

## Unofficial Translation

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Please refer to Thai text for the official version.

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### Bank of Thailand Policy Guideline

#### Re: Debt Restructuring for Specialized Financial Institutions

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#### 1. Rationale

The aim of debt restructuring is to resolve debt, whether normal or troubled, so that Specialized Financial Institutions may have an opportunity to receive payment and the debt can still generate as much benefit as possible to both Specialized Financial Institutions and debtors. This is particularly useful for debtors who encounter repayment problems due to a negative economic impact but are still likely to continue operating business. Nonetheless, debt restructuring should reflect the true repayment ability of debtors and should not be undertaken to postpone debt classification, provisioning and suspension of accrued interest revenue recognition.

Hence, the Bank of Thailand hereby prescribes this Policy Guideline to set the preliminary procedures that Specialized Financial Institutions may apply in undertaking debt restructuring. Specialized Financial Institutions are also encouraged to prescribe policies, procedures and steps in debt restructuring, conduct analysis and prepare supporting documents in a sufficient manner and record debt restructuring in the accounts according to the accounting standards prescribed by the Federation of Accounting Professions.

#### 2. Scope of Application

This Policy Guideline shall be applied to Government Savings Bank, Bank for Agriculture and Agricultural Cooperatives, Government Housing Bank, Small and Medium Enterprise Development Bank of Thailand, Export-Import Bank of Thailand, Thai Credit Guarantee Corporation, and Secondary Mortgage Corporation.

### 3. Contents

#### 3.1 Definitions

In this Policy Guideline:

“Specialized Financial Institutions” mean state-owned financial institutions established with each Specialized Financial Institutions’ establishment Act, including Government Savings Bank, Bank for Agriculture and Agricultural Cooperatives, Government Housing Bank, Small and Medium Enterprise Development Bank of Thailand, Export-Import Bank of Thailand, Thai Credit Guarantee Corporation, and Secondary Mortgage Corporation.

“Debt restructuring” means general debt restructuring and troubled debt restructuring (TDR).

“General Debt Restructuring” means debt restructuring whereby Specialized Financial Institutions have incurred no loss, for example, the reduction of interest rate to debtor according to respond to the market situation or to maintain relationship with debtors, or to extend the repayment period by granting a grace period whereby the debtor still pays interest at the original contractual interest rate and Specialized Financial Institutions have analyzed the matter and expected to receive principal and interest payment in full under the original loan contract.

“Troubled Debt Restructuring means debt restructuring where Specialized Financial Institutions incur loss resulting from:

(1) reduction, for debtor, of principal or accrued interest already recognized as income; or

(2) accepting transfer of property at a fair price lower than the debt balance written off; or

(3) relaxation of term of repayment which causes present value of cash flows to be lower than the sum of credit outstanding and the accrued interest thereon that has already been recognized as income; or

(4) loss incurred from debt restructuring calculation based on the fair value of debt or the fair value of collateral, or loss from debt restructuring due to other techniques in debt restructuring, such as debt-equity swap.

## 3.2 Rules

### 3.2.1 Establishing Policies and Measures on Debt Restructuring

Specialized Financial Institutions shall proceed as follows:

(1) Policies and measures on debt restructuring must be established clearly in writing and approved by Specialized Financial Institutions' board of directors. Executives of Specialized Financial Institutions must participate in the establishment of such policies and measures.

(2) Such policies and measures must set forth the guidelines for the entire debt restructuring process, e.g., setting objectives and guidelines for analyzing and selecting debtors, supervising, reporting on performance to ensure that the restructuring has been carried out correctly in accordance with its objectives and accounting principles.

(3) Specialized Financial Institutions must establish clear and complete written procedures concerning the authority and responsibilities of those involved in debt restructuring, including the authorizations, reporting, supervision and various steps of action plans.

(4) Specialized Financial Institutions must set up a division or a team of officers with debt restructuring experience, who are independent from the credit officer in charge of the debtor, to carry out the debt restructuring process in accordance with the procedures as prescribed in Clause (3); or the Specialized Financial Institutions may contract out another financial institution or a third person with debt restructuring expertise to carry out the debt restructuring. Except in case Specialized Financial Institution does not have sufficient officers, the credit officers may carry out the debt restructuring process but they must strictly comply with the regulations and procedures set forth in Clause (3).

