

Unofficial Translation

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

Please refer to Thai text for the official version

Policy Statement of the Bank of Thailand

Re: Valuation of Collaterals and Foreclosed Properties Obtained from Debt Settlement,
Provision of Security for Credits Granted or Purchased from a Public Auction for
Financial Institutions

1. Rationale

The Bank of Thailand has issued guidelines on the valuation of collateral for financial institutions to follow. Financial institutions shall follow these guidelines when determining the amount of provisions to be reserved in accordance with the regulations on asset classification and provisioning and thus, should place importance on the collateral valuation process in order to ensure that the value of collateral and foreclosed properties obtained from debt settlement, provision of security for credits granted, or purchased from public auctions reflects current market conditions and expected cash inflows accurately and appropriately. In addition, in practice, financial institutions have also relied on this data (collateral value) when making credit decision, including in risk assessment and setting of credit limit.

However, the changing environment and present-day technological developments enable financial institutions to access asset price information more conveniently and reliably. Therefore, to support and encourage the development of such technologies including the usage and development of each financial institution's collateral databases for the valuation of collateral and foreclosed properties, and to foster the development of a central database that financial institutions may share in the future, the Bank of Thailand shall amend guidelines on collateral valuation in this policy statement.

In this amendment, the Bank of Thailand still adheres to the principles of reliability and reflections of true value in collateral valuation. The essences of this amendment are as follows: 1) Annul the requirement that financial institutions must be the direct contractor of external valuers while preserving the principle that financial institutions valuation practices remain independence and reflect the true value of collateral in order to enhance flexibility and reduce repetitive expenses for loan applicants on the collateral valuation process. 2) Allow financial institutions to use data or technology to review the value of collaterals (market appraisal) for assets

and financial obligations that do not have significant increase in credit risk (performing) in order to reduce operational processes and unnecessary expenses for financial institutions. In this regard, financial institutions shall have a policy framework, along with accuracy testing processes (internal sandbox) prior to using data or technology in the reviewing of collateral value in order to ensure that the value of collateral is accurate, precise, and in an acceptable range and that the financial institutions shall monitor the efficiency of the use of such data or technology regularly.

Moreover, the Bank of Thailand has amended other issues in a principle-based manner to ensure that the valuation processes are flexible and appropriate for the circumstance. This enables financial institutions the ability to design their own suitable internal risk management. The amendment includes 1) Amending the definition of external valuers to include valuers in foreign countries, who are qualified and have suitable professional experience as prescribed by the professional association and/or supervised agency, in order to reduce the number of case-by-case approval. 2) Amending criteria for selecting external or internal valuer to be in line with the result of risk assessment determined based on the BOT Significant Activity Supervisory Framework (SA approach). 3) Expanding the scope of valuation standards to include valuation standards designed specifically for financial institutions transaction-related purpose. 4) Revision of asset classifications definitions to be in line with asset classifications in Thai Financial Reporting Standard No. 9, which will be effective on January 1, 2020 and 5) Amending the checks and balances mechanism on the reliability of the valuation results by the approval Committee for collaterals that have reliable sources of reference prices, by allowing financial institutions to establish internal policy corresponding to their own risk management.

2. Policy Statement Cancellation

The Policy Statement of the Bank of Thailand Re: Policy Statement on Valuation of Collaterals and Foreclosed Properties Obtained from Debt Settlement, Provision of Security for Credits Granted or Purchased from a Public Auction for Financial Institutions, dated 10 June 2016.

3. Scope of Application

This Policy Guideline shall apply to financial institutions according to the Financial Institution Business Act.

4. Content

4.1. Definition

“Valuation” means an opinion as to the market value of assets which are collaterals, or foreclosed properties obtained from debt settlement, provision of security for credits granted or purchased from a public auction, by following proper steps and procedures on valuation to estimate the realizable value of assets or immovable properties pledged as collaterals when they are sold in the market in a transparent manner, and their characteristics and relevant market condition have been taken into account. The valuation result shall be made in the form of written **or electronic** report which can be completed by either external or internal valuer as required by this Policy Guideline.

“Market Value” means the estimated value of assets which are collaterals, or foreclosed properties obtained from debt settlement, provision of security for credits granted or purchased from a public auction agreed on by a willing seller and a willing buyer on the date of valuation under normal trade condition that the seller and buyer have no related interests, whereby the assets or immovable properties have been offered for sale for a reasonable period of time and both parties have agreed to transact with full awareness and free of duress. It shall also be deemed that possession right in the assets under the law may be fully transferred. Generally, costs or expenses related to acquisition, fees or taxes are not taken into account in deriving the Market Value.

“External valuer” means a person as follows:

(1) A natural person and a juristic person undertaking the business of assets valuation, who is qualified and has suitable professional experience according to the standards and regulations prescribed by the professional associations and/or state authorities supervising the valuers. They are, in general, responsible for expressing opinions on market value of assets under conditions, limitations and circumstances of the assets market at a certain time. The valuers shall have no relationship with a particular Financial Institution and are approved by the Securities and Exchange Commission and whose names have never been revoked from the Bank of Thailand’s list of approved assets valuers of Financial Institutions.

In addition, for collateral residing in foreign countries, the valuer shall include foreign natural persons or juristic persons that operate a business providing asset valuation services that are qualified and have suitable professional experience according to the standards and regulations prescribed by professional associations and/or state authorities supervising the valuers, and their works are in compliance with generally accepted valuation standards.

(2) The Bank of Thailand’s approved valuers.

For the valuation of businesses and intellectual properties, external valuers shall include receivers in accordance with the Business Collateral Act who possess the qualifications and experience in valuation, qualified and experienced financial advisers who are approved by the Securities and Exchange Commission, and certified public accountants in accordance with the Accounting Profession Act who possess the qualifications and experience in valuation, in addition to persons listed in (1) and (2).

