation surplus on land for the year ....

Unit : Baht

No.	Branch no.	Type of office: Name of branch/ department	Location	Document indicating rights (1.4)		Area (square Wah)	Land with revaluation surplus that is (not) included in capital	Price per square wah (2)		Value (3)			Increases (decreases) in appraised value (4)		Income tax relating to changes in revaluation surplus on land	revaluation surplus to be included in capital (after deducted by income tax relating to changes in revaluation surplus) (4.1) - (5) =	Appraisal company (7)	
				Type	No.			Previous Revaluation	New Revaluation	Original cost	Previous revaluation value	New revaluation value	Value increased from original cost (3.3) - (3.1) =	Value decreased from original cost (3.1) – (3.3) =			Previous	Current
	(1.1)	(1.2)	(1.3)	(1.4.1)	(1.4.2)	(1.5)	(1.6)	(2.1)	(2.2)	(3.1)	(3.2)	(3.3)	(4.1)	(4.2)	(5)	(6)	(7.1)	(7.2)
1	xxxx	Head quarter																
					Total													
2	xxxx	xxxxxxx																
					Total													
		Total value for all domestic offices																

Note: 1) For document indicating rights in land, in the case of not being the sole owner, commercial banks shall specify that it is joint rights.

2) Commercial banks shall submit the information in this Table in Excel formatted file enclosed with an application

Hereby to certify that this report is true in all respects

Authorised signature....................................

(.......................................)

Position ....

Table3

Bank ....

The calculation of revaluation surplus on buildings / units in condominiums for the year ....

Unit: Baht

No.	Information of building / unit in condominium (1)											Original book value (2)						Revaluation on building/unit in condominium (3)		Coverage of fire insurance policy	Increases (decreases) in revaluation value (5)		Income tax relating to changes in revaluation surplus on building / unit in condominium	revaluation surplus to be included in capital (after deducted by income tax relating to changes in revaluation surplus)	Depreciation in each year 8))		Appraisal company 9))	
	Branch no.	Type of office: Name of branch/ department	Location	Document indicating rights in building / unit in condominium (1.2)		Document indicating rights in land where the building is located (1.3)		Useful life (years) (1.4)			Building with revaluation surplus that is (not) included in capital	Original cost including building improvement	Accumulated depreciation of original cost including improvement	Net original cost	revaluation surplus (before deducted by accumulated depreciation)	Accumulated depreciation for revaluation surplus	Net book value (2.1) + (2.4) - (2.2) - (2.5) =	Previous revaluation value	New revaluation value		Increase (3.2)-(2.3)=	Decrease (3.2)-(2.3)=		(5.1)-(6) =	For a part that is original cost including improvement	For a part that is revaluation surplus	Previous	Current
				Type	No.	Type	No.	Before accounting record	Remaining before revaluation	Remaining according to revaluation																		
			(1.1)	(1.2.1)	(1.2.2)	(1.3.1)	(1.3.2)	(1.4.1)	(1.4.2)	(1.4.3)	(1.5)	(2.1)	(2.2)	(2.3)	(2.4)	(2.5)	(2.6)	(3.1)	(3.2)	(4)	(5.1)	(5.2)	(6)	(7)	(8.1)	(8.2)	(9.1)	(9.2)
1	xxxx																											
2	xxxx																											
3	xxxx																											
Total value for all domestic offices																												

Note: 1) For document indicating rights in land, in the case of not being the sole owner, commercial banks shall specify that it is joint rights

2) The coverage of fire insurance shall include the revaluation value for such buildings/units in condominium in order to include full amount in capital

3) Commercial banks shall submit the information in this Table in Excel formatted file enclosed with an application

Hereby to certify that this report is true in all respects

Authorised signature....................................

(..)

Position ....

Attachment 3

Guidelines for commercial banks in adopting the Fair Value Option (FVO) approach in accordance with the accounting standards on recognition and measurement of financial instruments (IAS39: Financial Instruments: Recognition and Measurement)

Any commercial banks with capabilities and readiness to adopt the fair value option approach as the alternative approach in their accounting in accordance with IAS39, such commercial banks shall inform the Bank of Thailand within 15 days prior to the starting date of using the fair value option approach by submitting applications along with supplementary documents, at the minimum, as specified by the Bank of Thailand to the Financial Institution Applications Department, the Bank of Thailand. The Bank of Thailand may request for additional information or other supplementary documents. In adopting the fair value option approach in accordance with IAS39, commercial banks shall consider the following issues, at the minimum:

A. <u>Guidelines for commercial banks to consider when adopting fair value option approach:</u>

1. Commercial banks must fully comply with the conditions and guidelines for adopting fair value option approach in accordance with the accounting standards, whose essence is summarised as follows:

1.1 Commercial banks shall have clear policies to identify which financial assets or financial liabilities to use the fair value option approach from the first day of inception; such approach cannot be revoked or changed over the life of the financial assets or financial liabilities. Specifically, one of the following conditions must be met:

1.1.1 Commercial banks may adopt the fair value option approach in order to reduce the volatility in profits or losses incurred from different accounting approaches between financial assets and financial liabilities (Accounting mismatch), or

1.1.2 Commercial banks may adopt the fair value option approach in order to manage and evaluate portfolios of financial assets or financial liabilities in accordance with the written risk management policies or investment policies as approved by the board of directors of commercial banks, or

1.1.3 Commercial banks may adopt the fair value option approach for financial instruments with embedded derivatives.

1.2 Commercial banks must disclose information relevant to the fair value option approach as required by the principles set forth in the International Financial Reporting Standard 7 (IFRS 7) or in accordance with Thai accounting standards as the Federation of Accounting Professions will publish to be in line with IFRS 7.

1.3 Commercial banks shall study and analyse impact of adopting fair value option approach on the value of financial assets and liabilities from the first day of adoption, and profits (losses) from the fair value option approach that will affect retained earnings and capital of commercial banks.

1.4 Commercial banks shall consult with and ask for opinion from their certified external auditors with regards to adoption of the fair value option approach.

2. Prior to adopting of the fair value option approach for financial instruments for any purpose, commercial banks are required to have appropriate risk management systems in place as well as the comprehensive risk management policy specifying adoption of the fair value option approach and procedures to manage volatility in gains (losses) that may arise from such approach, in order to ensure that:

- Objectives of risk management when adopting the fair value option approach are consistent with the overall risk management framework and risk tolerance levels approved by the board of directors of commercial banks.

- Fair value measurement method used by commercial banks to measure the value of financial instruments is appropriate and consistent with the guidelines specified in relevant notifications of the Bank of Thailand.

- The fair value of a financial instrument is reliable.

