

**Unofficial Translation**

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Please refer to Thai text for the official version.

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**Notification of the Bank of Thailand**

**No. SVG. 19/2559**

**Re: Regulations on Supervision of Specialized Financial Institutions  
Operating Financial Business under the Islamic Principles**

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**1. Rationale**

As the Islamic Bank of Thailand has operated non-interest based financial business and other businesses in accordance with the Islamic principles such as trade based financing (Murabahah), joint partnership (Musharakah), joint venture (Madarabah), and leasing (Ljarah) which are the businesses that offer financial products and services which satisfy depositors, borrowers, investors, and partners in accordance with the Islamic principles.

However, Islamic financial services are different from financial services provided by other Specialised Financial Institutions that offering interest-based financial services. Thus, the Bank of Thailand hereby issues the Notification to set out the regulations on supervision of Specialised Financial Institutions operating financial business and other businesses in accordance with the Islamic principles by using the same principles as those applied to other Specialised Financial Institutions and set out additional regulations, such as corporate governance regulations, that are suitable with the financial business under the Islamic principles and will help enhance efficiency, transparency, and reliability of its operations and also in line with the Islamic principles which will promote the competitiveness and enhance the stability of business operations which will finally lead to the long-term stability and sustainability of the economy as a whole.

**2. Statutory Power**

By virtue of Sections 4, 24, 25, 26, 27, 29, 30, 31, 50, 52, 60, 61, 62, 64, 65, 66, 67, 71, 81(2), and 84 , together with that of Section 120 of the Financial Institutions Business Act B.E. 2551, whereby the Bank of Thailand, upon approval of the Minister of Finance, has issued the regulations on supervision of Specialized Financial Institutions operating non-interest based financial business and other businesses in accordance with the Islamic principles for the Islamic Bank of Thailand to comply with the provisions in this Notification.

### 3. Scope of Application

This Notification shall be applied to Islamic Bank of Thailand.

### 4. Contents

#### 4.1 Definitions

**In this Notification,**

“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.

“Financial business under Islamic principles” means the non-interest based financial business and other businesses in accordance with the Islamic principles.

#### 4.2 Principles for Supervision

The Bank of Thailand prescribes the regulations on supervision of Specialized Financial Institutions operating financial business in accordance with the Islamic principles to be applied to the Islamic Bank of Thailand. These regulations are in line with the principles for supervision applied to other Specialized Financial Institutions; however, additional regulations are set out to be suitable with the financial business under the Islamic principles.

#### 4.3 Regulations on Corporate Governance

4.3.1 The Islamic Bank of Thailand shall implement a good governance and management system in line with other Specialized Financial Institutions. In this regard, the following provisions of the Notification of the Bank of Thailand for Specialized Financial Institutions shall be applied mutatis mutandis.

(1) The Notification of the Bank of Thailand Re: Corporate Governance of Specialized Financial Institutions.

In addition to comply with the above Notification, the Islamic Bank of Thailand shall also comply with the following additional requirements.

(1.1) The composition of the board of directors of the Islamic Bank of Thailand shall be in compliance with the Islamic Bank of Thailand Act, the Standard Qualifications of State Enterprises Directors and Officials Act, other laws, or other related regulations (if any).

(1.2) The authorities and duties of the board of directors of the Islamic Bank of Thailand include establishing appropriate policies, management process, and monitoring and auditing systems to ensure compliance of the Islamic Bank of Thailand's business operations with the Islamic principles.

(1.3) The board of directors shall appoint subcommittees as other Specialized Financial Institutions and an advisory council of the Islamic Bank of Thailand with having composition, qualifications, duties, and responsibilities as prescribed in the Islamic Bank of Thailand Act. When appointing advisory council members, the Islamic Bank of Thailand shall consider a person who possess the qualifications and experience in Islamic principles or other relevant areas that are beneficial to financial business under the Islamic principles.

(1.4) Roles and responsibilities of the advisory council of the Islamic Bank of Thailand shall include as follows:

(1.4.1) Give advices, recommendations or opinions on the operations relevant to the Islamic principles including policies, rules, manuals, and procedures, as well as, appropriate product and service features in order to ensure that their operations are not in conflict with the Islamic principles.