4.2. Guidelines on valuation of collateral and foreclosed properties obtained from debt settlement, provision of security for credits granted or purchased from a public auction for financial institutions

4.2.1. Objectives

Collateral valuation plays an important role in the credit risk management process of financial institutions. The Bank of Thailand therefore places importance on the collateral valuation process in order to ensure that the value of collateral reflects true value, which enables financial institutions to use the collateral values in risk assessment, credit limit determination, and reserving provisions accurately and appropriately. The guideline covers valuation policies and procedures, the criteria for selecting external or internal valuers, valuation standards, guidelines on valuation, independence of valuers, and examination mechanisms by the value approval committee.

4.2.2. Valuation Policy and Procedures

(1) Financial Institutions are required to have in place the policy and procedures for valuation of assets pledged as collaterals for loans or credits, and immovable properties for sale obtained from debt settlement, provision of security for credits granted or purchased from a public auction, including policies related to the reviewing of the valuation of the abovementioned assets. The policy and procedure shall be written clearly in writing **or in electronic form**.

(2) The valuation policy and procedures must be approved by the Board of Directors of Financial Institutions **or other designated committees**.

(3) Executives of Financial Institutions are held accountable for the use of **collateral value information** and thus, shall use the information with caution.

(4) Financial Institutions are required to communicate and disseminate the policy and procedures in relation to the valuation of collaterals and immovable properties for sale obtained from debt settlement, provision of security for credits granted or purchased from a public auction to their relevant staff for their acknowledgement and strict compliance.

(5) Financial Institutions shall disclose, in footnote of their financial statements, the value of immovable properties for sale obtained from debt settlement, provision of security for credits granted or purchased from a public auction by separating between the valuation performed by external valuers and by internal valuers. The disclosure shall be in accordance with the stipulation of the Notification of the Bank of Thailand Re: Preparation and Announcement of Financial Statements of a Commercial Bank and a Holding Company that is the Parent Company of a Financial Group, a Finance Company or a Credit Foncier Company, as the case may be.

4.2.3. Selection of external or internal valuer

Financial institutions shall comply with the following criteria in determining whether to use an independent external valuer or internal valuer to conduct the valuation of the collateral and foreclosed properties.

1. Financial institutions may use an independent external valuer or their internal valuer for collateral with value less than 10 million Baht. However, such collateral must not be a property that is a subdivision of a large piece of property where these subdivided plots are adjacent to each other and can be consolidated into a large plot.

2. For determining whether to use an independent external valuer or internal valuer, financial institutions shall refer to **the risk assessment rating result for corporate loan business with the highest proportion of outstanding loans determined based on the Significant Activity Supervisory Framework** as presented on the most recent examination report received from the Bank of Thailand, **but not more than 3 years** (Attachment 1).

(2.1) The case where a financial institution receives low, relatively low, or medium risk assessment rating result for corporate loan business with the highest proportion of outstanding loans, and its valuation system is approved by the Bank of Thailand;

A financial institution may set its own criteria for selecting an independent external valuer or its own internal valuer. A financial institution receiving the aforementioned ratings shall submit a letter to the Bank of Thailand to request approval on its valuation system. In this regards, when considering approval decision, the Bank of Thailand take into account the quality and independency of the internal valuation system of the financial institution in accordance with the Bank of Thailand guideline for considering sound valuation system of financial institutions (Attachment 2).

(2.2) In the case where a financial institution receives low, relatively low or medium risk assessment rating result for corporate loan business with

the highest proportion of outstanding loans, but does not meet the qualifications under (2.1)

A financial institution may conduct valuation by using an independent external valuer or its own internal valuer except for these following cases, a financial institution shall engage an independent external valuer.

(2.2.1) For valuation of collaterals.

(a) A financial institution whose capital is lower than 8,000 million Baht, shall engage an external valuer for collateral valuation for debtor whose book value exceeds 50 million Baht.

(b) A financial institution whose capital is equal to or exceeds 8,000 million Baht, shall engage an external valuer for collateral valuation for debtor whose book value exceeds 100 million Baht.

(2.2.2) For valuation of foreclosed properties obtained from debt settlement, provision of security for credits granted or purchased from a public auction.

(a) A financial institution whose capital is lower than 8,000 million Baht, shall engage an external valuer for each plot of the foreclosed properties obtained from debt settlement, provision of security for credits granted or purchased from a public auction with book value exceeds 50 million Baht.

(b) A financial institution whose capital is equal to or exceeds 8,000 million Baht, shall engage an external valuer for each plot of the foreclosed properties obtained from debt settlement, provision of security for credits granted or purchased from a public auction with book value exceeds 100 million Baht.

For foreclosed properties obtained from debt settlement, provision of security for credits granted or purchased from a public auction, consisting of many plots and unable to be disposed separately, the aggregate value of all the plots shall apply.

(2.3) In the case where a financial institution does not meet qualifications under clauses (2.1) or (2.2)

A financial institution may conduct valuation by using an independent external valuer or its own internal valuer except these following cases where a financial institution shall engage an independent external valuer.

(2.3.1) For valuation of collaterals.

(a) A financial institution whose capital is lower than 8,000 million Baht, shall engage an external valuer for collateral valuation for debtor whose book value exceeds 25 million Baht.

(b) A financial institution whose capital is equal to or exceeds 8,000 million Baht, shall engage an external valuer for collateral valuation for debtor whose book value exceeds 50 million Baht.

(2.3.2) For valuation of foreclosed properties obtained from debt settlement, provision of security for credits granted or purchased from a public auction.

A financial institution shall engage an independent external valuer to perform valuation for each plot of the foreclosed properties obtained from debt settlement, provision of security for credits granted or purchased from a public auction with book value exceeds 50 million Baht.

For foreclosed properties obtained from debt settlement, provision of security for credits granted or purchased from a public auction, consisting of many plots and unable to be disposed separately, the aggregate value of all the plots shall apply.

4.2.4. Valuation Standards

To carry out the valuation by external and internal valuer, the valuer shall comply as follows.

