

Unofficial Translation

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

Bank of Thailand Policy Guideline

Re: Credit Review by Specialized Financial Institutions

1. Rationale

Credit risk is a key risk in Specialized Financial Institutions' transactions. Credit review is thus, an important tool for risk management which helps confirm that the credit process and all other post-approval credit procedures follow the rules and practices as stipulated by Specialized Financial Institutions, including the accuracy in debtor classification and provisioning.

Therefore, the Bank of Thailand hereby prescribes this Policy Guideline on Credit Review to ensure that credit review is in fact, utilized as a credit management tool. A critical consideration is to organize credit review according to the credit approval process which is composed of different steps depending on transaction types e.g. large corporate credit, small corporate credit, retail credit, credit-like transaction and other credit-related transaction mandated by the establishment of each Specialized Financial Institution. In this connection, credit review rate depends on the characteristics of credit transaction concerned together with the internal risk assessment by each Specialized Financial Institution. Credit review shall cover the entire credit process, including post-approval credit procedures. By conducting credit review, Specialized Financial Institutions will be able to discover weaknesses in their credit process and post-approval credit procedures, thus, allowing such weaknesses to be addressed.

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,

3.1.1 “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.

3.1.2 “Credit transaction” means granting of credits, contingent liabilities and credit-like transactions mandated by the establishment of each Specialized Financial Institution.

3.1.3 “Corporate debtor” means a debtor who borrows for the purpose of business operation or a purpose relating to business operation. It shall include the following counterparties: Bank of Thailand, commercial bank, finance company, securities company, credit foncier company, all Specialized Financial Institutions, including Islamic Bank of Thailand (except Thai Credit Guarantee Corporation), savings and credit cooperative, federation of savings and credit cooperative, credit union, life insurance company or Financial Institutions Development Fund situated in Thailand, international financial institution that Thailand is a member or other financial institution registered and situated in a foreign country e.g. central bank, commercial bank and investment bank. Corporate debt shall be categorized as follows.

(1) Large corporate debtor

(1.1) Corporate debtors of Government Savings Bank, Small and Medium Enterprise Development Bank of Thailand and Export-Import Bank of Thailand with credit line or outstanding balance of 20 million baht and higher.

(1.2) Corporate debtors of Bank for Agriculture and Agricultural Cooperatives and Government Housing Bank with credit line or outstanding balance of 10 million baht and higher.

(2) Small corporate debtor

(2.1) Corporate debtors of Government Savings Bank, Small and Medium Enterprise Development Bank of Thailand and Export-Import Bank of Thailand with credit line or outstanding balance of less than 20 million baht.

(2.2) Corporate debtors of Bank for Agriculture and Agricultural Cooperatives and Government Housing Bank with credit line or outstanding balance of less than 10 million baht.

3.1.4 "Retail debtor" means a debtor who borrows for the purpose of consumption e.g. housing loan, credit card loan, personal loan and hire purchase. It shall include retail debt for a business purpose under supervision.

3.2 Review rules

Specialized Financial Institutions shall review the credit process for its entirety, including the accuracy in debtor classification and provisioning. The review shall be considered as part of the risk management control system and shall comprise at least the following requirements.

3.2.1 Analysis of debtors' repayment ability in the stipulated timeframe, collateral appraisal and credit approval shall comply with the credit policies, procedures and practices as stipulated by Specialized Financial Institutions. All necessary supporting documents of each debtor shall be kept in individual debtor file.

3.2.2 Accuracy and completeness of related juristic acts shall comply with the conditions for credit approval e.g. preparation of loan agreement, preparation of guarantee agreement and pledging of collateral.

3.2.3 Credit line usage shall comply with the conditions indicated in the loan agreement and shall be monitored to ensure consistency with the intended purpose, particularly for corporate debtors.

3.2.4 Credit line review shall comply with the set timeframe. Changes in risks shall be considered in accordance with Specialized Financial Institutions' credit policies.

3.2.5 Debtor classification and provisioning shall comply with the Notification of the Bank of Thailand Re: Regulations on Asset Classification and Provisioning of Specialized Financial Institutions.