(1.4.2) Advise the Islamic Bank of Thailand to have appropriate and effective corporate governance and auditing system that are related to the Islamic principles.

(1.4.3) If there is reasonable doubt that there is any transaction or action that is in conflict with the Islamic principles, the advisory council shall report the event to the board of directors of the Islamic Bank of Thailand; then, the board of directors shall inform management to make improvement or correction within the timeframe set by the board of directors of the Islamic Bank of Thailand.

If the board of directors of the Islamic bank of Thailand or the management does not undertake corrective action or make improvement as reported by the advisory council of the Islamic Bank of Thailand, the advisory council shall disclose such event in annual report and report the event to the Bank of Thailand.

(1.4.4) Prepare a report on corporate governance under the Islamic principles in order to give opinions on business operations under the Islamic principles as well as disclose transactions or actions that are in conflict with the Islamic principles in the annual report of the Islamic Bank of Thailand.

(1.5) Set up the process for reviewing internal control system, internal audit, and compliance with related laws and review of internal control system,

internal audit, and compliance with policies, rules, manuals, and operating procedures related to the Islamic principles as well as the advisory council's recommendations. The result of the review of internal audit and compliance with the Islamic principles must be reported to the advisory council of the Islamic Bank of Thailand.

(2) The Notification of the Bank of Thailand Re: Qualifications and Prohibited Characteristics of Non Ex-officio Directors, Managers, Persons with Power of Management and Advisors of Specialized Financial Institutions.

(3) The Notification of the Bank of Thailand Re: Specialized Financial Institution Directors' Authorities and Duties which the Bank of Thailand Regards as the Most Important.

(4) The Notification of the Bank of Thailand Re: Regulations on Approving the Appointment of Non Ex-officio Directors, Managers, Persons with Power of Management and Advisors of Specialized Financial Institutions.

#### **4.4 Regulations on Risk Management**

##### **4.4.1 Credit Risk Management**

The Islamic Bank of Thailand must establish processes for approval of credits, undertaking contingent liabilities, credit-like transactions, investment in securities, and sale of assets, and must have appropriate credit risk management system as other Specialized Financial Institutions. In this regard, the following Notification of the Bank of Thailand for Specialized Financial Institutions shall be applied mutatis mutandis.

(1) The Policy Guideline of the Bank of Thailand Re: Undertaking of Credit Transactions, Securities Investment and Sales of Assets by Specialized Financial Institutions.

To comply with the above Policy Guideline, the Islamic Bank of Thailand should set out types of loan that need particular caution before granting a loan, especially commercial loan, or types of loan having features that may be in conflict with the Islamic principles, as well as, loan that does not help enhance long-run economic productivity of the country; for example, speculative business, import business that import luxury goods, business that is contrary to good morals, and implement segregation of duties related to credit transactions as other Specialized Financial Institutions, and assign the responsible person to review the compliance with the requirements after loan is approved.

(2) The Notification of the Bank of Thailand Re: Regulations on Large Exposures (Single Lending Limit) for Specialized Financial Institutions.

To comply with the above Notification, the Islamic Bank of Thailand is allowed to grant credits, make investments, undertake contingent liabilities or credit-like transactions to any person at the end of day for not exceeding 200 million baht. The guideline on calculation approach, treatment of debtors, and exceptions and relaxation of Single Lending Limit are in line with the regulations for other Specialized Financial Institutions.

(3) The Policy Guideline of the Bank of Thailand Re: Credit Review by Specialized Financial Institutions.

To comply with the above Policy Guideline, the Islamic Bank of Thailand shall apply the following definitions when determining the percentage of debtors selected for credit review. In this regard, corporate debtor with large credit limit means corporate debtor with aggregate credit line or outstanding balance of credit of 20 million baht or more, and corporate debtor with low credit limit means corporate debtor with aggregate credit line or outstanding balance of credit of less than 20 million baht.

(4) The Notification of the Bank of Thailand Re: Regulations on Asset Classification and Provisioning of Specialized Financial Institutions.