(1) Collateral valuation shall conform to standards and professional ethics with regard to asset valuations in Thailand as announced by the Securities and Exchange Commission **and/or standards and professional ethics for asset valuations designed specifically for financial institutions transaction-related purpose**, which are generally accepted standards in the asset valuation profession. **However, for collateral residing in foreign countries, the valuation shall comply with standards and regulations prescribed by the professional associations and/or state authorities supervising the valuers, which are in compliance with generally accepted valuation standards.**

(2) Report on the valuation shall contain sufficient and clear information and analysis to support decision on pricing. However, report on valuation must be signed by the external or internal valuer, as the case may be.

4.2.5. Guidelines on Valuation

Financial institutions shall assess the value of collateral received from the granting of credits or other obligations by considering frequency of valuation as follows:

(1) In case of collateral for assets and financial obligations that do not have a significant increase in credit risk (performing) and for assets and financial obligations that have a significant increase in credit risk (under-performing), financial institutions should consider the frequency of collateral valuation as appropriate and in accordance with their own risk management.

Financial institutions may use alternative methods (i.e. Use of technology for property inspection, up-to-dated collateral database, or statistical models that reflects factors affecting collateral values, etc.) to review the collateral value according to the frequency set by financial institutions. This shall only apply to collateral value of assets and financial obligations that do not have a significant increase in credit risk (performing) and that collaterals have a reliable source for reference prices. Financial institution shall state clearly and concisely in its valuation policy, guidelines on the use of alternative methods (market appraisal). The guidelines shall cover the tools to be used, the type or characteristics of collateral that will be qualified for the alternative methods, the implementation framework, risk control guidelines, validation policy for accuracy and reliability testing, and back testing policy to ensure efficiency of the methods. The validation and back testing shall be done regularly. Furthermore, the policy should be reviewed at least once a year (Attachment 3).

(2) In the case of collateral for assets and financial obligations that are credit impaired (non-performing), financial Institutions shall comply with regulations on valuation for specific type of assets according to the summary table regarding the valuation approach and frequency (Attachment 4).

(3) Foreclosed properties obtained from debt settlement, provision of security for credits granted or purchased from a public auction shall be valued on an annual basis.

(4) Financial Institutions shall consider the impairment of or any decline in value of assets pledged as collaterals or foreclosed properties obtained from debt settlement, provision of security for credits granted or purchased from a public auction when there is an indication that such collaterals have devalued or depreciated according to the asset's life.

4.2.6. Independence of Valuers

(1) In case where valuation is carried out by an internal valuer, the valuer must not be involved in credit granting, investment and debt collection as well as have no direct or indirect interest in debtors and collaterals.

(2) In case where valuation is carried out by an external valuer, the valuer must not have direct or indirect interest in Financial Institutions, debtors and collaterals.

4.2.7. Committee for considering and approving independent external valuers and valuation results

(1) Financial institutions are required to establish the Committee comprising a minimum of 3 members, **except where the BOT approves otherwise**, who are responsible for considering and approving an independent external valuer as well as the result of valuation carried out by both independent external valuer and internal valuer. Each member of the Committee must provide his or her own opinion on consideration and approval in writing.

(2) In case where the Committee according to Clause 4.2.7 (1) do not agree with valuation result, they shall comply as follows:

(2.1) In case where the collaterals or foreclosed properties obtained from debt settlement, provision of security for credits granted or purchased from a public auction are required by this regulation to use an independent external valuer, the Committee shall not adjust the collateral value received from the independent external valuer upward, but may obtain new valuation from another independent external valuer. The Committee then choose for any value in between the two values set by those two valuers, whereby the Committee must provide reason for justification in writing.

(2.2) In case where the collaterals or foreclosed properties obtained from debt settlement, provision of security for credits granted or purchased from a public auction are not required by this regulation to use an independent external valuer, the Committee may use their own judgement to adjust the collateral value upward or downward, however, the reasons for justification must be provided in writing.

In case of collateral for assets and financial obligations that do not have a significant increase in credit risk (performing) and that collateral have reliable sources for reference prices, financial institutions shall determine the number of committees as appropriate and according to their own risk management.

4.2.8. Examination by the Bank of Thailand

In case where the Bank of Thailand gives opinion that valuation carried out by financial institution does not comply with the aforesaid guidelines, or is carried out without conducting analysis or by lacking adequate information or supporting documents, the Bank of Thailand may consider instructing such a financial institution to adjust

downward the market value of collaterals or assets as it deems appropriate or to obtain a new valuation.

5. Transitional Provisions

While the Notification of Bank of Thailand No. FPG. 23/2561 Re: Regulations on Asset Classification and Provisioning of Financial Institutions dated 31 October 2561 is not yet effective, financial institutions shall comply with the classification of financial assets and commitments as follows:

1) Assets and financial obligations that do not have a significant increase in credit risk (performing) shall mean assets classified as Pass according to the Notification of Bank of Thailand No. FPG. 5/2559 Re: Regulations on Asset Classification and Provisioning of Financial Institutions.

2) Assets and financial obligations that have a significant increase in credit risk (under-performing) shall mean assets classified as Special Mention according to the Notification of Bank of Thailand No. FPG. 5/2559 Re: Regulations on Asset Classification and Provisioning of Financial Institutions.

3) Assets and financial obligations that are credit impaired (non-performing) shall mean assets classified as Substandard, Doubtful and Doubtful of Loss according to the Notification of Bank of Thailand No. FPG. 5/2559 Re: Regulations on Asset Classification and Provisioning of Financial Institutions.

6. Effective Date

This Policy Guideline shall be effective on 15 May 2019 onwards.

Summary of Criteria for Selecting an Independent External Valuer or an Internal Valuer for collateral values of 10 million baht or more and properties obtained from debt settlement, provision of security for credits granted or purchased from a public auction

Case 1 Financial institution is able to select an independent external valuer or its internal valuer if it meets all of the following conditions.

- (1) Has a **risk assessment rating result for corporate loan business with the highest proportion of outstanding loans of level low, relatively low or medium**

- (2) The internal valuation system of financial institution is approved by the Bank of Thailand.

The Bank of Thailand shall grant approval based on the assessment of the quality and independency of the internal valuation system of financial institution in accordance with the BOT guideline for determining a sound valuation system of financial institution provided in the Attachment 2.