- Commercial banks shall comply with risk management and risk controlling policies as well as related revaluation procedures on a regular basis.

- The board of directors and senior management of commercial banks receive reports relating to the fair value option approach and its impact on the financial position and operations on a regular and appropriate basis.

In addition, commercial banks are required to have the following risk management when adopting the fair value option approach:

2.1 Commercial banks must set up the policies relating to adoption of fair value option approach for financial instruments, both financial assets and financial liabilities. Such policies are required to be approved by the board of directors of commercial banks and to include procedures relating to adoption of the fair value option approach and fair value measurement for such instruments in writing. The policies must be communicated to all relevant personnel for their acknowledgement and implementation.

2.2 Commercial banks must specify the approval process to adopt the fair value option approach for new transactions or products in the future. Commercial banks shall also specify characteristics and risks associated to the new transactions and products in the risk management policies, product programs, as well as the current fair value measurement approach used.

2.3 Commercial banks must assess compliance of the fair value option approach in accordance with the guidelines of related accounting standards and shall validate the fair value measurement model under the fair value option approach, as part of the regular model validation as well as report to the senior management.

2.4 Commercial banks shall have periodic assessments of the fair value option approach conducted by internal auditors. Scope of such assessment shall include accounting policy review to comply with IAS39 and transactional testing to ensure compliance to the written policies.

3. Commercial banks must not adopt the fair value option approach for financial instruments whose fair value measurement is unreliable.

3.1 Reliability of fair value is defined as the availability of market price or application of reliable fair value measurement techniques. In case where market price is used, commercial banks shall consider liquidity of such financial instruments in the market and shall ensure that such price can actually be traded in the market. In case where a model for fair value measurement is used, commercial banks shall assess appropriateness and make reference to market information based on the guidelines specified in the Notification of the Bank of Thailand Re: Regulations on Risk Management for Derivatives Transactions along with the principle of conservatism. The fair values derived from the model must be verified and reviewed by internal auditors of commercial banks.

3.2 For illiquid financial instruments that commercial banks could reliably make reference to the value of such instruments, commercial banks could adopt fair value option approach. For instance, financial instruments whose characteristics are similar to those that are traded in an active market or illiquid financial instruments that commercial banks could reasonably separate their components and such components are normally traded in an active market or could be appropriately evaluated using reliable valuation method. In addition, commercial banks shall conduct back testing on the valuation method, particularly for illiquid financial instruments.

4. Currently, the IAS39 specifies preliminary guidelines on measurement of reliable fair value as follows:

4.1 If there are quoted prices available in an active market, such prices could be used in fair value measurement since they are the most reliable prices.

4.2 In the case where there is no trading in the market, the following techniques shall be used:

4.2.1 The latest trading prices between parties who are knowledgeable, independent to be freely negotiable and willing to enter into transactions with the purpose of their normal business.

4.2.2 The fair value of other instruments whose characteristics are significantly similar to the instruments commercial banks wish to evaluate.

4.2.3 Discounted Cash Flow method.

4.2.4 Option pricing model method or

4.2.5 Widely-used valuation techniques among market players which have been proved to derive reliable prices for actual trading in the market.

In this respect, such valuation techniques shall possess the following qualifications:

- Include all of factors that market players consider when determining prices.
- Based on market data as much as possible and depended on commercial banks’ own estimates as least as possible.
- Consistent with acceptable techniques and methods based on academic principles.
- Conduct back testing to ensure accuracy on a regular basis.

B. <u>Documents relating to the fair value option approach to be submitted to the Bank of Thailand</u>

Commercial banks shall notify the Bank of Thailand and submitting documents and information related to the fair value option approach as listed below, whereas the Bank of Thailand may request for further information or additional documents as deemed appropriate.

1. Rationale to adopt the fair value option approach as well as specific products or transaction types that commercial banks choose to adopt the aforementioned approach.

2. Risk management policies and procedures relating to adoption of the fair value option approach for financial instruments, both financial assets and financial liabilities of commercial banks.

3. Policies, procedures, and fair value measurement methods including source of information that commercial banks use in the fair value measurement for each type of financial assets and financial liabilities.

4. Procedures and testing types to ensure accuracy and reliability of the fair value measurement methods.

5. Scope for adoption of the fair value option approach for financial instruments with embedded derivatives.

6. Impacts from adopting the fair value option approach on profits (losses) or important financial ratios such as Net Interest Margin (NIM) as well as the information regarding economic hedging in case where adoption of the fair value option approach causes significant impact on major components of profits or risk indicators during a certain period of time.

7. Information related to unrealised gains (losses) incurred from items recorded by fair value, including total unrealised gains (losses) classified by type of financial instruments in order to assess ratios of total unrealised gains (losses) to shareholders' equity and to capital.

8. Information that commercial banks shall disclose as required by the principles set forth in the International Financial Reporting Standard 7 (IFRS 7) or the Thai Accounting Standards which the Federation of Accounting Profession will publish in accordance with IFRS 7.

9. Report from consultation of commercial banks and certified external auditors with regards to adoption of the fair value option approach.

Attachment 4

An example of the deduction of investments from the capital

Example 1: In case that commercial banks **do not own more than 10%** of the total issued common shares of each company.

A commercial bank has investments in common equity shares and eligible financial instruments qualified as Additional Tier 1 capital of companies operating in financial business and financial supporting business[1], where the commercial bank does not own more than 10% of each company's total issued common shares (except companies under the scope of full consolidation that are required to be included in the consolidated financial statements, and companies providing supporting functions for the financial institution system or companies acquired from debt restructuring). The sum of investments in all companies is equal to 300 Baht, as follows:

1. An investment in common shares of Company A is equal to 200 Baht, for which the investment is classified as banking book; and

2. An investment in financial instruments qualified as Additional Tier 1 capital of an insurance company (if any) is equal to 100 Baht, for which the investment is classified as trading book.

Provided that, Net Common Equity Tier 1[2] (Net CET1) of a commercial bank is equal to 2,500 Baht, therefore, 10% of Net CET1[2] is 250 Baht.

A commercial bank shall use such investments to calculate the capital, as follows:

1. An investment that exceeds 10% of Net CET1[2], which is equal to 50 Baht, shall be deducted from the capital, as follows:

(A) An amount to be deducted from CET1: $\frac{200}{300}\times 50=33.33$ Baht

(B) An amount to be deducted from AT1: $\frac{100}{300}\times 50=16.67$ Baht

2. An investment that does not exceed 10% of Net CET1[2], which is equal to 250 Baht, shall be used for the calculation of risk-weighted assets, as detailed below:

---

[1] Commercial banks shall refer to definitions of a financial business and financial supporting business as specified in the Notification of the Bank of Thailand Re: Regulations on Consolidated Supervision.