3.2.6 Procedures for debtors with debt repayment difficulties shall indicate the status or step which Specialized Financial Institutions are at in the process of dealing

with such debtors e.g. debt restructuring, litigation or collateral enforcement, including a brief summary of measures taken.

3.2.7 Compliance with the laws and regulations e.g. Single Lending Limit, credit transactions to a major shareholder other than the Ministry of Finance and related lending and credit transactions to Specialized Financial Institutions' directors and management.

3.3 Review rate

The Bank of Thailand sets the credit review rate for Specialized Financial Institutions undertaking the business of granting credits by considering the credit line or outstanding balance, internal risk assessment by Specialized Financial Institutions and evaluation of credit review process efficiency by Bank of Thailand's examiners. In this regard, the Bank of Thailand may request Specialized Financial Institutions to perform additional reviews if it is considered beneficial for improving the efficiency of the credit review process.

3.3.1 Corporate debtor

For Government Savings Bank, Bank for Agriculture and Agricultural Cooperatives, Government Housing Bank, Small and Medium Enterprise Development Bank of Thailand and Export-Import Bank of Thailand, review rate for assets classified as pass and special mention has been prescribed whereby the review shall be conducted at least once every fiscal year according to the following requirements.

(1) Large corporate debtor

For large corporate debtors of each Specialized Financial Institution as indicated in 3.1.3, the number of reviews in each year shall be set according to the review rate that each Specialized Financial Institution employs in accordance with its internal risk assessment. The number of credit reviews shall not be less than 50 percent of the outstanding balance of large corporate debtors of each Specialized Financial Institution.

The review shall include the ten largest debtor groups and shall not be less than 80 percent of the outstanding balance for each group. Additionally, new debtors who are granted credits within the past year (from the date of review plan preparation) shall be reviewed. All sizes of credit line and debtor groups with higher risk outlook shall also be included.

(2) Small corporate debtor

For small corporate debtors of each Specialized Financial Institution as indicated in 3.1.3, the individual Specialized Financial Institution may prescribe review

rate based on a statistical method that is reliable and presents a certain level of confidence and accuracy that is theoretically explainable.

3.3.2 Retail debtor

For Government Savings Bank, Bank for Agriculture and Agricultural Cooperatives, Government Housing Bank, Small and Medium Enterprise Development Bank of Thailand and Export-Import Bank of Thailand, review rate for each year shall be set based on a statistical method that is reliable and presents a certain level of confidence and accuracy that is theoretically explainable. The review shall be conducted at least once every fiscal year or more.

3.3.3 Non-performing loan (NPL)

For Government Savings Bank, Bank for Agriculture and Agricultural Cooperatives, Government Housing Bank, Small and Medium Enterprise Development Bank of Thailand and Export-Import Bank of Thailand, review shall be conducted for corporate debtors classified as substandard, doubtful and doubtful of loss (except corporate debtors classified as substandard, doubtful and doubtful of loss for more than two years from the date of review plan preparation and the debtors have been subject to judicial proceedings by Specialized Financial Institutions). Review rate for each year shall be set based on a statistical method that is reliable and presents a certain level of confidence and accuracy that is theoretically explainable. The number of reviews shall not be less than 5 percent of the outstanding balance of such debtor group of each Specialized Financial Institution.

3.4 Review of group guarantees

In case of group guarantees, Thai Credit Guarantee Corporation shall review the entire operational process to ensure alignment with the rules and criteria as stipulated. In this regard, Thai Credit Guarantee Corporation may perform additional reviews of debtor portfolios to assist in considering future improvement of the guarantee process and conditions.

3.5 Review of debt portfolio purchases

In case of debt portfolio purchases, Secondary Mortgage Corporation shall review the entire operational process to ensure alignment with the policies, rules and criteria as stipulated. In this regard, Secondary Mortgage Corporation may perform additional reviews of debtor portfolios to assist in considering future improvement of the debt portfolio purchase process and conditions.

3.6 Review of contingent liabilities

When reviewing debtors' credit transactions, Specialized Financial Institutions shall also review the debtors' contingent liabilities with a credit conversion factor of one. However, Specialized Financial Institutions shall review contingent liabilities with a credit conversion factor of one and contingent liabilities with a credit conversion factor of less than one for the 20 largest customers in terms of outstanding contingent liabilities even if the customers do not have any outstanding credits or credit-like transactions.