Case 2 Financial institution shall use an independent external valuer when it fails to meet conditions under case 1 but has risk assessment rating result for corporate loan business with the highest proportion of outstanding loans of low, relatively low or medium as follows:

Capital of Financial Institution (THB mil.)	Collateral (Based on loan value) (THB mil.)		Foreclosed Property (Based on collateral value) (THB mil.)	
	Independent External Valuer	Internal/Independent External Valuer	Independent External Valuer	Internal/Independent External Valuer
≥ 8,000	> 100	≤ 100	> 100	≤ 100
< 8,000	> 50	≤ 50	> 50	≤ 50

Case 3 Financial institution shall use an independent external valuer when it fails to meet the conditions under case 1 and 2 as follows:

Capital of Financial Institution (THB mil.)	Collateral (Based on loan value) (THB mil.)		Foreclosed Property (Based on collateral value) (THB mil.)	
	Independent External Valuer	Internal/Independent External Valuer	Independent External Valuer	Internal/Independent External Valuer
≥ 8,000	> 50	≤ 50	> 50	≤ 50

		< 8,000	> 25	≤ 25	> 50	≤ 50	
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Remark: For collateral with value less than 10 million baht, financial institutions can use independent external valuers or internal valuers. However, such collateral must not be multiple sub-plots of land that have interlocking areas combined into a large piece of land.

Guideline for Considering a Sound Valuation System of Financial Institutions

In granting any financial institution the permission to set own criteria whether to use an independent external valuer or an internal valuer to conduct the valuation for collateral and foreclosed property obtained from debt settlement, provision of security for credits granted or purchased from a public auction in accordance with the stipulation under clause 4.2.3 (2.1), the Bank of Thailand, at the minimum, considers the following factors.

1. Prescription of policy, rules and guideline on valuation

Financial institutions shall prescribe suitable, clear and independent assumptions for the valuation in writing **or electronic**. The policy shall be approved by the Board of Directors of Financial Institutions **or other designated committees**.

Financial institutions shall keep supporting documents related to the valuation, such as policy, rules and guideline, at the financial institutions for inspection by the Bank of Thailand. Furthermore, the said policy shall be reviewed regularly at least once a year.

2. Qualifications of the valuer

Financial institutions shall clearly set the scope and qualifications in selecting both external and internal valuers by considering, at least, these following factors:

(1) Scope in selecting external and internal valuers

(2) Standards and qualifications of the valuers, including guidelines in selecting the valuers

(3) Updated list of valuers that may be used for valuation, considering their qualifications, capabilities and experience. In addition, the valuer must be certified in accordance with the standards and professional ethics, except where collateral is in foreign country, **valuers shall comply with the standards and regulations prescribed by the professional associations and/or state authorities supervising the valuers, and follow generally accepted valuation standards.**

3. Process and system of valuation

3.1 Financial institutions shall have valuation process and system indicating the valuation frequency and approach according to the types and characteristics of the loans, collaterals and foreclosed properties obtained from debt settlement, provision of security for credits granted or purchased from a public auction.

3.2 Financial institutions shall have internal control, monitoring and report systems that are suitable, clear and independent by considering factors as follows:

(1) Independency of the valuation process

Financial institution shall have organizational structure with appropriate balance of power where the credit approval unit and the units responsible for conducting valuation and collateral approval are not under the same line of authority and shall be independent from each other.

Financial institutions shall segregate the duties and responsibilities of the person who has the authority to approve credit from the person who has the duty to conduct collateral valuation or who has the authority to approve collateral.

(2) Role and duty of the Board of Directors and senior management as well as the corporate governance of the financial institution

The Board of Directors **or other designated committees** shall have a role and responsibility in establishing valuation policy of collaterals and foreclosed properties obtained from debt settlement, provision of security for credits granted or purchased from a public auction as well as to receive information which may impact the changes of the financial institutions' policy on a timely basis.

(3) Control and assessment of concentration risk

Financial institutions shall take into account the concentration risk of collaterals and foreclosed properties obtained from debt settlement, provision of security for credits granted or purchased from a public auction which may decrease the value of the financial institution's collaterals or assets in the future; for example, accepting collaterals which are the same type of assets from the same issuer or the same provider.

(4) Verification of accuracy of internal valuation

Financial institutions shall have a process to verify the accuracy of the valuation method to ensure that the valuation determined by internal valuer does not materially differ from the market price. Furthermore, financial institutions shall assess the impact from market factors which may affect the value of the collateral and the value of foreclosed properties obtained from debt settlement, provision of security for credits granted or purchased from a public auction such as a decline in the prices of properties or securities.

Guidelines for Using Alternative Methods for Reviewing the Value of Collaterals

Implementation of alternative methods for reviewing the value of collaterals

Financial institutions shall establish policies and procedures in implementing alternative methods for reviewing the value of collateral, such as the use of technology for property inspection, up-to-dated collateral databases, or statistical models that reflects factors affecting collateral values, under guidelines set by the Bank of Thailand to maintain the credibility of the value as follows

(1) Establish the scope and processes of using alternative methods for reviewing value of collateral.

(2) Have resources and personnel that are knowledgeable, capable, experienced, and proficient enough to perform efficiently and effectively throughout the process, including the clear separation of duties and the independent balance of power, as follows;

(2.1) The personnel responsible for testing reliability and the personnel who monitor the effectiveness of alternative methods in reviewing the value of collateral shall be independent from the personnel responsible for analyzing and selecting factors, developing models or technologies that are used (if any) to review the value of collateral.

(2.2) The personnel responsible for performance auditing shall be independent from the personnel being audited.

(3) Provide guidelines for analyzing and selecting factors, developing models or technology (if any) that can be used to accurately assess the value of collateral, based on reliable data sources and using reasonable assumptions.

(4) Conduct testing of key success factors of using alternative methods in reviewing the value of collateral within the internal sandbox to ensure that the value of collateral is accurate and in an acceptable range. Financial institutions shall limit the scope of using alternative methods in reviewing the value of collateral until such testing results pass target criteria in reflecting the correctness of the value of collateral.