[2] In this case, Net Common Equity Tier 1 means Net Common Equity Tier 1 of commercial banks after being deducted by items under 5.4.1 (3.1) – (3.9) of this Notification.

(A) An investment in common shares used for the calculation of risk-weighted assets under the SA or the IRB method: $\frac{200}{300} \times 250 = 166.67$ Baht

(B) An investment in debt instruments qualified as Additional Tier 1 capital used for the calculation of market risk-weighted assets: $\frac{100}{300} \times 250 = 83.33$ Baht

For the calculation of risk-weighted assets of equity instruments and debt instruments, commercial banks shall refer to relevant notifications of the Bank of Thailand.

Example 2: In the case that commercial banks **own more than 10%** of the total issued common shares of each company

A commercial bank has investments in common equity shares and eligible financial instruments qualified as Tier 2 capital of companies operating in financial business and financial supporting business[1], where the commercial bank owns more than 10% of each company's total issued common shares (except companies under the scope of full consolidation that are required to be included in the consolidated financial statements, and companies providing supporting functions for the financial institution system or companies acquired from debt restructuring). The sum of investments in all companies is equal to 500 Baht, as follows:

1. An investment in common shares of Company C is equal to 200 Baht, for which the investment is classified as banking book;

2. An investment in common shares of Company D is equal to 100 Baht, for which the investment is classified as trading book;

3. An investment in common shares of an insurance company is equal to 100 Baht, for which the investment is classified as trading book; and

4. An investment in financial instruments qualified as Tier 2 capital of an insurance company (if any) is equal to 100 Baht, for which the investment is classified as trading book.

After deducting investments under Example 1 from Net CET1[2], the remaining Net CET1[3] is 2,500 – 33.33 = 2,466.67 Baht. Therefore, 10% of Net CET1[3] is 246.67 Baht.

A commercial bank shall use such investments to calculate the capital, as detailed below:

[3] In this case, Net Common Equity Tier 1 means Net Common Equity Tier 1 of commercial banks after being deducted by items under 5.4.1 (3.1) – 5.4.1 (3.10) (A) of this Notification.

1. Investments in common shares: the sum is equal to 200 + 100 + 100 = 400 Baht, then compare it to 10% of commercial banks Net CET1[3], which is equal to 246.67 Baht

1.1 Investments that exceed 10% of Net CET1[3], which is 400 – 246.67 = 153.33 Baht, shall be deducted from Common Equity Tier in proportion to an investment in each company (Pro-rata basis), as follows:

(A) An investment in common shares of Company C to be deducted from CET1: $\frac{200}{400} \times 153.33 = 76.67$ Baht

(B) An investment in common shares of Company D to be deducted from CET1: $\frac{100}{400} \times 153.33 = 38.33$ Baht

(C) An investment in common shares of the insurance company to be deducted from CET1: $\frac{100}{400} \times 153.33 = 38.33$ Baht

1.2 Investments that do not exceed 10% of Net CET1[3], which is equal to 246.67 Baht, shall be used for the calculation of risk-weighted assets, as follows:

(A) An investment in common shares of Company C used for the calculation of risk-weighted assets under the SA or the IRB method: $\frac{200}{400} \times 246.67 = 123.33$ Baht

(B) An investment in common shares of Company D used for the calculation of market risk-weighted assets: $\frac{100}{400} \times 246.67 = 61.67$ Baht

(C) An investment in common shares of the insurance company used for the calculation of market risk-weighted assets: $\frac{100}{400} \times 246.67 = 61.67$ Baht

For the calculation of risk-weighted assets of equity instruments, commercial banks shall refer to relevant notifications of the Bank of Thailand. If risk weights as specified by the Bank of Thailand are lower than 250%, commercial banks shall use a risk weight of 250% instead.

2. An investment in Tier 2 instruments of an insurance company classified as trading book, which is equal to 100 Baht, shall be fully deducted from Tier 2 capital of the commercial bank.

Attachment 5

Criteria for inclusion of financial instruments in Tier 1 capital (Additional tier 1)

1. Financial instruments to be included in Tier 1 capital (Additional Tier 1) shall be met with all the following criteria:

(1) Issued and paid-in

(2) In liquidation of commercial banks, holders of financial instruments included in Tier 1 capital will receive the payment after preferential creditors, depositors, general creditors and all types of subordinated creditors, as well as holders of financial instruments included in Tier 2 capital of commercial banks.

(3) Neither secured by collaterals, nor covered by guarantees or insurance of commercial banks or related persons of commercial banks that legally or economically enhances the seniority of the claim.

(4) Principal is perpetual, that is, there is no maturity date and there are no step-ups or other incentives to redeem.

(5) Commercial banks shall not create an expectation of holders of Tier 1 capital that the instruments would be repurchased or redeemed before maturity, and shall not create market expectations that the Bank of Thailand would approve for the early redemption.

(6) Commercial banks may redeem debt instruments included in Tier 1 capital after a minimum of 5 years from the issue date. Such redemption could be made only when:

(6.1) Approved by the Bank of Thailand, where commercial banks shall submit the redemption and substitution plans for such instruments to the Bank of Thailand at least 30 days prior to the redemption.

In addition, the redemption and substitution plans shall commit that commercial banks will issue the same type of instruments or instruments with better quality to replace the instruments to be redeemed immediately or prior to the redemption. Such substitution of instruments shall occur while commercial banks are able to maintain capability to operate the business.

(6.2) Commercial banks could demonstrate that such redemption does not cause the capital ratios of commercial banks to be lower than the minimum capital requirements specified by the Bank of Thailand.

However, with the exception of the following cases, commercial banks may early redeem debt instruments included in Tier 1 capital before a minimum of 5 years from the issue date on the condition that the approval is granted by the Bank of Thailand in accordance to the compliance of (6.1) and (6.2) above:

- There are changes in tax legislations causing changes in tax benefits of commercial banks or

- There are changes in capital requirement regulations resulting in the disqualification of debt instruments currently included in Tier 1 capital.

For the early redemption of such instruments as aforementioned, commercial banks are required to receive the consent from the holders of such instruments in the case that there are no such agree-upon terms and conditions specified in term sheets or prospectus.

