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Notification of the Bank of Thailand

No. FPG. 3/2563

Re: Regulations on the Calculation of Credit Risk-Weighted Assets
for Commercial Banks under the Standardised Approach (SA) (No. 2)

1. Rationale

The Bank of Thailand has enacted the regulations on capital supervision under the Basel III framework based on the Basel Committee on Banking Supervision (BCBS)'s guidelines on Basel III: A global regulatory framework for more resilient banks and banking systems (revised version: June 2011), in order to ensure that commercial banks have high quality and adequate capital to absorb losses that may occur under normal and stress circumstance and to maintain the stability of financial system. Later, the Bank of Thailand amended the regulations on the calculation of credit risk-weighted assets under the Standardized Approach (SA) to accommodate the implementation of the new Thai financial reporting standard No. 9: Financial instruments (TFRS 9), which will come into effect from 1 January 2020 (B.E.2563) onwards.

Currently, the status of particular assets has already changed from the previous status specified by the Bank of Thailand. Therefore, the Bank of Thailand amends the regulations on the calculation of credit risk-weighted assets under the Standardized Approach (SA) in order to accommodate the current status of the particular assets. For this amendment, the Bank of Thailand, still, adheres to the Basel III framework on the calculation of credit risk-weighted assets under the Standardized Approach (SA).

2. Statutory Power

By virtue of Sections 29, Section 30 and Section 32 of the Financial Institutions Businesses Act B.E. 2551 (2008), the Bank of Thailand hereby issue the Regulation on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Standardized Approach (SA) (No. 2) and all commercial banks shall comply accordingly.

3. Repealed/Amended Notifications

3.1 Repeal Attachment 1: Regulations on assigning risk weights to assets and off-balance sheet items of the Notification of the Bank of Thailand No. FPG. 9/2562 Re: Regulation on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Standardised Approach (SA), dated 7th May 2019 and replace by the Attachment 1 of this notification.

3.2 Repeal Attachment 10: Regulations on the calculation of credit risk-weighted assets under the Simplified Standardized Approach (SSA) of the Notification of the Bank of Thailand No. FPG. 9/2562 Re: Regulation on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Standardised Approach (SA), dated 7th May 2019 and replace by the Attachment 10 of this notification.

4. Scope of Application

This Notification shall apply to all commercial banks according to the law on financial institutions businesses.

5. Effective date

This Notification shall come into force as from the day following the date of its publication in the Government Gazette.

Announced on 6th March 2020

(Mr. Veerathai Santiprabhob)

Governor

Bank of Thailand

Regulatory Policy Department

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Regulations on assigning risk weights to assets and off-balance sheet items

Commercial banks shall classify assets and off-balance sheet items, and apply risk weights in accordance with the regulations prescribed by the Bank of Thailand in this Attachment, by dividing assets into 2 categories as follows: I. Performing assets and off-balance sheet items, and II. Non-performing assets and off-balance sheet items

For performing assets and off-balance sheet items type I.1 – I.6, commercial banks shall map credit ratings of assets and off-balance sheet items given by external credit assessment institutions (ECAIs) recognized by the Bank of Thailand to credit rating grades¹ and determine risk weights prescribed by the Bank of Thailand. Commercial banks must notify to the Bank of Thailand, which ECAIs to be used in assigning risk weights, and when commercial banks wish to change their ECAIs.

I. Performing assets and off-balance sheet items, dividing into 9 types, as follows:

1. Claims on sovereigns and central Banks

1.1 Thai Baht denominated claims on the Thai government and the Bank of Thailand (including the Financial Institutions Development Fund, and the Deposit Protection Agency): The portion of assets and off-balance sheet items that do not exceed the commercial banks' liabilities in Thai Baht shall be assigned a risk weight of 0%.

1.2 Claims on foreign sovereigns and central banks denominated in domestic currency of their respective country: The portion of assets and off-balance sheet items that do not exceed the commercial bank's liabilities in the same currency, shall be assigned a risk weight of 0%.

For Euro denominated assets and off-balance sheet items of governments in the European Community, commercial banks shall first compare their Euro denominated claims with Euro denominated liabilities of the country that has the lowest Local Currency Rating.