### 3.2.2 Debt restructuring procedures and Support Documentary

#### Preparation

The preparation of the restructuring plan and related documents in each stage shall be processed as follows:

**(1) Analytical steps and preparation of debt restructuring documentation.** An analytical report on the debtor and related documents to assist in debt restructuring consideration shall be prepared and shall include:

(1.1) causes of debtor's credit difficulties and reasons of delayed payment of interest and/or principal;

(1.2) problem severity and financial risk of the debtor, considered from its financial statements, cash flows statement and financial projection, whichever the case may be, including necessary analysis of the market and the environment relating to the debtor's status and operation whereas necessary;

(1.3) the expectations or likelihood of full debt repayment, both principal and interest, under the original loan and under the restructured loan contracts;

(1.4) debtor's management quality assessment, focusing on organizational efficiency, in case of reorganization that may be necessary, such as the restructure of shareholders, directors, executives, reorganization management system;

(1.5) completeness of documentation for debt restructuring consideration;

(1.6) Specialized Financial Institutions collateral appraisal (if any) according to the Policy Guideline of the Bank of Thailand Re: Appraisal of Collaterals and Immovable Properties for Sale Obtained from Debt Payment for Specialized Financial Institutions;

(1.7) methodological approach or assumptions using in projecting cash flows shall be based on a foundation of reasonableness and probability;

However, for the said projected cash flows, Specialized Financial Institutions shall not include cash flows that are not yet certain to be received, such as the principal, or the right to increase interest rates in case the debtor's business is revived or the right to convert convertible debentures in the computation of the present value of cash flows.

(1.8) consideration, conclusion and authorization with respect to the relaxation of conditions which should be given for the purpose of debt restructuring such as reduction of interest rate, reduction of principal, reduction of default interest and extension of debt payment period, however, such conditions must be consistent with the economic life of the debt or the service period of the economic life of the debt; The modified condition must be consistent with the debtor's ability for debt repayment; and help improving the debtor's financial standing until the debtor is perpetually capable of making payments under the new conditions;

(1.9) debt payment schedule after the change in debt payment conditions that consistent with the debtor's ability to repay;

(1.10) details on financial conditions such as no dividend payment, capital decrease so that the existing shareholders will bear the present incurred obligations prior to debt restructuring, capital increase, reservation to raise interest rates commensurate with the debtor's ability to repay;

(1.11) various documentation and contracts relating to debt restructuring so that they are fully valid and enforceable under the law;

(1.12) for any extension of loan to the debtor after debt restructuring, Specialized Financial Institution must clearly specify the objectives for which the additional loan is intended, that it must not be purposely used for paying off the existing loan.

**(2) Follow up procedures after debt restructuring.** Specialized Financial institutions must establish an especially close follow-up system after debt restructuring to ensure that the debtor is capable of fulfilling the conditions of the new contract, for example:

(2.1) The debtor shall be required to prepare a progress report to be presented to executives. Such report shall address the most recent developments, the current action plans and the prospect for complete debt repayment;

(2.2) The debtor shall be required to submit financial statements as well as a report on its compliance with various financial conditions such as no dividend payment, capital decrease, capital increase;

(2.3) Specialized Financial Institutions must establish solutions to the problem in case where the debtor is unable to make payments as agreed or fails to fulfill any debt restructuring condition.

### **3.2.3 Accounting Procedures Concerning Debt Restructuring**

Specialized Financial institutions, with regards to accounting procedures for debt restructuring, shall comply with the relevant accounting standards stipulated by the Federation of Accounting Professions.

### **3.2.4 Calculation of Loss in Debt Restructuring**

In calculating loss derived from debt restructuring, Specialized Financial Institutions shall comply with the following:

(1) For the troubled debt restructuring through the relaxation of payment conditions granted to debtor, Specialized Financial Institutions shall record any loss arising from the calculation of the new book value of outstanding loans according to the

accounting standards related to troubled debt restructuring prescribed by the Federation of Accounting Professions, by using any of the following values:

(1.1) the present value of expected future cash flows under the new payment conditions of debt restructuring shall be calculated by applying the discount rate set forth in the above-mentioned accounting standard;

(1.2) fair value of debt;

(1.3) where debt restructuring relies on collateral, the fair value of collateral shall then be used.