(7) Commercial banks could buy-back[1] financial instruments included in Tier 1 capital by complying with the following:

(7.1) Approved by the Bank of Thailand, where commercial banks are required to submit the repurchase and substitution plans for such instruments to the Bank of Thailand for consideration on a case by case basis. The buy-back of preferred shares included in Tier 1 capital may be considered as an indirect decrease of capital which is prohibited under Section 80 (1) of the Financial Institutions Business Act B.E. 2551 and commercial banks may be also considered as possession of their own shares which is prohibited under Section 66 of the amended Public Limited Company Act B.E. 2535. Therefore, such buy-back of preferred shares are required to be approved by the Bank of Thailand for a decrease of capital, and the condition for such buy-back of their own shares are required to be valid under Section 66/1 of the amended Public Limited Company Act B.E. 2535.

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[1] A buy-back is to buy the instruments back from the willing holders of instruments (sellers) by commercial banks who are the issuers (buyers) under the agreed-upon prices. The buy-back of instruments could only be a part of the issued lot. This is different from the redemption, where the holders of instruments are repaid with the prices specified in the prospectus and if there is term or condition written in the prospectus to be able to redeem, the whole lot of instruments will be inevitably redeemed without any consent from the holders.

(7.2) Commercial banks shall strictly comply with accounting standards regarding the buy-back of financial instruments included in Tier 1 capital.

(8) Payment of interest or other returns of financial instruments included in Tier 1 capital shall be complied with the following:

(8.1) Commercial banks shall have full discretion at all times to cancel payments of interests or other returns on the instruments. There shall not be provision that commercial banks are required to pay interest or other returns to holders of financial instruments included in Tier 1 capital if returns have been paid to holders of Common Equity Tier 1[2]. However, if commercial banks do not pay interest or other returns to holders of financial instruments included in Tier 1 capital, the commercial banks are unable to pay returns to holders of Common Equity Tier 1[3].

(8.2) Returns are non-cumulative and any cancellation of return payments is not considered as an event of default.

(8.3) Commercial banks shall have full access to cancel payments of interests or other returns to holders of financial instruments included in Tier 1 capital, if it is necessary to meet debts or obligations as they fall due.

(8.4) In the year that commercial banks do not have profits or have accumulated losses, commercial banks are not allowed to pay interests or other returns to holders of financial instruments included in Tier 1 capital. Such return payments could be made only with the approval of the bank of Thailand on a case by case basis. The consideration of the Bank of Thailand will be done base on factors relating to the resilience of commercial banks e.g. capital level, profitability and level of accumulated profits.

(9) The financial instruments could not have a credit sensitive return feature, that is, returns shall not be reset periodically based in whole or in part on the credit standing of commercial banks.

(10) Eligible financial instruments to be included in Tier 1 capital shall have all of the following criteria:

(10.1) Able to absorb losses on a going-concern basis, which is comparable to common equity; by having the following conditions: (1) could be

[2] This action is called dividend pusher

[3] This action is called dividend stopper

converted into common shares when commercial banks have Common Equity Tier 1 to total risk-weighted assets ratio (CET1 ratio) lower than the trigger level specified by commercial banks[4] (trigger point) or (2) could be written-down when CET1 ratio lower than the trigger level specified by commercial banks. The conversion and write-down shall result in the following:

- Reducing the claim of holders of instruments, or reducing the amount to be paid by commercial banks in the redemption when applicable, as well as reducing burdens for payment of returns in term of interests or others of such instruments.

- The write-down and conversion shall increase Common Equity Tier 1, in accordance with generally accepted accounting standards.

- Amount of financial instruments to be written-down or converted to common shares shall be, at least, equal to the amount that needed to return CET1 ratio to be higher than the level specified by commercial banks (trigger point), if this is not possible, the principle value shall be written-off or fully converted into common shares.

(10.2) Able to absorb losses on the occurrence of a non-viability trigger event[5] (at the point of non-viability) where commercial banks are unable to continue operating businesses. There shall be provisions on a gone-concern basis that such instruments (1) will be converted to common shares or (2) will be written off when the authorities decide to give financial assistance to the commercial banks.

(11) Neither commercial banks themselves nor related persons of commercial banks could purchase financial instruments that could be included in their own capital, nor could commercial banks directly or indirectly have funded to any person such as subsidiaries or related persons of commercial banks with purposes to purchase such financial instruments. The Bank of Thailand shall not allow commercial banks to include proceeds from selling such instruments, for an amount invested by their subsidiaries or related persons, in their capital.

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[4] The trigger level specified by commercial bank shall be CET1 ratio higher than 5.125%

[5] Examples of such event are (1) the assets of commercial banks are insufficient for their depositors and creditors (2) the capital of commercial banks have reach the level that may detrimentally affect their depositors and creditors (3) commercial banks are unable to recapitalise on their own e.g. there are no investors interested in restoration of commercial banks.

(12) Financial instruments included in Tier 1 capital could not have any features that require commercial banks to compensate holders of instruments, if newly issued instruments of commercial banks give higher returns during the specified time frame (no provision that hinder recapitalisation).

2. <u>Regulation on payment of interests or returns of financial instruments included in Tier 1 capital (Additional Tier 1)</u>

2.1 Commercial banks may consider paying interests or other returns of financial instruments included in Tier 1 capital (Additional Tier 1) by complying with the following:

(1) In the case where the payment date of interests or other returns is exactly the same as the end date of accounting period, commercial banks could use estimated net profits of such accounting period when making consideration to pay interests or other returns of financial instruments included in Tier 1 capital.

(2) In the case where the payment date of interests or other returns is after the end date of accounting period, commercial banks could use net profits from financial statements of previous accounting period when making consideration to pay interests or other returns of financial instruments included in Tier 1 capital.

2.2 Commercial banks could specify conditions for partial payment of interests or other returns of financial instruments included in Tier 1 capital in the prospectus.

In addition, when commercial banks record accounting transactions for payment of interests or other returns of financial instruments included in Tier 1 capital under 2.1 and 2.2 in the corresponding accounting period in accordance with generally accepted accounting standards, there shall not be net losses shown in the income statement of such accounting period.

Attachment 6

Criteria for inclusion of financial instruments in Tier 2 capital

1. Financial instruments to be included in Tier 2 capital shall be met with all the following criteria:

(1) Issued and paid-in

(2) In liquidation of commercial banks, holders of financial instruments included in Tier 2 capital will receive the payment after preferential creditors, depositors, and general creditors of commercial banks.

(3) Neither secured by collaterals, nor covered by guarantees or insurance of commercial banks or related persons of commercial banks that legally or economically enhances the seniority of the claim

(4) Have minimum original maturity at least five years and the recognition of such instruments as capital in the remaining five years before maturity will be amortised on a straight line basis. There shall be no condition specified as step-ups or other incentives to redeem in such instruments.

(5) Commercial banks shall not create an expectation of holders of Tier 2 capital that the instruments would be repurchased or redeemed before maturity.