1.3 Claims on Thai/foreign sovereigns and central banks denominated in the domestic currency of their respective country that exceed the commercial banks' liabilities denominated in the same currency shall be assigned risk weights in accordance

¹ Commercial banks shall refer to the list of external credit assessment institutions recognized by the Bank of Thailand and compare the rating grades of the claims on debtors prescribed by the Bank of Thailand, including operational guidelines on use of credit ratings from ECAIs following Attachment 4.

with local currency ratings given to the country's sovereign and central bank by the external credit assessment institutions, as followed:

Rating Grade of Sovereigns and Central Banks	1	2	3	4-5	6	No ECAI Credit Rating
Risk weight (%)	0	20	50	100	150	Refer to the OECD Country Risk Classification Scores in Section 1.5

In this regard, in comparing assets and off-balance sheet items with the banks' liabilities following 1.1 – 1.3, commercial banks shall use the amount of assets after deducted by specific provision. In case of off-balance sheet items which are OTC derivatives, the credit equivalent amount after deducted by specific provision shall be used, and in case of off-balance sheet items which are not derivatives, the amount of off-balance sheet items after deducted by specific provision and multiplied by Credit Conversion Factor, prescribed by the Bank of Thailand, shall be used.

1.4 Claims on Thai/foreign sovereigns and central banks denominated in foreign currencies shall be assigned risk weights in accordance with foreign currency ratings given to the countries' sovereign by external credit assessment institutions, and the risk weights table under Section 1.3 shall be used.

1.5 Claims on sovereigns and central banks denominated in domestic currency or foreign currency which have no credit rating from ECAs shall be assigned risk weights in accordance with the OECD Country Risk Classification Scores² as follow:

² OECD Country Risk Classification Scores mean the consensus scores based on assessments by a number of Export Credit Agencies (ECAs) following the Arrangement on Guidelines for Officially Supported Export Credits available on the OECD website.

OECD Country Risk Classification Scores	0 - 1	2	3	4 - 6	7	No Country Risk Classification Score ³
Risk weight (%)	0	20	50	100	150	100

1.6 Claims on the Bank for International Settlements, the International Monetary Fund, the European Central Bank, the European Community, European Financial Stability Facility (EFSF) and European Stability Mechanism (ESM) shall be assigned a risk weight of 0%.

2. Claims on local government organizations, state agencies and state enterprises

2.1 Claims on Local Government Organizations⁴, state agency and state enterprises⁵ (non-central government public sector entities or PSEs) in Thailand: Risk weights shall be assigned in accordance with type of PSEs, which are divided into 2 categories as follows:

2.1.1 Claims on PSEs using the same risk weights as claims on financial institutions

Claims on local government organizations, state agencies and state enterprises established by specific laws shall be assigned the same risk weights as claims on financial institutions as prescribed in Section 4, namely:

(1) Claims on state enterprises that are financial institutions⁵

(2) Claims on PSEs that are not financial institutions, namely: Claims on local government organizations, state agencies and state enterprises which are not financial institutions⁵

³ Commercial banks shall first consider the regulations on use of ratings of securities and organizations following Section III.3 in Attachment 4. If considered not relevant, commercial banks shall use a risk weight of 100% as prescribed in the table.

⁴ Local Government Organizations mean those established by specific laws as follows: (1) Provincial Administrative Organization (PAO) (2) Municipality (3) Sub-district Administrative Organization (SAO) (4) Special Regional Administration, namely: Bangkok and Pattaya

⁵ Following the list in Attachment 1.1 or further prescribed by the Bank of Thailand

In this regard, claims on PSEs that are not financial institutions, with original maturities not exceeding 3 months, shall not receive the lower risk weight as claims on financial institutions prescribed in Section 4.3, but shall be assigned risk weights as prescribed in Section 4.2.

2.1.2 Claims on PSEs using the same risk weights as claims on corporate

Claims on commercial state enterprises established by the Civil and Commercial Code or the Law on Public Company Limited⁵ shall be assigned the same risk weight as claims on corporate as prescribed in Section 6.

2.2 Claims on PSEs in foreign countries

The commercial banks shall classify PSEs in accordance with the regulations as prescribed by supervisory authority of the country where such PSEs are located, and use risk weights as prescribed by the Bank of Thailand for each type of PSE claim⁶.