(5) Set up a process to monitor and control risk and review the reliability and efficiency of using alternative methods to review the valuation price of collateral

under (3), which should be performed regularly or every time that there is a significant change in the models or technology that are used to review the value of collateral (if any) In order to improve the efficiency in reviewing the value of collateral with alternative methods.

**Summary Table on Valuation Approaches by External or Internal Valuer and
Frequency of Valuation**

Type of Collaterals	Valuation Approach	Frequency of Valuation
1. Cash	Valuation is not required.	-
2. Commemorative banknotes and bank card for special occasions such as the auspicious occasion of the 50th wedding anniversary and the coronation with a denomination value of 500,000 baht	Valuation is not required.	-
3. Right of claim on deposit placed at a financial institution or promissory note, or bill of exchange that a financial institution issued to borrow from the public. However, for deposit account owned by third party that the was not placed as collateral under the Business Security Law, the owner of the said deposit account has to sign an agreement to guarantee the borrower and give right to the financial institution to deduct his/her deposit to repay the borrower's debt. Nevertheless, financial institutions must comply with the Civil and Commercial Code Amendment Act.	Valuation is not required.	-

4. Aval, acceptance, or letter of guarantee: 4.1 Standby Letter of Credit (SBLC) that is issued by domestic and foreign financial institutions and Export and Import Bank of Thailand. 4.2 Aval, acceptance, or letter of guarantee (LG) by domestic and foreign financial institutions and Export and Import Bank of Thailand. 4.3 Letter of guarantee (LG) that is issued by Thai Credit Guarantee Corporation. 4.4 Export credit insurance by Export and Import Bank of Thailand only when claims have been transferred to financial institutions.	Valuation is not required.	-
5. Guarantee, bonds or securities issued by the government: 5.1 Guarantees from the Thai Ministry of Finance or fund allocated by Thai government for debt repayment or there is evidence that money will definitely be received from Thai government agencies or loan to the Bank of Thailand.	Valuation is not required.	

5.2 Government bonds, treasury bill, bonds issued by the Bank of Thailand, bonds issued by the Financial Institutions Development Fund, bonds issued by state enterprises for which Thai government guarantees the principal and interest in full	Valuation is required by using the market price which is the last offered price.	At the end of every accounting period.
5.3 Securities issued by the foreign government that receive a risk weight of 0 in accordance with the Bank of Thailand Notification Re: Regulations on the Calculation of Credit Risk-Weighted Assets for Commercial Banks or Finance Companies.	Valuation is required by using the market price which is the last offered price.	At the end of every accounting period.
6. Cash equivalent collateral: 6.1 Marketable securities, both equities and debt securities, such as common stocks, preferred stocks, debentures and debt instruments which are listed on the Stock Exchange of Thailand or securities trading centers but not including securities issued by the borrower or related person as	Valuation is required by using the market price which is the last offered price.	At the end of every accounting period.

defined in to section 4 of the Financial Institution Business Act B.E. 2551. 6.2 Gold 6.3 Unit trusts that can be used as financial collaterals for credit risk mitigation under the Comprehensive Approach in accordance with the Bank of Thailand Notification Re: Regulations on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Standardised Approach (SA), where the market prices of those unit trusts are generally disclosed on a daily basis.	Valuation is required by using the market price which is the unit trust redemption price	At the end of every accounting period
7. Other collateral 7.1 Commercial immovable properties 7.2 Residential real estates 7.3 Other immovable properties such as transferable leasehold that can assess the price.	The valuation approach shall be in accordance with the standards and ethics with regard to asset valuation in Thailand that is announced by the Securities and Exchange Commission and/or standards and ethics with regard to asset valuation designed specifically for financial institutions-related purpose such as Cost approach, Direct sales comparison approach or Income approach.	(Only for assets and financial obligations that have credit impaired (non-performing) and purchased or originated credit impaired. Every 3 years (Calculate depreciation every year for machinery and vehicles).

7.4 Machinery in market demand	Direct sales comparison approach or replacement cost approach, or guidelines which are further announced as minimum requirements by the Valuers Association of Thailand, or the Thai Valuers Association, or The Securities and Exchange Commission. Depreciation must be taken into account every year.	
7.5 Vehicles with insurance such as cars, motorcycles, airplanes, vessels, etc.	Direct sales comparison approach, or the guidelines, which are further announced as minimum requirements by the Valuers Association of Thailand, or the Thai Valuers Association or the Securities and Exchange Commission. Depreciation must be taken into account every year.	
7.6 Business with a value of 50 million Baht or less – the definition of “business” is as prescribed in the Business Security Act. There must be internal control guidelines as approved by the Board of Directors of financial institutions to ensure that the assets included in the business value are prevented from being placed as	- The whole business valuation is required by using these following methods: (1) Income approach or (2) Asset based approach or (3) Market approach or (4) Other approaches that can truly reflect the business value and are generally accepted and is consistent with global standards. In case of reclassification from assets and financial obligations that do not have significant increase in credit risk	Every year and within 60 days after assets and financial obligations have been reclassified to assets and financial obligations that have credit impaired (non-performing) or purchased or originated credit impaired.

collaterals with other financial institutions and to ensure the existence of those assets for both qualitative and quantitative aspects.	(performing) or assets and financial obligations that have a significant increase in credit risk (under-performing) to assets and financial obligations that have credit impaired (non-performing), financial Institutions shall value the business by using the same approach selected as of the credit approval date. If financial institutions wish to use another approach that results in a lower business value compared to the original approach, Financial Institutions may do so. - In valuing a business, at least the following factors shall be considered. ● History / type of business ● Sale information / merger of other businesses or companies in the same industry as the business's / factors that affect the selling price, such as liquidity and time of sale ● Economic and industry conditions of the business such as market competition of the business ● Status and performance of business in the past, current and forecasted future ● Economic benefits that will be generated by the	
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	business's tangible and intangible assets ● Agreement and other legal documents that specify that the financial institution has the preferential rights over the business ● Other factors which may affect the business operation, such as price volatility of other products similar to the business's product. In this regard, Financial institutions shall consider the minimum factors that is appropriate for the approach selected.	
7.7 Intellectual properties that can be legally pledged as collateral, valued on a reliable ground, and legally confiscated.	● Valuation by complying with guidelines of international standard or guidelines which are further announced as minimum requirements by the Valuers Association of Thailand, or the Thai Valuers Association, or the Securities and Exchange Commission.	Every 3 years.
7.8 Inventories There must be internal control guidelines as approved by the Board of Directors of financial institutions to ensure that those inventories	• Use direct sales comparison approach except for agricultural products that are traded in the Agricultural Futures Exchange of Thailand (AFET), in which case, use the market price, namely the	At the end of every accounting period.