(6) Commercial banks may redeem debt instruments included in Tier 2 capital after a minimum of 5 years from the issue date. Such redemption could be made only when:

(6.1) Approved by the Bank of Thailand, where commercial banks shall submit the redemption and substitution plans for such instruments to the Bank of Thailand at least 30 days prior to the redemption.

In addition, the redemption and substitution plans shall commit that commercial banks will issue the same type of instruments or instruments with better quality to replace the instruments to be redeemed immediately or prior to the redemption. Such substitution of instruments shall occur while commercial banks are able to maintain capability to operate the business.

(6.2) Commercial banks could demonstrate that such redemption does not cause the capital ratios of commercial banks to be lower than the minimum capital requirements specified by the Bank of Thailand.

(6.3) The Bank of Thailand is able to ensure that such early redemption does not cause the capital ratios to be lower than 9 percent[1], by taking into account the factors that may affect the capital position of commercial banks in the 3-year forwarded period, provided that there is no capitalisation. Such factors are:

- projected profits and losses from operation
- projected growth in risk weighted assets and
- projected provisions for assets in accordance with the Notification of the Bank of Thailand Re: Asset Classification and Provisioning of Financial Institutions

With the exception of the following cases, commercial banks may early redeem debt instruments included in Tier 2 capital before a minimum of 5 years from the issue date on the condition that the approval is granted by the Bank of Thailand in accordance to the compliance of (6.1) (6.2) and (6.3) above:

- There are changes in tax legislations causing changes in tax benefits of commercial banks or
- There are changes in capital requirement regulations resulting in the disqualification of debt instruments currently included in Tier 2 capital.

For the early redemption of such instruments as aforementioned, commercial banks are required to receive the consent from the holders of such instruments in the case that there are no such agree-upon terms and conditions specified in term sheets or prospectus.

(7) Commercial banks could buy back[2] financial instruments included in Tier 2 capital by complying with the following:

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[1] On 1 January 2016, the capital ratio is equal to 9% plus 0.625%, and the capital ratio shall be increased each subsequent year at 0.625% until it will be at 11.5% in 2019. This is a consequence that the Bank of Thailand requires commercial banks to hold Conservation Buffer of 2.5% in addition to minimum capital requirement ratio as such buffer will start at 0.625% on 1 January 2016 and increase each year by 0.625%, to reach its final level of 2.5% on 1 January 2019.

[2] A buy-back is to buy the instruments back from the willing holders of instruments (sellers) by commercial banks who are the issuers (buyers) under the agreed-upon prices. The buy-back of instruments could only be a part of the issued lot. This is different from the redemption, where the holders of instruments are repaid with the prices specified in the prospectus and if there is term or condition written in the prospectus to be able to redeem, the whole lot of instruments will be inevitably redeemed without any consent from the holders.

(7.1) Approved by the Bank of Thailand, where commercial banks are required to submit the repurchase and substitution plan for such instruments to the Bank of Thailand for consideration on a case by case basis. The buy-back of preferred shares included in Tier 2 capital may be considered as an indirect decrease of capital which is prohibited under Section 80 (1) of the Financial Institutions Business Act B.E. 2551 and commercial banks may be also considered as possession of their own shares which is prohibited under Section 66 of the amended Public Limited Company Act B.E. 2535. Therefore, such buy-back of preferred shares are required to be approved by the Bank of Thailand for a decrease of capital, and the condition for such buy-back of their own shares are required to be valid under Section 66/1 of the amended Public Limited Company Act B.E. 2535.

(7.2) Commercial banks shall strictly comply with accounting standards regarding the buy-back of financial instruments included in Tier 2 capital.

(8) Commercial banks have rights to postpone the schedule for payment of interests, if commercial banks do not have profits, and where the dividend of common shares and interests or other returns of instruments included in Tier 1 capital are not paid.

(9) The financial instruments could not have a credit sensitive return feature, that is, returns shall not be reset periodically based in whole or in part on the credit standing of commercial banks.

(10) Neither commercial banks themselves nor related persons of commercial banks could purchase financial instruments that could be included in their own capital, nor could commercial banks directly or indirectly have funded to any person such as subsidiaries or related persons of commercial banks with purposes to purchase such financial instruments. The Bank of Thailand shall not allow commercial banks to include proceeds from selling such instruments, for an amount invested by their subsidiaries or related persons, in their capital.

(11) Able to absorb losses on the occurrence of a non-viability trigger event[3] (at the point of non-viability) where commercial banks are unable to continue operating businesses. There shall be provisions on a gone-concern basis that such

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[3] Examples of such event are (1) the assets of commercial banks are insufficient for their depositors and creditors (2) the capital of commercial banks have reach the level that may detrimentally affect their depositors and creditors (3) commercial banks are unable to recapitalise on their own e.g. there are no investors interested in restoration of commercial banks.

instruments (1) will be converted to common shares or (2) will be written off when the authorities decide to give financial assistance to the commercial banks.

Attachment 7

Timing for inclusion (or deduction) of items in (or from) capital

Items	Immediately	Monthly	Half-yearly
Common Equity Tier 1			
1. Paid-up capital including share premium/discount (except paid-up preferred shares)	✓		
2. Warrant to purchase common shares	✓		
3. Legal reserve			✓
4. Reserve appropriated from net profit at the end of accounting period in accordance with the approved resolutions from the Meeting of shareholders or the rules as specified by commercial banks			✓
5. Net profit after being appropriated in accordance with the approved resolutions from the Meeting of shareholders or the rules as specified by commercial banks [1]			✓
6. Other shareholders' equity items			
6.1 Other comprehensive income - Changes in revaluation surplus on lands, buildings or units in condominiums after approved by the Bank of Thailand - Other items		✓ ✓	
6.2 Other items occurred from owner changes		✓	
Adjustment items and deduction items for Common Equity Tier 1			
1. Changes in fair value of derivatives for hedging cash flow risk (cash flow hedge reserves)		✓	
2. Accumulated gains (losses) arising from choosing the fair value option in accordance with accounting standards regarding the recognition and valuation of financial instruments as shown in the audited financial statements		✓	
3. **Accumulated gains (losses) occurred from the adjustment for credit quality of commercial banks themselves (DVA) when measuring the fair value of derivatives according to the Thai Financial Reporting Standard on Fair Value Measurement**		✓	

[1] Including total net value shown as profit from the calculation of all accounting items to be adjusted with retained earnings in accordance with the accounting standards, such as an adjustment of defined employee benefit projection using actuarial techniques, only for a portion required by the accounting standards to be adjusted with retained earnings, and adjustments for accounting errors etc.