2.3 In assigning risk weights to claims on PSEs using the same risk weight as claims on financial institutions, and claims on PSEs using the same risk weight as claims on corporate, commercial banks shall choose to use credit ratings from the same ECAI they use for claims on financial institutions and claims on corporate as prescribed in Section 4 and Section 6 respectively.

2.4 In case where commercial banks choose to use a risk weight of 100% for all claims on corporate, PSEs using the same risk weight as claims on the corporate shall also be assigned a risk weight of 100%.

3. Claims on multilateral development banks (MDBs)

3.1 Claims on the following multilateral development banks (MDBs)⁷ shall be assigned a risk weight of 0%.

⁶ Supervisory authority in the country where PSEs are located may assign the risk weight of claims on PSEs to be the same as claims on sovereigns, claims on financial institutions or claims on corporate. If the supervisory authority prescribes the risk weight of claims on PSEs is the same as claims on sovereigns, commercial banks shall use the risk weight that the Bank of Thailand prescribes for claims on sovereigns and central banks.

⁷ The Bank of Thailand may amend the list of MDBs to receive a risk weight of 0% in Section 3.1 when the BCBS amends its lists.

- The World Bank Group comprised of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC) and International Development Association (IDA)

- The Asian Development Bank (ADB)
- The Africa Development Bank (AfDB)
- The European Bank for Reconstruction and Development (EBRD)
- The Inter-American Development Bank (IADB)
- The European Investment Bank (EIB)
- The European Investment Fund (EIF)
- The Nordic Investment Bank (NIB)
- The Caribbean Development Bank (CDB)
- The Islamic Development Bank (IDB)
- The Council of Europe Development Bank (CEDB)
- The International Finance Facility for Immunization (IFFIm)
- The Multilateral Investment Guarantee Agency (MIGA)
- Asian Infrastructure Investment Bank (AIIB)

3.2 Claims on multilateral development banks not specified in Section 3.1 shall be assigned risk weights in accordance with credit ratings given by ECAs, as follows:

Rating Grade of MDBs	1	2-3	4-5	6	No Credit Rating ⁸
Risk weight (%)	20	50	100	150	50

⁸ Commercial banks shall first consider the regulations on use of ratings of securities and organizations following Section III.3 in Attachment 4. If considered not relevant, commercial banks shall use a risk weight of 50% as prescribed in the table.

4. Claims on financial institutions

4.1 Claims on financial institutions mean claims on Thai financial institutions under the supervision of the Bank of Thailand, such as commercial banks, finance companies, credit foncier companies, asset management companies⁹, and foreign financial institutions under supervision of foreign supervisory authorities.

4.2 Claims on financial institutions shall be assigned risk weights according to the credit rating of the sovereign and central bank of the country where the financial institution is registered regardless of ECAI credit ratings of the financial institutions. Commercial banks shall apply the Local Currency Rating or Foreign Currency Rating given by ECAs depending on the currency of the claims and risk weights shall be as the following:

Rating Grade of Sovereigns	1	2	3-5	6	No Credit Rating
Risk weight (%)	20	50	100	150	100

4.3 For claims on financial institutions denominated in their country's domestic currency with original maturity not exceeding 3 months¹⁰: The portion of assets and off-balance sheet items not exceeding commercial banks' liabilities denominated in that currency shall be assigned a risk weight of 20%, regardless of the country's sovereign and central bank credit rating. The portion exceeding the liabilities shall be assigned risk weights in accordance with the Local Currency Rating of the sovereign and central bank of the country where the financial institution is registered, and the risk weights specified in Section 4.2 shall be used.

In this regard, in comparing value of assets and off-balance sheet items with commercial banks' liabilities, commercial banks shall apply the same principle as specified in Section

⁹ Means asset management companies following the Emergency Decree on the Asset Management Company B.E. 2541 (1998).

¹⁰ Includes deposits in savings accounts, current accounts, Nostro accounts, call loan and overdraft loan (O/D), but excludes claims that have been rolled over.

5. Claims on securities companies

Risk weights for claims on securities companies shall be the same as those for claims on financial institutions specified in Section 4.

6. Claims on corporates

6.1 Claims on corporate mean claims on legal entities established by the Civil and Commercial Code or the Law on Public Company Limited, including claims on an individual person and persons¹¹ who have objectives to borrow for their businesses, and small business loans unqualified to be retail claims specified in Section 7.1, but excluding claims already classified as claims under Sections 1-5 and Section 7.