are prevented from being placed as collaterals with other financial institutions and to ensure the existence of those inventories for both qualitative and quantitative aspects.	market price published by the AFET.	
7.9 Legal claim in accordance with the Business Security Act (Claims without instrument) which can be legally transferred but does not include rights to deposit accounts and leasehold rights which specified in 3 and 7.2, financial institution shall consider its value based on the debtor of the claim as follows: A. In case where the debtor of the claim is the Thai government, the bank of Thailand, Financial Institutions Development Fund, foreign government that receive a risk weight of 0 in accordance with the Bank of Thailand Notification Re: Regulations on the Calculation of Credit	Valuation is not required.	-

Risk-Weighted Assets for Commercial Banks or Finance Companies. B. In case where the debtor of the claim is domestic and foreign commercial banks. C. In case where the debtor of the claim is other individual other than specified in No. 7.8 A. and B. The financial institution must ensure that the debtor of the claim is obliged to pay the claim which cannot be canceled in all cases. The above claim does not include cases where the debtor of the claim is a related person to the debtor as defined in section 4 of the Financial Institution Business Act B.E. 2551.		
7.10 Other collateral other than specified in 7.1 – 7.9 as approved by the Bank of Thailand.	Consider on case by case basis.	Consider on case by case basis.

Questions and Answers for the Bank of Thailand Policy Statement

Re: Valuation of Collaterals and Foreclosed Properties Obtained from Debt Settlement, Provision of Security for Credits Granted or Purchased from a Public Auction for Financial Institutions

(Updated on 25 September 2019)

	Question	Guided Answer
1. Definition of external valuer		
1	Are valuation companies that financial institutions have management power over, such as a subsidiary of the financial institution that has been approved by the Securities and Exchange Commission (SEC), considered as internal or external valuers?	The policy statement defines an external valuer to mean a valuer that has no relationship with a particular financial institution. Therefore, the valuation company that is a subsidiary of financial institution, which has relations to that financial institution, is not qualified as an external valuer, and is an internal valuer of that financial institution.
2	The Bank of Thailand (BOT) policy statement defines the definition of external valuers to mean "A natural person and a juristic person undertaking the business of assets valuation....and is approved by the SEC to be valuer for public purposes..." However, the SEC has revised the SEC's announcement regarding the approval of valuation companies and key valuers for public purposes by issuing the SEC Notification No. SorChor. 24/2012 Re: the approval of valuation company and key valuer for capital market transactions, dated 6	The definition of "external valuer" according to the BOT policy statement shall include valuers approved by the SEC for capital market transactions according to the new the SEC announcement.

	Question	Guided Answer
	November 2012. Will the BOT consider the definition of "external valuer" in the BOT policy statement to include valuers approved for capital market transactions according to the new SEC's announcement or not?	
3	Do financial advisors with expertise and approval from the SEC and certified auditors with expertise in valuation who are qualified as external valuers for business and intellectual property have to pass the test and register from the BOT or other agencies in addition to their profession's requirement?	Since financial advisors and certified auditors are professions that must be tested and registered by their profession's requirement, the BOT does not require additional testing or registration from any other agencies. However, financial advisors and certified auditors that are valuers for business and intellectual property according to the policy statement must have knowledge and expertise in valuation . Hence, financial institutions shall consider the knowledge and experience of those who are to be the valuers.
4	Can the valuer assess the business for which he/she is the receiver or he/she is related to the debtors of the business?	Although the Business Security Act 2015 allows the receiver to be able to appraise collateral, it also requires that the receiver must be neutral and independent. In addition, the BOT's policy statement stipulates that valuers must not have any direct or indirect interest in financial institutions, debtors and collaterals. Therefore, the business valuer and receiver shall not be the same person except valuation as a receiver. Additionally, the valuer shall not

	Question	Guided Answer
		appraise the business in which he/she is related to the debtor.
5	In the case where a financial institution uses valuation reports from other financial institutions for consideration in the credit granting process, shall the financial institution follow valuation guidelines for internal valuer or external valuers	In using valuation reports from other financial institutions, the financial institution shall comply with its internal policies, which should be in line with the BOT regulation (4.2.3 – 4.2.7), which include the approval of valuation result by the price approval committee. That is to say, <u>in case the collateral does not fall under the scope of an external valuer, financial institutions can increase the valuation value by themselves</u> , however, it must state the reason in writing. <u>In case the collateral falls under the scope of an external valuer, financial institutions cannot increase the collateral value by themselves</u> , but will need to reappraise the collateral by external valuers and choose the value within the range of those appraised values.
2. Criteria for choosing external or internal valuers		
The use of <u>risk assessment rating result</u> of the corporate loan business with the highest proportion of outstanding loans.		