3.7 Setting review procedures and responsibilities

Specialized Financial Institutions shall arrange to have review unit and review process that is independent and separate from the department or function with the authority in credit approval. Such unit and process shall not be related to credit operations, credit approval or collateral appraisal. Roles and responsibilities of reviewers shall also be clearly prescribed.

3.8 Review plan

Specialized Financial Institutions shall prepare annual review plan and submit to their respective Boards of Directors for approval within 60 days from the end of fiscal year. In this regard, Boards of Directors of Specialized Financial Institutions may delegate other committees to approve annual review plan and submit to the Boards of Directors for acknowledgement within 60 days from the end of fiscal year. The plan shall be kept onsite at the Specialized Financial Institutions to allow for examination by Bank of Thailand examiners. Authorized units or committees shall report progress, problems and challenges pursuant to credit review, along with resolution measures to their respective boards of directors on a quarterly basis. Documents of all debtors reviewed shall be kept in a complete and easily accessible manner to facilitate examination by the Bank of Thailand.

3.9 Preparing review-related reports

Specialized Financial Institutions shall prepare reports on reviews carried out for large corporate debtors, small corporate debtors and retail debtors, using the forms prescribed by the Bank of Thailand (attachment).

In this regard, Specialized Financial Institutions shall retain all types of document and review evidence, including document and evidence for the review of the operational process, together with relevant report forms for examination by the Bank of Thailand.

4. Effective Date

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

Announced on 11th October 2016

(Mr. Veerathai Santiprabhob)

Governor

Bank of Thailand

Specialized Financial Institutions Supervision and Examination Department

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Name of the entity.....
Review Summary for Large Corporate Debtors by Random Sampling
As of

Unit: Billion

Group/type Large Corporate Debtors Reviewed	Credit Line		Outstanding Balance	
	Credit/Transaction (A)	Contingent Liabilities Lmite (B)	Credit/Transaction (C)	Contingent Liabilities Limit (D)
1. Name of Debtors				
1.1				
1.2				
1.3				
1.4				
1.5				
1.6				
1.7				
1.8				
1.9				
1.10				
2. Total Large Corporate Debtors Reviewed (.....)				
3. Total Large Corporate Debtors (.....)				
4. Summary of review rate (percent)	(E)	(F)	(G)	(H)

Explanation for Preparation of Review Summary for Large Corporate Debtors by Random Sampling

General Statement

In case Specialized Financial Institutions conduct credit transactions with large corporate debtors, Specialized Financial Institutions shall prepare a table of review summary for large corporate debtors by random sampling. This constitutes a summary report on the review of large corporate debtors by a statistical random sampling method.

Definitions of Items

1. **Group/type of large corporate debtors reviewed** means a group/type of debtors classified according to the definition of related person. The followings shall be indicated.

(A) Credit line/transaction limit – report total credit lines and credit transactions to each group/type of large corporate debtors.

(B) Contingent liabilities limit – report total contingent liabilities limits, excluding credit lines and credit transactions to each group/type of large corporate debtors.

(C) Outstanding balance of credits/transactions – report total outstanding balance of credits and credit transactions to each group/type of large corporate debtors.

(D) Outstanding balance of contingent liabilities – report total outstanding balance of contingent liabilities to each group/type of large corporate debtors.

2. **Total large corporate debtors reviewed** – report total credit lines/transactions, outstanding balances of credits/transactions and outstanding balance of contingent liabilities of large corporate debtors reviewed. Specialized Financial Institutions' total number of groups/types of large corporate debtors reviewed shall also be reported.

3. **Total large corporate debtors** – report total credit lines/transactions, outstanding balances of credits/transactions and outstanding balance of contingent liabilities of large corporate debtors of Specialized Financial Institutions. Specialized Financial Institutions' total number of groups/types of large corporate debtors shall also be reported.