Items	Immediately	Monthly	Half-yearly
4. Net loss occurring in each accounting period [2] (not required to be audited or approved upon resolutions from the Meeting of shareholders or according to the rules of commercial banks)			✓
5. Goodwill		✓	
6. Intangible assets		✓	
7. Deferred tax assets (DTA)		✓	
8. Gain on sale related to securitisation		✓	
9. Shortfall of provision (EL > total provision)		✓	
10. Buy-back of own shares	✓		
11. Cross holding of equity instruments between commercial banks and companies operating in financial business and financial supporting business	✓		
12. Investments in equity instruments and warrants of finance companies and credit foncier companies	✓		
13. Investments in equity instruments and warrants of companies operating in financial business and financial supporting business that commercial banks own shares not more than 10%, or more than 10% where the deduction from capital shall be made		✓	
14. Other items as specified by the Bank of Thailand			
Additional Tier 1			
1. Non-cumulative preferred shares	✓		
2. Debt instruments with claims subordinated to preferential creditors, depositors, general creditors and holders of debt instruments included in Tier 2 capital (immediately after the approval of the Bank of Thailand)	✓		
Deduction items for additional tier 1			
1. Buy-back of financial instruments included in Tier 1 capital of commercial banks	✓		
2. Cross holding of financial instruments included in Tier 1 capital between commercial banks and companies operating in financial business and financial supporting business	✓		
3. Investments in financial instruments included in Tier 1 capital of other commercial banks and finance companies	✓		

[2] Including total net value shown as loss from the calculation of all accounting items to be adjusted with retained earnings in accordance with the accounting standards, such as an adjustment of defined employee benefit projection using actuarial techniques, only for a portion required by the accounting standards to be adjusted with retained earnings, and adjustments for accounting errors etc.

Items	Immediately	Monthly	Half-yearly
4. Investments in financial instruments included in Tier 1 capital of companies operating in financial business and financial supporting business that commercial banks own shares not more than 10%, or more than 10% where the deduction from capital shall be made		✓	
5. Other items as specified by the Bank of Thailand			
Tier 2 capital			
1. Cumulative preferred shares	✓		
2. Debt instruments with claims subordinated to preferential creditors, depositors, and general creditors (immediately after the approval of the Bank of Thailand) The inclusion of proceeds from such instruments in Tier 2 capital shall be phased out by 20% each year for the last 5-year period. (immediately when due)	✓		
3. General provision		✓	
4. Surplus of provision (EL < Total provision)		✓	
Deduction items for tier 2 capital			
1. Buy-back of financial instruments included in Tier 2 capital of commercial banks	✓		
2. Cross holding of financial instruments included in Tier 2 capital between commercial banks and companies operating in financial business and financial supporting business	✓		
3. Investments in financial instruments included in Tier 2 capital of other commercial banks and finance companies	✓		
4. Investments in financial instruments included in Tier 2 capital of companies operating in financial business and financial supporting business that commercial banks own shares not more than 10%, or more than 10% where the deduction from capital shall be made		✓	
5. Other items as specified by the Bank of Thailand			

Attachment 8

Transitional arrangements for financial instruments issued before 1 January 2013

The Bank of Thailand requires commercial banks to phase out financial instruments that no longer qualify to include in capital under the Basel III as specified in Attachment 5 and Attachment 6, by complying with the following:

1. Phasing-out by considering all lots of financial instruments (Aggregate cap), not for each individual instrument

Base to be used for phasing-out of financial instruments included in capital for each component of capital, is equal to the sum of financial instruments included in such component of capital that no longer qualify under the new framework, which are, (1) the sum of financial instruments included in Additional Tier 1 capital and (2) the sum of financial instruments included in Tier 2 capital as at 1 January 2013.

2. Ratio for phasing-out financial instruments included in capital: 10% for each subsequent year

Commercial banks shall phase out financial instruments included in each component of capital by 10% from the base each year. For the first year (from 1 January 2013), commercial banks could include such instruments in capital not more than 90% of the base (cap) used for phasing-out each type of instrument. In each subsequent year, the cap will be decreased by 10%, that is, the cap is equal to 80% in 2014 and 70% in 2015.

During the phasing-out period of financial instruments, if commercial banks redeem financial instruments or phase out financial instruments included in Tier 2 capital using straight line basis for the remaining 5 years before maturity (amortisation), the base used in calculation of the cap each year will be unchanged as the base is set to be the same throughout the phasing-out period. However, commercial banks could include other financial instruments that are not yet to be redeemed in their capital for the amount specified by regulations of the Bank of Thailand on the condition that the sum of the remaining financial instruments to be included in capital shall not exceed the cap specified by the Bank of Thailand.

Financial instruments included in capital that commercial banks issued in different time periods (issued before 1 January 2013) with different qualifications will affect the inclusion of such instruments in capital, as follows:

1. Financial instruments issued from 1 March 2012 to 31 December 2012 shall be phased out by the following:

(1) For all types of financial instruments included in capital having all criteria as specified in Attachment 5 and Attachment 6 of this Notification, with the exception of the criteria on non-viability loss absorption as specified in criteria for inclusion of financial instrument in Additional Tier 1 under 10.2 in Attachment 5, and criteria for inclusion of financial instruments in Tier 2 capital under 11 in Attachment 6, commercial banks shall phase out such instruments from 1 January 2013 onwards.

(2) For all types of financial instruments included in capital not having all criteria as specified in Attachment 5 and Attachment 6 of this Notification, commercial banks could not include such instruments in capital, in full, from 1 January 2013 onwards. In addition, financial instruments in the scope of this paragraph shall not be included in the base for phasing-out on 1 January 2013.

2. Financial instruments issued before 1 March 2012 shall be phased out by the following:

(1) For all types of financial instruments included in capital with step-ups or other incentives to redeem, commercial banks shall comply with the following:

(1.1) For financial instruments included in capital with period of early redemption before 1 March 2012, and on the date of redemption, if commercial banks decline to do so, commercial banks shall phase out such financial instruments from 1 January 2013 onwards.

(1.2) For financial instruments included in capital with period of early redemption between 1 March 2012 and 31 December 2012, and on the date of redemption, if commercial banks decline to do so, commercial banks could not include the whole amount of instruments in capital since 1 January 2013 onwards. In addition, financial instruments in the scope of this paragraph shall not be included in the base for phasing-out on 1 January 2013.

(1.3) For financial instruments included in capital with period of early redemption from 1 January 2013 onwards, and on the date of redemption, if commercial banks decline to do so, commercial banks could not include the whole amount of instruments in capital from the day that commercial banks have rights to make early redemption. For the period before the day that commercial banks have rights to make early redemption, commercial banks shall phase out such instruments from 1 January

2013 until the day before the day that commercial banks have rights to make the early redemption.