To comply with the above Notification, the Islamic Bank of Thailand shall classify assets, set aside provision, and write off loans by considering past due of principal or expected financial income from such loan such as profit from lending transaction.

(5) 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.

To comply with the above Notification, the Islamic Bank of Thailand shall perform valuation of assets held as collaterals for loan, lending business, or other financial services under the Islamic principles that are similar to collateral.

(6) The Policy Guideline of the Bank of Thailand Re: Debt Restructuring for Specialized Financial Institutions.

To comply with the above Notification, debt restructuring of the Islamic Bank of Thailand shall include general debt restructuring and troubled debt restructuring that help optimizing repayment performance or maximizing the benefits of debtors and the Islamic Bank of Thailand especially debtors who are facing financial distress caused by an impact of economic conditions but still having potential to continue their businesses. Debt restructuring must not be used as a channel for avoiding

non-performing loan classification and provisioning or avoiding the on suspension of accrued financial income as income. Therefore, the Islamic Bank of Thailand shall comply with the regulations regarding on debt restructuring as prescribed in the attachment.

(7) The Notification of the Bank of Thailand Re: Regulations on Loan Guaranteed by the Thai Credit Guarantee Corporation under the Portfolio Guarantee Scheme for Specialized Financial Institutions.

(8) The Notification of the Bank of Thailand Re: Regulations on the Public Service Account (PSA).

To comply with the above Notification, credit transactions shall include granting credits, undertaking contingent liabilities, credit-like transactions, lending in accordance with the Islamic principles, cash withdrawal (overdraft), trade credit, and other financial services related to lending and credit granted which are common practices for commercial banks, Specialized Financial Institutions, or the Islamic Bank of Thailand.

#### **4.4.2 Liquidity Risk Management**

(1) The Islamic Bank of Thailand must hold liquid assets same as other Specialized Financial Institutions. In this regard, the Notification of the Bank of Thailand Re: Regulations on the Maintenance of Reserve Requirements for Specialized Financial Institutions shall be applied mutatis mutandis.

To comply with the above Notification, liquid assets include financial instruments in accordance with the Islamic principles having similar characteristics to the financial instruments that are considered to be liquid assets under the Notification of the Bank of Thailand Re: Regulations on the Maintenance of Reserve Requirements for Specialized Financial Institutions such as Sukuk securities.

(2) The Islamic Bank of Thailand should have a sound liquidity risk management system to ensure that there is adequate liquidity buffer to pay debts and obligations when they fall due or be redeemed under normal or stress circumstances. The Islamic Bank of Thailand shall submit all related liquidity risk reports to the Bank of Thailand as other Specialized Financial Institutions. In this regard, the Policy Guideline of the Bank of Thailand Re: Liquidity Risk Management for Specialized Financial Institutions shall be applied mutatis mutandis.

#### **4.4.3 Risk management for Other Types of Risk**

The Islamic Bank of Thailand must have appropriate strategic risk management system, market risk management system, and operational risk management system, as well as risk management system for other types of risk that may arise from undertaking of financial business under the Islamic principles which may impact financial

position, performance, reputation, and reliability of the Islamic Bank of Thailand such as rate of return risk. In this regard, the international standards set by international standards-setting organization such as the Islamic Financial Services Board shall be applied mutatis mutandis.

Operational risk management of the Islamic Bank of Thailand includes the management of risk of loss resulting from internal events such as inadequate or failed internal processes, people and systems of the Islamic Bank of Thailand, or external events including legal risk and operational risk in accordance with the Islamic principles such as risk arising from the failure to comply with the Islamic principles.

#### **4.5 Regulations on Supervision of Capital Adequacy**

The Islamic Bank of Thailand shall maintain a minimum capital requirement as other Specialized Financial Institutions. In this regard, the following Notifications of the Bank of Thailand for Specialized Financial Institutions shall be applied mutatis mutandis.

(1) The Notification of the Bank of Thailand Re: Regulations on Supervision of Capital for Specialized Financial Institutions.

(2) The Notification of the Bank of Thailand Re: Components of Capital of Specialized Financial Institutions.