4. **Summary of review rate (percent)** – report

(E) Percentage of total credit lines/transactions of large corporate debtors reviewed to total credit lines/transactions of total large corporate debtors

(F) Percentage of total contingent liabilities limits of large corporate debtors reviewed to total contingent liabilities limits of large corporate debtors

(G) Percentage of total outstanding balance of credits/transactions of large corporate debtors reviewed to total outstanding balance of credits/transactions of large corporate debtors

(H) Percentage of total outstanding balance of contingent liabilities of large corporate debtors reviewed to total outstanding balance of contingent liabilities of large corporate debtors

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Name of the entity.....
 Review Summary for Small corporate debtor by Random Sampling
 As of

Unit: Thousand

Items	Outstanding Balance			Random Samples			Percent		
	Number of cases (A)	Credit/Transaction (B)	Contingent Liabilities Limit (C)	Number of cases (D)	Credit/Transaction (E)	Contingent Liabilities Limit (F)	Number of cases (D)/(A)	Credit/Transaction (E)/(B)	Contingent Liabilities Limit (F)/(C)
1. Group/Credit Portfolio/ Type of small corporate debtor									
1.1									
1.2									
1.3									
1.4									
1.5									
1.6									
1.7									
1.8									
1.9									
1.10									
2. Total									

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Explanation for Preparation of Review Summary for Small corporate debtor by Random Sampling

General Statement

In case Specialized Financial Institutions conduct credit transactions with small corporate debtors, Specialized Financial Institutions shall prepare a table of review summary for small corporate debtors by random sampling. This constitutes a summary report on the review of small corporate debtors by a statistical random sampling method.

Definitions of Items

1. **Group/Credit Portfolio/Type of small corporate debtors** means a group or credit portfolio or type of small corporate debtors classified by Specialized Financial Institutions according to credit/transaction types, products or objectives, to be used in a statistical random sampling of debtors to be reviewed e.g. small-sized enterprise debtor and medium-sized enterprise debtor. The following details shall be shown.

(1) Number of debtor and outstanding balance of credit transactions of small corporate debtors in each group or credit portfolio or type of small corporate debtors.

(2) Number of random samples in terms of number of debtor and outstanding balance of small corporate debtors in each group or credit portfolio or type of small corporate debtors.

(3) Percentage of reviews to total number of debtor and to outstanding balance of small corporate debtors in each group or credit portfolio or type of small corporate debtors.

2. **Total** – report total outstanding balance, random samples and ratio of total random samples to total outstanding balance of small corporate debtors.

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Name of the entity.....

Review Summary for Retail Debtors by Random Sampling

As of

Unit: Thousand

Items	Outstanding Balance			Random Samples			Percent		
	Number of cases (A)	Credit/Transaction (B)	Contingent Liabilities Limit (C)	Number of cases (D)	Credit/Transaction (E)	Contingent Liabilities Limit (F)	Number of cases (D)/(A)	Credit/Transaction (E)/(B)	Contingent Liabilities Limit (F)/(C)
1. Group/Credit Portfolio/ Type of retail debtors									
1.1									
1.2									
1.3									
1.4									
1.5									
1.6									
1.7									
1.8									
1.9									
1.10									
2. Total									

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Explanation for Preparation of Review Summary for Retail Debtors by Random Sampling

General Statement

In case Specialized Financial Institutions conduct credit transactions with retail debtors, Specialized Financial Institutions shall prepare a table of review summary for retail debtors by random sampling. This constitutes a summary report on the review of retail debtors by a statistical random sampling method.

Definitions of Items

1. **Group/Credit Portfolio/Type of retail debtors** means a group or credit portfolio or type of retail debtors classified by Specialized Financial Institutions according to credit/transaction types, products or objectives, to be used in a statistical random sampling of debtors to be reviewed e.g. housing loan debtor and hire purchase debtor. The following details shall be shown.

(1) Number of debtor and outstanding balance of credit transactions of retail debtors in each group or credit portfolio or type of retail debtors.

(2) Number of random samples in terms of number of debtor and outstanding balance of retail debtors in each group or credit portfolio or type of retail debtors.

(3) Percentage of reviews to total number of debtor and to outstanding balance of retail debtors in each group or credit portfolio or type of retail debtors.

2. **Total** – report total outstanding balance, random samples and ratio of total random samples to total outstanding balance of retail debtors.