(2) For all types of financial instruments included in capital <u>not having</u> step-ups or other incentives to redeem and not having all other criteria as specified in Attachment 5 and Attachment 6, commercial banks shall phase out such instruments from 1 January 2013 onwards.

The arrangement for inclusion of such financial instruments in capital considering the issue date, could be summarised in table below:

Issue date of financial instruments included in capital	Attributes of financial instruments		Inclusion in capital
1. Financial instruments issued from 1 Jan 2013 onwards	✓	having all criteria under the Basel III[1]	could be included in capital from 1 Jan 2013 onwards
	✗	not having all criteria under the Basel III[1]	could not be included in capital from 1 Jan 2013 onwards
2. Financial instruments issued between 1 Mar 2012 and 31 Dec 2012	✓	having all criteria under the Basel III[1]	could be included in capital from 1 Jan 2013 onwards
	✓	having all criteria under the Basel III[1], except for a criteria on loss absorption at the point of non-viability	to be phased out from 1 Jan 2013*
	✗	not having all criteria under the Basel III[1]	could not be included in capital from 1 Jan 2013 onwards
3. Financial instruments issued before 1 Mar 2012	3.1	with step-up feature	
		- early redemption could be made before 1 Mar 2012	to be phased out from 1 Jan 2013*
		- early redemption could be made between 1 Mar 2012 – 31 Dec 2012	could not be included in capital from 1 Jan 2013 onwards
		- early redemption could be made after 1 Jan 2013	to be phased out from 1 Jan 2013*, and could not be included in capital, for the whole amount, after the day that the early redemption could be made
	3.2	without step-up feature	to be phased out from 1 Jan 2013*

*** <u>Note</u>:** Financial instruments included in the capital shall be phased out from 1 Jan 2013, and such instruments shall be used to calculate aggregate cap of each type of instruments.

[1] criteria as specified in Attachment 5 and Attachment 6 of this Notification

An example for phasing out financial instruments included in capital which all criteria are not met under the Basel III, where effective date is 1 Jan 2013

Assumption: There are 3 financial instruments that can be included in Tier 2 capital, the issue dates of such instruments are:

1. **Instruments issued before 1 March 2012**

Instrument 1: An instrument that all criteria are not met under the Basel III[1], e.g. including step-up feature, was issued in 2009 with maturity of 10 year (to be matured in 2019), and the right for early redemption of commercial banks will be started in 2015.

Instrument 2: An instrument that all criteria are not met under the Basel III[1], e.g. including step-up feature, was issued in 2009 with maturity of 15 year (to be matured in 2024), and the right for early redemption of commercial banks will be started in 2020.

2. **Instruments issued after 1 March 2012**

Instrument 3: A new instrument that all criteria are met under the Basel III with the exception of a criteria on loss absorption at the point of non-viability, was issued in 2012 with maturity of 10 year (to be matured in 2022), and the right for early redemption of commercial banks will be started in 2018.

The phasing out of the three instruments (which are instruments included in Tier 2 capital that are required to be phased-out by 20% in the last 5 years before maturity) could be summarised in the table below:

Instrument	Included in capital (million Baht)	Issued Year	Year of maturity	Started Date of Early Redemption	Phase-out method	An amount to be included in capital each year (million Baht)									
						1-Jan 2013	1 Jan-2014	1 Jan-2015	1 Jan-2016	1 Jan-2017	1 Jan-2018	1 Jan-2019	1 Jan-2020	1 Jan-2021	1 Jan-2022
Value of instruments considered for inclusion in capital each year (Baht)															
Instrument 1	100	2009	2019	2015	To be phased out prior to redemption (To be amortised in 2015, but ineligible to be included in capital on account of disqualification)	**100**	**100**	-	-	-	-	-	-	-	-
Instrument 2	100	2009	2024	2020	To be phased out prior to redemption (To be amortised in 2020 but ineligible to be included in capital on account of disqualification)	**100**	**100**	**100**	**100**	**100**	**100**	**100**	-	-	-
Instrument 3	100	2012	2022	2018	To be phased-out (To be amortised in 2018)	**100**	**100**	**100**	**100**	**100**	**80**	**60**	**40**	**20**	-
% of total instruments eligible for inclusion in capital each year						**90%**	**80%**	**70%**	**60%**	**50%**	**40%**	**30%**	**20%**	**10%**	**0%**
Cap for inclusion of instruments in capital in accordance with the regulations specified by the Bank of Thailand (calculated from the base of 300 million baht)						**270**	**240**	**210**	**180**	**150**	**120**	**90**	**60**	**30**	**-**
Value of financial instruments that could be included in capital each year*						**270**	**240**	**200**	**180**	**150**	**120**	**90**	**40**	**20**	**-**

*<u>Note</u> :Commercial banks could consider allocating the value of each instrument to be included in capital as deemed appropriate, while the value to be included in capital shall not exceed the cap for inclusion of instruments in capital as specified by the Bank of Thailand.

Attachment 9

Transitional arrangements: Guidelines on inclusion (deduction) of items in shareholders' equity in (from) Common Equity Tier 1

Item	Inclusion (deduction) of items in (from) other comprehensive income[1]				
	Year 2014	**Year 2015**	**Year 2016**	**Year 2017**	**Year 2018**
1. Gain (loss) from fair value measurement of AFS (available for sale) debt instruments* 2. Gain (loss) arising from translating the financial statements of a foreign operation* 3. Gain (loss) from fair value measurement of derivatives used for hedging risks incurred from a net investment in a foreign operation*	**20 %** in value of gain - included in Common Equity Tier 1	**40 %** in value of gain - included in Common Equity Tier 1	**60 %** in value of gain - included in Common Equity Tier 1	**80 %** in value of gain - included in Common Equity Tier 1	**100 %** in value of gain - included in Common Equity Tier 1
	20 % in value of loss - deducted from Common Equity Tier 1	**40 %** in value of loss - deducted from Common Equity Tier 1	**60 %** in value of loss - deducted from Common Equity Tier 1	**80 %** in value of loss - deducted from Common Equity Tier 1	**100 %** in value of loss - deducted from Common Equity Tier 1

[1] Profits (losses) items in other comprehensive income to be included in (deducted from) capital shall be the net value after deducted by relevant income tax

Transitional arrangements: Guidelines on deduction of new items specified to be deducted from capital