	Question	Guided Answer
6	Do financial institutions that have previously been approved to select external or internal valuer by themselves according to the previous process (Composite rating at 1 or 2 and Credit risk rating at low, relatively low, or medium and its valuation system has been approved.) have to request for approval on its valuation system from the BOT according to the new process when this policy statement becomes effective?	Financial institutions do not need to request for new approval if its selection of external or internal valuer policy does not change. This is because the BOT only updates the factors used for reference to stipulate guidelines for selection of external or internal valuer from using composite rating and credit risk rating to <u>risk assessment rating result</u> of the corporate loan business with the highest proportion of outstanding loans.
7	Which day should the <u>risk assessment rating result</u> of the corporate loan business with the highest proportion of outstanding loans for the selection of external or internal valuer be based on?	Financial institutions shall consider the date of rating results from the most recent examination report received from the BOT. <u>Example</u> 1 Sep 2019 From the examination report financial institution received <u>risk assessment rating result</u> of the corporate loan business with the highest proportion of outstanding loans at relatively high. Then 3 Jul 2020 from the examination report financial institution received adjustment in rating to medium, which makes it suitable to select external or internal valuer according to 4.2.3 (2.2). Therefore, in this case financial can consider using external or internal valuer during the year 2020 as follows: • 1 Jan – 2 July 2020: comply to 4.2.3 (2.3) or more stringent guidelines

	Question	Guided Answer
		3 Jul 63 – new composite risk rating: comply to 4.2.3 (2.2) or more stringent guidelines However, the valuation value between 1 Jan – 2 Jul 2020 can still be used to deduct loan before provision until the expiration according to the frequency of valuation required in the policy statement.
8	If the financial institution received a <u>risk assessment rating result of the corporate loan business with the highest proportion of outstanding loans</u> at low, relatively low, or medium but does not wish to use external or internal valuers under 4.2.3 (2.1) or its valuation system has not been approved from the BOT, can the financial institution use the criteria under 4.2.3 (2.2) to select the valuer?	Financial institutions can use the criteria to select valuer under 4.2.3 (2.2), since its criteria is more stringent than the one under 4.2.3 (2.1)
9	If the financial institution's <u>risk assessment rating result of the corporate loan business with the highest proportion of outstanding loans</u> has been changed, causing the financial institution to change its guidelines on selection of external or internal valuer on previously assessed collateral which has been appraised based on the previous <u>risk assessment rating result of the corporate loan business with the highest proportion of outstanding loans</u> ,	Financial institution can use the previous appraised value of collateral which is in line with BOT's guideline at the time and is not due to be reappraised as required by the BOT, such as collateral for NPL which is required to be reappraised every 3 years - its existing value can continue to be used without having to reappraise it.

	Question	Guided Answer
	does the financial institution have to reappraise its collateral?	
10	In case that each type of business loan (large, medium, or small) has the same proportion of outstanding balance loans but different net risk (medium/high), what should a financial institution do?	Financial institution shall use <u>risk assessment rating result</u> of the corporate loan business with the highest proportion of outstanding loans from the most recent year examination report received from the BOT.
11	Please clarify the part that states according to the most recent examination report “but not more than 3 years”.	The BOT stipulates such conditions to accompany small financial institutions that the BOT does not have a full scope examination every year, therefore, those institutions may not have annual SA rating. However, the BOT will have an analysis report of those institutions every 6 months and conduct ongoing supervision as appropriate. In the case that the BOT does not notify the change of the new SA rating during the 3-year period, the financial institutions may use the latest SA rating over those 3 years. Additionally, in the case that small institutions do not have an SA rating, financial institutions shall consider the guidelines on selection of valuers according to 4.2.3 (2.3).
Collateral value factors		
12	When considering the collateral value for selecting external or internal valuers, which collateral value should be used? For example, the financial institution previously appraised the collateral at 9 million baht – later, the	The financial institution shall consider the most recent previous appraised value of collateral according to the BOT guidelines and the current trend of the said collateral value. However, in the case of collateral that has never been appraised according to the BOT guideline, such as the first-time

	Question	Guided Answer
	collateral was reappraised by an internal valuer at 11 million baht, should the collateral be reappraised by an external valuer?	acceptance of such collateral or the first-time valuation of such collateral, the financial institution shall consider the trend of such collateral value by comparing the appraised value later. <u>For example</u> If financial institution A. accepts land B. as first-time collateral and expects the value of such collateral to have value between 9 - 11 million baht, financial institution shall use an external valuer to appraise such collateral.
Other issues		
13	In the case that the financial institution meets the criteria to use an internal valuer, can the financial institution use internal valuer to appraise a business and can the internal financial advisor of the financial institution act as the valuer of the business that the financial institution accepts as collateral?	In the case that financial institution meets the criteria to use internal valuers, the financial institution may use an internal appriaser to appraise the business the same as other types of collateral. In this regard, an internal financial advisor that has knowledge and expertise in valuation is considered as an internal valuer.
3. Collateral value review		
Collateral value review frequency		
14	Which date shall be used as a start date to calculate collateral value review frequency according to the BOT?	The financial institution shall use the date on which the valuer signs the collateral valuation document as the start date for collateral value review.
15	In practice, financial institutions may start to review collateral value 1-2 months in advance,	Financial institutions may continue to use the appraised value according to the previous rating, but shall use the new

	Question	Guided Answer
	before it is due. However, in the case where financial institution has already finished the collateral review, but later, the financial institution was notified of a <u>change</u> in the <u>risk assessment rating result</u> of the corporate loan business with the highest proportion of outstanding loans, which affects the selection of internal or external valuer according to 4.2.3 (2.1-2.3) for the said collateral valuation , does the financial institution have to reappraise that collateral?	rating in the next collateral value review. However, if financial institutions would like to reappraise the collateral to be in line with the new rating, it may do so. Yet, such actions must not be done to avoid using external valuer according to its policy.
Other methods for reviewing the appraised value of collateral		
16	In the case where the financial institution uses other methods such as technology for property inspection (i.e. street view), up-to-dated collateral database, statistical models that reflects factors affecting collateral values in reviewing the appraised value of collateral, can the financial institution use existing collateral reports as reference without completing a collateral survey and prepare full collateral report?	Collaterals in which the BOT allows financial institutions to use other methods to review its appraised value are collaterals for loans that have low risk of default (performing). Therefore, the BOT has allowed financial institutions to use other methods to replace collateral inspection in order to reduce the burden of survey costs. Financial institutions shall have guidelines and formats for the report as appropriate. However, the financial institution shall validate the accuracy and reliability of collateral value and back-test the implemented methods regularly (As specified in attachment 3).
17	In the case where financial institution use other methods such as technology for property inspection (i.e. street view),	In case of collateral for assets and financial obligations that do not have a significant increase in credit risk (performing) and that has reliable