To comply with the above Notification, composition of capital fund of the Islamic Bank of Thailand shall also include fund received from issuing financial instruments under the Islamic principles with characteristics that are similar to financial instruments considered to be capital fund of Specialized Financial Institutions.

(3) The Notification of the Bank of Thailand Re: Regulations on the Calculation of Credit Risk-Weighted Assets for Specialized Financial Institutions.

To comply with the above Notification, when calculating credit risk weighted assets, the Islamic Bank of Thailand must take into account risk arising from undertaking of lending transactions and other types of financial services under Islamic principles.

(4) The Notification of the Bank of Thailand Re: Regulations on Supervision of Market Risk and the Calculation of Market Risk-Weighted Assets for Specialized Financial Institutions.

To comply with the above Notification, when calculating market risk weighted assets, the Islamic Bank of Thailand must take into account risk arising from undertaking of lending transactions and other types of financial services under Islamic principles. For example, lending in form of buying and selling of goods where

the Islamic Bank of Thailand must hold assets in its own account over a certain period of time which may build up market risk from asset price movements.

(5) The Notification of the Bank of Thailand Re: Regulations on calculating the value Equivalent to Operational Risk-Weighted Assets for Specialized Financial Institutions.

(6) The Notification of the Bank of Thailand Re: Regulations on the Public Service Account (PSA) in the section related to regulatory capital requirements.

#### **4.6 Regulations on Accounting Records and Preparation of Financial Statements**

The Islamic Bank of Thailand shall record transactions, prepare and publish financial statements as other Specialized Financial Institutions. In this regard, the following Notifications of the Bank of Thailand for Specialized Financial Institutions shall be applied mutatis mutandis.

(1) The Notification of the Bank of Thailand Re: Requirements on Accounting for Specialized Financial Institutions.

To comply with the above Notification, the Islamic Bank of Thailand shall recognize financial income or installment received from lending transaction on an accrual basis at the end of the month and comply with the requirements for recognition of income from lending transactions as follows:

(1.1) In case where financial income or installment is past due for not more than 3 months, the Islamic Bank of Thailand can recognize income based on the amount of payment received.

(1.2) In case where the Islamic Bank of Thailand receives partial of financial income, the amount received shall be deducted from the accrued financial income receivable previously recognized as income before deducting the remaining amount from the accrued financial income receivable that has not been recognized.

(1.3) Under the following events, the Islamic Bank of Thailand shall suspend to recognize financial income or installment as income and reverse the financial income or installment that the Islamic Bank of Thailand has already recognized as income by referring to the method used for counting day past due for income recognition in Attachment 2 of the Notification of the Bank of Thailand Re: Requirements on Accounting for Specialized Financial Institutions.

(1.3.1) When debtor from loan, debtor from guarantee, or debtor from acceptance, aval or intervention for honor in bill of exchange, fails to pay financial income for more than 3 months from payment due date.



(1.3.2) When debtor withdraws cash from account (overdraft) without credit line, the credit line being cancelled or overdrawn amount exceeding overdraft limit, and the outstanding balance due left unpaid for more than 3 month from payment due date or financial income is partially paid but the accrued financial income remains past due for more than 3 months.

(1.3.3) When hire purchase debtor fails to pay installment for more than 3 months from payment due date.

(1.3.4) When debtor from loan, debtor from guarantee, debtor from acceptance, aval or intervention for honor in bill of exchange, or debtor from overdraft facility fails to pay financial income, or hire purchase debtor who fails to pay installment for not more than 3 months from payment due date but classified as loss, doubtful of loss, or doubtful in accordance with the regulation prescribed in Clause 4.4.1 (4)

(1.4) After suspending to recognize financial income or installment as income, the Islamic Bank of Thailand will be able to recognize income on accrual basis again when debtor pays principal and financial income that have been recognized as income and those that have not been recognized as income or pays all unpaid installments.

(2) The Notification of the Bank of Thailand Re: Preparation and Announcement of Financial Statements for Specialized Financial Institutions.