Item	Deduction from capital				
	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
1. Intangible assets*	**20 %** of the item value - deducted from Common Equity Tier1	**40 %** of the item value - deducted from Common Equity Tier1	**60 %** of the item value - deducted from Common Equity Tier1	**80 %** of the item value - deducted from Common Equity Tier1	**100 %** of the item value - deducted from Common Equity Tier1
	80% of the item value - calculated credit risk weighted assets in accordance with the SA or the IRB method	**60%** of the item value - calculated credit risk weighted assets in accordance with the SA or the IRB method	**40%** of the item value - calculated credit risk weighted assets in accordance with the SA or the IRB method	**20%** of the item value - calculated credit risk weighted assets in accordance with the SA or the IRB method	-
2. Gain on sale related to securitisation transactions*	**20 %** of the item value - deducted from Common Equity Tier1	**40 %** of the item value - deducted from Common Equity Tier1	**60 %** of the item value - deducted from Common Equity Tier1	**80 %** of the item value - deducted from Common Equity Tier1	**100 %** of the item value - deducted from Common Equity Tier1

Item	Deduction from capital				
	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
3. Investments in equity instruments, including warrants, of the companies operating in financial business and financial supporting business[2], in the case where commercial banks <u>do not own more than 10 percent</u> of the total issued common shares of each companies* in accordance with 5.4.1 (3.10) (A)	**20%** of investment value to be deducted - deducted from Common equity Tier 1 / Additional Tier 1 / Tier 2, in proportion to the type of investment	**40%** of investment value to be deducted - deducted from Common equity Tier 1 / Additional Tier 1 / Tier 2, in proportion to the type of investment	**60%** of investment value to be deducted - deducted from Common equity Tier 1 / Additional Tier 1 / Tier 2, in proportion to the type of investment	**80%** of investment value to be deducted - deducted from Common equity Tier 1 / Additional Tier 1 / Tier 2, in proportion to the type of investment	**100%** of investment value to be deducted - deducted from Common equity Tier 1 / Additional Tier 1 / Tier 2, in proportion to the type of investment
	80% of investment value to be deducted - calculated credit risk-weighted assets in accordance with the SA or the IRB/ or calculated market risk-weighted assets in	**60%** of investment value to be deducted - calculated credit risk-weighted assets in accordance with the SA or the IRB/ or calculated market risk-weighted assets in	**40%** of investment value to be deducted - calculated credit risk-weighted assets in accordance with the SA or the IRB/ or calculated market risk-weighted assets in	**20%** of investment value to be deducted - calculated credit risk-weighted assets in accordance with the SA or the IRB/ or calculated market risk-weighted assets in	-

[2] With exception of companies under the scope of full consolidation that are required to be included in the consolidated financial statements, and companies providing supporting functions for the financial institution system or companies acquired from debt restructuring.

Item	Deduction from capital				
	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
	accordance with market risk, in proportion to the type of investment	accordance with market risk, in proportion to the type of investment	accordance with market risk, in proportion to the type of investment	accordance with market risk, in proportion to the type of investment	
4. Investments in equity instruments, including warrants, of the companies in financial business and financial supporting business[2], in the case where, commercial banks own more than 10 percent of the total issued common shares of each company* in accordance with 5.4.1 (3.10) (B)	**20%** of investment value to be deducted - deducted from Common Equity Tier 1, in proportion to the type of investment	**40%** of investment value to be deducted - deducted from Common Equity Tier 1, in proportion to the type of investment	**60%** of investment value to be deducted - deducted from Common Equity Tier 1, in proportion to the type of investment	**80%** of investment value to be deducted - deducted from Common Equity Tier 1, in proportion to the type of investment	**100%** of investment value to be deducted - deducted from Common Equity Tier 1, in proportion to the type of investment
	80% of investment value to be deducted - calculated credit risk-weighted assets in accordance with the SA or the IRB/ or calculated market risk-	**60%** of investment value to be deducted - calculated credit risk-weighted assets in accordance with the SA or the IRB/ or calculated market risk-	**40%** of investment value to be deducted - calculated credit risk-weighted assets in accordance with the SA or the IRB/ or calculated market risk-	**20%** of investment value to be deducted - calculated credit risk-weighted assets in accordance with the SA or the IRB/ or calculated market risk-	-

Item	Deduction from capital				
	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
	weighted assets in accordance with market risk, in proportion to the type of investment - If a risk weight under such regulations is less than 250%, a risk weight of 250% shall be applied	weighted assets in accordance with market risk, in proportion to the type of investment - If a risk weight under such regulations is less than 250%, a risk weight of 250% shall be applied	weighted assets in accordance with market risk, in proportion to the type of investment - If a risk weight under such regulations is less than 250%, a risk weight of 250% shall be applied	weighted assets in accordance with market risk, in proportion to the type of investment - If a risk weight under such regulations is less than 250%, a risk weight of 250% shall be applied	
5. Investments in financial instruments included in Tier 1 and Tier 2 capital including warrants, of the companies operating in financial business and financial supporting business[2], in the case where, commercial banks own more	**20%** of investment value to be deducted - deducted from Additional Tier 1 / Tier 2, in proportion to the type of investment	**40%** of investment value to be deducted - deducted from Additional Tier 1 / Tier 2, in proportion to the type of investment	**60%** of investment value to be deducted - deducted from Additional Tier 1 / Tier 2, in proportion to the type of investment	**80%** of investment value to be deducted - deducted from Additional Tier 1 / Tier 2, in proportion to the type of investment	**100%** of investment value to be deducted - deducted from Additional Tier 1 / Tier 2, in proportion to the type of investment

Item	Deduction from capital				
	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
than 10 percent of the total issued common shares of each companies* in accordance with 5.4.2 (2.5) and 5.5.4 (5)	**80%** of investment value to be deducted - calculated credit risk-weighted assets in accordance with the SA or the IRB method/ or calculated market risk-weighted assets in accordance with market risk, in proportion to the type of investment	**60%** of investment value to be deducted - calculated credit risk-weighted assets in accordance with the SA or the IRB method/ or calculated market risk-weighted assets in accordance with market risk, in proportion to the type of investment	**40%** of investment value to be deducted - calculated credit risk-weighted assets in accordance with the SA or the IRB method/ or calculated market risk-weighted assets in accordance with market risk, in proportion to the type of investment	**20%** of investment value to be deducted - calculated credit risk-weighted assets in accordance with the SA or the IRB method/ or calculated market risk-weighted assets in accordance with market risk, in proportion to the type of investment	-
***Remark*: When calculating capital for the above items, value of such items may change in each day or at the end of the reporting month, therefore, commercial banks shall recalculate the value to be deducted from capital every time capital ratio is calculated.**					