	Question	Guided Answer
	up-to-dated collateral database, statistical models that reflects factors affecting collateral values, is it necessary for the financial institution to have a committee to approve the collateral value?	sources for reference prices, the BOT allows the financial institution to determine the number of committee as appropriate. If the financial institution is confident that its valuation system is highly accurate, the financial institution may consider using information from other methods to replace the price approval committee. However, this depends on the financial institution's risk management policy that is approved by the board of directors or designated committee. Nevertheless, financial institution must have a validation and back testing process of these other methods.
4. The BOT guidelines for considering a sound valuation system of financial institutions.		
18	Do financial institutions who wish to select external or internal valuers according to 4.2.3 (2.1) need to have a written approval from the BOT every time that the <u>risk assessment rating result of corporate loan business with the highest proportion of outstanding loans</u> is notified?	Financial institutions that have the <u>risk assessment rating result of corporate loan business with the highest proportion of outstanding loans at low, relatively low, or medium</u> are required to submit a request for approval to the BOT. Then after the BOT has approved, in the following year the financial institution may select external or internal valuers in the same manner <u>without</u> having to submit a request to the BOT, <u>except</u> if its <u>risk assessment rating result of corporate loan business with the highest proportion of outstanding loans</u> has deteriorated to the point that does not meet criteria under 4.2.3 (2.1). However, if later its <u>risk assessment rating result of corporate loan business with the highest proportion of outstanding loans</u> is still at low, relatively low, or

	Question	Guided Answer
		medium , financial institution shall submit a request to the BOT again if it still wishes to select external or internal valuers under 4.2.3 (2.1).
19	During the period that financial institution is waiting for approval from the BOT to select external or internal valuer under 4.2.3 (2.1), in what manner shall the financial institution consider selecting a valuer?	While financial institution is waiting for approval from the BOT, the financial institution shall select the valuer under 4.2.3 (2.2) or other tighter guidelines if its <u>risk assessment rating result of corporate loan business with the highest proportion of outstanding loans</u> is at low, relatively low, or medium during that period.
20	If the financial institution does not wish to request for approval of its valuation system, does the financial institution still have to have its valuation system in accordance with Attachment 2 on sound valuation systems of financial institutions?	The valuation system is considered to be a system that the BOT encourages financial institutions to have for effective credit risk management and is one of the factors that the BOT considers in examining the valuation work of financial institution.
21	How should the incorporation of collateral concentration risk be considered in the valuation of collateral?	Financial institutions shall consider the concentration risk of collateral and NPA such as the type of issuer or owner, market, guarantor, factors in appraising and approving value, especially during crises, and how the concentration risk may affect the collateral value as well as guidelines to control, oversee, and have an appropriate risk management system.

	Question	Guided Answer
22	What should the list of current valuers and the scope of selection of valuer be like?	The financial institution shall have list of external valuers that the financial institution can select to appraise collateral and foreclosed property, and shall monitor the changes and update valuer list regularly so that the valuation related department and its officers can have guidelines in selecting appropriate valuers.
23	What is the BOT's guideline in considering roles and duties of the board of directors and senior management as well as corporate governance?	The financial institution's board of directors and senior management shall participate in the formulation of strategies and the collateral valuation policy framework or delegate its duties to another designated committee. This is to enhance the financial institution's ability to assess its position and reserves adequacy as well as efficiently manage the organization risk.
5. Disclosure		
24	How shall the financial institution disclose its foreclosed properties in the notes to the financial statement?	In disclosing foreclosed properties, the financial institution shall reference disclosure guidelines according to the BOT Notification Re: Preparation and announcement of financial statements of a commercial bank, finance company, Credit foncier company, for each case. In this regard, the financial institution must also disclose the value of such foreclosed properties differentiated by the characteristics in the selection of external or internal valuers.
6. Establishment of committee in considering and approving external valuers and valuation results.		
25	In appraising businesses, does the financial institution have to establish a committee to consider	In appraising businesses, financial institutions have to comply with BOT guidelines, that is, the financial institution must establish a committee comprising a

	Question	Guided Answer
	and approve external valuers and valuation results?	minimum of 3 members, except where the BOT approves otherwise , to consider and approve external valuers, including the valuation result of the business which is appraised by external or internal valuers .
26	The BOT requires financial institutions to establish a committee to consider and approve valuers and valuation results comprising a minimum of 3 members, except where the BOT approves otherwise. Moreover, in the case of collateral for assets and financial obligations that are classified as performing with reliable sources for reference prices, financial institutions shall determine the number of committee members as appropriate. However, in case the where classification of loans has deteriorated, does the financial institution have to reapprove those collaterals that have previously been approved by a committee of less than 3 members to a committee with 3 or more members?	For such cases, the financial institution may use the valuation result that has been approved by the number of committee members according to its policy until the next valuation review. However, if the asset is classified as below performing, the financial institution should set up a price approval committee to approve those collaterals according to its policy on collateral for assets and financial obligations <u>not classified</u> as performing with reliable sources for reference prices. However, the financial institution may consider to set up a stricter policy than the BOT proposes according to its own risk management policy.
27	Do certain types of collaterals with fair price or market price in forward markets such as stocks, financial instruments, agricultural products, etc. need to be approved by the committee?	For financial collateral or agricultural products that have market price sources that are reliable and reflect the true value, financial institutions may determine the necessity of a committee as appropriate according to its valuation policy approved by the board of directors or another designated committee

	Question	Guided Answer
28	In case of collateral for assets and financial obligations that are classified as performing with reliable sources of reference prices, can financial institutions establish a committee comprising of 1 member?	Financial institutions may determine the number of price approval committee as appropriate, but shall have rigorous risk management guideline.
7. Other issues		
29	Is it necessary that the guideline for internal control of inventory be approved by the board of directors of the financial institution?	The board of director may delegate approval to another designated committee to act on their behalf, the same as in the case of approving the collateral valuation policy.