(3) The Notification of the Bank of Thailand Re: Regulations on the Public Service Account (PSA) in the section related to accounting records and preparation of financial statements.

To comply with the above Notifications, the Islamic Bank of Thailand shall record transactions and prepare financial statements by considering economic substance and facts in addition to legal form and framework for financial reports prescribed by the Federation of Accounting Professions and also comply with other related Notifications of the Bank of Thailand well as accounting standards and financial report standards in accordance with the Islamic principles approved by the Federation of Accounting Professions (if any). Where there are no applicable accounting standards or financial report standards in accordance with accounting laws or Notifications of the Bank of Thailand, the international accounting standards, international financial report standards, other generally accepted accounting standards shall be applied instead.

## **5. Transitional Provisions**

### **5.1 Transitional Provisions for Supervision of Governance**

5.1.1 The Board member who is not an ex-officio director, manager, person with power of management, and advisor of the Islamic Bank of Thailand holding position on the day prior to the effective date of this Notification shall remain in position until the end of the term. If it subsequently appears that such person does not meet the qualification requirements or have prohibited characteristics as prescribed in the Notification of the Bank of Thailand Re: Qualifications and Prohibited Characteristics of Non Ex-officio Directors, Managers, Persons with Power of Management and Advisors of Specialized Financial Institutions, the Islamic Bank of Thailand shall remove such person from position.

5.1.2 Subcommittees that being appointed on the day prior to the effective date of this Notification shall remain in position until the end of the term.

5.1.3 The Islamic Bank of Thailand is allowed to use the definition of independent director prescribed in the internal guideline of the Islamic Bank of Thailand until the Improve Governance and Management of Enterprise Act or other laws related to the definition of independent director of state enterprise shall be effective.

### **5.2 Transition Provisions for Supervision of Risk Management**

If the Islamic Bank of Thailand grants credits, makes investments, undertakes contingent liabilities or credit-like transactions to any person or related persons of that person exceeding the ratio or amount prescribed in Clause 4.4.1(2) prior to the effective date this Notification, the Islamic Bank of Thailand shall not be able to extend additional of granting credits, making investments, undertaking contingent liabilities or credit-like transactions to such person. However, to mitigate any impact on the operation of the Islamic Bank of Thailand and its customers, the Bank of Thailand set out guideline for relaxation as follows:

(1) In case of term loan, the Islamic Bank of Thailand is allowed to continue granting credits, making investments, undertaking contingent liabilities, or credit-like transactions to the contracts that the Islamic Bank of Thailand has entered into prior to the effective date of this Notification until the end of the contract term.

(2) In case of call loan, the Islamic Bank of Thailand is allowed to continue granting credits, making investments, undertaking contingent liabilities or credit-like transactions to the contract entered into prior to the effective date of that this Notification for 1 year from the day this Notification is effective.

The Islamic Bank of Thailand must keep documents and information of outstanding balance of all debtors that meet the exemption criteria at the office for inspection by the Bank of Thailand's examiners.

### **5.3 Transition Provisions for Supervision of Capital Adequacy**

5.3.1 In case where the Islamic Bank of Thailand has entered into the government rehabilitation program prior to the effective date of this Notification, the Islamic Bank of Thailand shall comply with Clause 4.5 of this Notification from 1 July 2017 onwards. If the capital adequacy ratio falls below the minimum requirement after the implementation of this Notification, the Islamic Bank of Thailand shall not be deemed in violation of this Notification until it accomplishes the rehabilitation program required by the government.

5.3.2 In case where the Islamic Bank of Thailand invests in ordinary shares and financial securities counted toward capital fund of Specialized Financial Institutions prior to the effective date of this Notification, such amount of investment shall not be deducted from the capital fund as prescribed in Clause 4.3.3 (3.1) of the Notification of the Bank of Thailand Re: Components of Capital of Specialized Financial Institutions or any further amendments.

### **5.4 Transition Provisions for Public Service Account**

Public Service Account transaction undertaken prior to the effective date of this Notification that complies with the Ministry of Finance guideline regarding to the separation of Public Service Accounts (PSA) including the public service projects undertaken through the Islamic Bank of Thailand with approving of Cabinet after 5 August 2009, is considered to be a Public Service Account according to the Notification of the Bank of Thailand Re: Regulations on the Public Service Account (PSA).