Where the new book value is calculated at such value lower than the current book value plus accrued interest receivables recorded in the account, Specialized Financial Institutions must recognized all losses incurred in its Statement of Income and Other Comprehensive Income in that period. In making provision for such losses as doubtful debts, Specialized Financial Institutions shall comply with the Notification of the Bank of Thailand Re: Regulations on Asset Classification and Provisioning for Specialized Financial Institutions.

(2) In case loan repayment is made to Specialized Financial Institutions through the transfer of assets or financial instruments, or accepting debtor's capital arising from a debt-equity swap, Specialized Financial Institutions must write off all debts and record the assets received at the fair value of the assets deducted by the estimated selling expense. Losses shall immediately be recorded in Statement of Income and Other Comprehensive Income at the time of transfer, by taking into consideration the existing provision for doubtful debts. Specialized Financial Institutions shall not record the assets received at the higher of the book value of debt plus accrued interest to which Specialized Financial Institutions are entitled according to the law.

For partial debt repayment made to Specialized Financial Institutions through the transfer of assets or financial instruments, or accepting debtor's capital arising from a debt-equity swap, proceedings shall be done in accordance with clause (2) before proceeding according to clause (1) for the debt remaining.

(3) Upon completion of the debt restructuring, Specialized Financial Institutions shall classify the debts and make provision for such debtor under the Notification of the Bank of Thailand Re: Regulations on Asset Classification and Provisioning of Specialized Financial Institutions.

(4) During the period of monitoring the outcome of the debt restructuring conditions under the new debt restructuring agreement of no less than 3

consecutive months or 3 consecutive payment installments, whichever is longer, Specialized Financial Institutions shall recognize its income on a cash basis.

For the debtor having had its debt restructured and has been reclassified as Pass in accordance with the Notification of the Bank of Thailand Re: Regulations on Asset Classification and Provisioning of Specialized Financial Institutions. Specialized Financial Institutions may again recognize income on an accrual basis.

(5) After debt restructuring, Specialized Financial Institutions must review the quality of the debt at least once a year. If Specialized Financial Institutions discover any significant changes in the amount or due date of cash flows, and interest rate or fair value of debt or fair value of collateral from previously recorded valuations, Specialized Financial Institutions must revalue the book value of the debt by applying clause (1). The revaluation of book value shall be made against the provisions for doubtful debt. In any event, the book value of the restructured loan must never exceed the book value previously recorded or the investment in the debtor (the amount given by Specialized Financial Institutions to acquire the debt where the debt acquired is subject to restructuring).

(6) With respect to non-performing consumer debts that have been restructured, such as credit card debts and hire-purchase debts, Specialized Financial Institutions may compute the losses cumulatively through statistics or may proceed in accordance with Clause (1).

### **3.2.5 Portfolio Debt Restructuring or Other Type of Debt Restructuring**

In case Specialized Financial Institutions conduct portfolio debt restructuring or other type of debt restructuring where the process is different from the rules stated in this Policy Guideline, Specialized Financial Institutions shall consult the Bank of Thailand.

### **3.2.6 Regulatory**

If the Bank of Thailand deems the restructuring of any debt to be influenced by an intention to delay asset classification and the maintenance of provisions, or avoiding the recognition of accrued interest as income including the case that the documentation and analysis of financial standing and debt repayment ability have been improperly prepared; or it is clearly seen that a debtor is incapable of fulfilling the terms of the debt restructuring agreement; or there has been any act inconsistent with the rules of the Bank of Thailand, the Bank of Thailand may consider ordering Specialized Financial Institutions to reclassify that debt and make adequate provisions or cease the interest recognition as income and also to remove the record of accrued interest from its accounts.

#### 4. Effective Date

This Policy Guideline shall be effective on 1 January 2017 onwards.

**Announced on 11<sup>st</sup> October 2016**

(Mr. Veerathai Santiprabhob)

Governor

Bank of Thailand

Specialized Financial Institutions Supervision and Examination Department

Tel. 0 2283 5815, 0 2283 6378

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