**6. Effective Date**

This Notification shall be effective on 1 January 2017 onwards.

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

(Mr. Veerathai Santiprabhob)

Governor

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Unofficial Translation

## Debt Restructuring

### 1. Definitions

“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 financial income<sup>1</sup> 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 financial income at the original contractual interest rate and the Islamic Bank of Thailand has analyzed the matter and expected to receive principal and financial income in full under the original loan contract.

“Troubled Debt Restructuring means debt restructuring where the Islamic Bank of Thailand incurs loss resulting from:

- (1) reduction, for debtor, of principal or accrued financial income 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 financial income 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.

### 2. Rules

#### 2.1 Establishing Policies and Measures on Debt Restructuring

The Islamic Bank of Thailand shall proceed as follows:

- (1) Policies and measures on debt restructuring must be established in line with the Islamic principles and clearly in writing, and approved by the Islamic Bank

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<sup>1</sup> includes the profit rate from lending transaction.

of Thailand's board of directors. Executives of the Islamic Bank of Thailand 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) The Islamic Bank of Thailand 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) The Islamic Bank of Thailand 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 Islamic Bank of Thailand may contract out another financial institution or a third person with debt restructuring expertise to carry out the debt restructuring. Except in case the Islamic Bank of Thailand 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).

## **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 financial income 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 financial income, 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) the Islamic Bank of Thailand 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, the Islamic Bank of Thailand shall not include cash flows that are not yet certain to be received, such as the principal, or the right to increase financial income 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 financial income rate, reduction of principal, reduction of default financial income 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 financial income 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, the Islamic Bank of Thailand 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**

The Islamic Bank of Thailand 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) the Islamic Bank of Thailand 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.

### **2.3 Accounting Procedures Concerning Debt Restructuring**

The Islamic Bank of Thailand shall comply with accounting standards and relevant financial report standards stipulated or approved by the Federation of Accounting Professions.

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

In calculating loss derived from debt restructuring, the Islamic Bank of Thailand shall comply with the following:

(1) For the troubled debt restructuring through the relaxation of payment conditions granted to debtor, the Islamic Bank of Thailand 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 stipulated or approved 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 financial income recorded in the account, the Islamic Bank of Thailand must recognize all losses incurred in its Statement of Income and



Other Comprehensive Income in that period. In making provision for such losses as doubtful debts, the Islamic Bank of Thailand shall comply with Clause 4.4.1 in credit risk management of this Notification.

(2) In case loan repayment is made to the Islamic Bank of Thailand through the transfer of assets or financial instruments, or accepting debtor's capital arising from a debt-equity swap, the Islamic Bank of Thailand 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.

The Islamic Bank of Thailand shall not record the assets received at the higher of the book value of debt plus accrued financial income to which the Islamic Bank of Thailand is entitled according to the law.

For partial debt repayment made to the Islamic Bank of Thailand 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, the Islamic Bank of Thailand shall classify the debts and make provision for such debtor under Clause 4.4.1 in credit risk management of this Notification.

(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, the Islamic Bank of Thailand 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 Clause 4.4.1 in credit risk management of this Notification. The Islamic Bank of Thailand may again recognize income on an accrual basis.

(5) After debt restructuring, the Islamic Bank of Thailand must review the quality of the debt at least once a year. If the Islamic Bank of Thailand discover any significant changes in the amount or due date of cash flows, and financial income rate or fair value of debt or fair value of collateral from previously recorded valuations, the Islamic Bank of Thailand 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 the Islamic Bank of Thailand 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, the Islamic Bank of Thailand may compute the losses cumulatively through statistics or may proceed in accordance with Clause (1).

## **2.5 Portfolio Debt Restructuring or Others**

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

## **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 financial income 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 the Islamic Bank of Thailand to reclassify that debt and make adequate provisions or suspend to recognize financial income or installment as income and also to remove the record of accrued financial income or installment from its accounts.