6.2 Claims on corporate shall be assigned risk weights in accordance with its long term credit ratings from ECAs, as follows:

Rating Grade of Corporate	1	2	3-4	5-6	No Credit Rating ¹²
Risk weight (%)	20	50	100	150	100

6.3 Claims on corporate with short term debt ratings from ECAs shall be assigned risk weights, as follows:

Rating Grade of Corporate	1	2	3	4
Risk weight (%)	20	50	100	150

6.4 Commercial banks may assign a risk weight of 100% for all claims on corporate regardless of credit ratings from ECAs, provided that approval has been granted

¹¹ Means joint borrowings by more than one individual.

¹² Commercial banks shall first consider the regulations on use of ratings of securities and organizations following Section III.3 in Attachment 4. If considered not relevant, commercial banks shall use a risk weight of 100% as prescribed in the table.

by the Bank of Thailand. The consideration will be completed within 30 days from the request date that all required documents have been completely and correctly submitted.

In cases where commercial banks wish to change from using a risk weight of 100% for all claims on corporate to assign risk weights according to credit ratings of claims on corporate, the commercial banks must notify the Bank of Thailand in advance, in accordance with the regulations as specified in Attachment 4.

In any case, the Bank of Thailand expects that full-scale commercial banks¹³ should assign the risk weights in accordance with credit ratings of the claims from ECAs.

For assets and off-balance sheet items under Section I.1 - I.6 with a risk weight of 150% and for which provisioning has been made, the commercial banks may apply lower risk weights as prescribed by the Bank of Thailand, as follows:

(1) If such assets and off-balance sheet items have specific provisions less than 20% of total outstanding loans, a risk weight of 150% shall be assigned;

(2) If such assets and off-balance sheet items have specific provisions at least 20% but less than 50% of total outstanding loans, a risk weight of 100% shall be assigned;

(3) If such assets and off-balance sheet items have specific provisions at least 50% of total outstanding loans, a risk weight of 50% shall be assigned.

And, for assets and off-balance sheet items under Section I.1 - I.6 which received a risk weight of 100% with specific provisions of at least 50% of total outstanding loans, a risk weight of 50% shall be assigned.

7. Claims on retail portfolios

7.1 Claims on retail portfolios which meet all of the following criteria shall have a risk weight of 75%.

(1) Orientation criterion: Claims on an individual person, persons, or a small business

¹³ Full-scale commercial banks mean commercial banks under the Financial Institutions Businesses Act B.E.2551 (2008), excluding retail banks.

In this regard, commercial banks shall specify suitable internal guidelines for considering small businesses which are consistent with commercial banks' lending and risk management practices.

(2) Product criterion: Claims in the form of revolving credits or lines of credit including credit cards and overdrafts (O/D), personal loans and hire purchase loans or contingent liabilities, but excluding investment in debt or equity securities of listed and non-listed companies in securities exchanges.

(3) Granularity criterion: Claims on retail portfolios must be sufficiently diversified to the extent that risks are reduced. The aggregate of credit lines and contingent liabilities granted to each retail debtor and related parties¹⁴ must not exceed 0.2% of total credit lines and contingent liabilities of qualified retail portfolios¹⁵ but excluding credit lines of non-performing retail loans.

(4) Low value of individual exposures: The aggregate of credit lines and contingent liabilities granted to each retail debtor and related parties cannot exceed an absolute threshold of 50 million baht.

In this regard, the calculation of total credit lines granted to each retail debtor and related parties shall include all off-balance items which are not derivatives, using the notional amount (before multiplied by credit conversion factor). For retail debtors which are small businesses, commercial banks shall also include credit equivalent amount of OTC derivatives in the calculation of total credit lines.

Nonetheless, in cases where a particular retail debtor has several credit lines totaling over 50 million Baht, the Bank of Thailand permits commercial banks to classify credit card debts as claims on retail portfolios and assigned a risk weight of 75%. For the remaining debts, commercial banks shall categorise them by the type of credit line and assign risk weight of 100%. If commercial banks are unable to separate credit card debts from other debts, a risk weight of 100% shall be assigned to the total debts.

¹⁴ Commercial banks shall refer to the definition of related parties as specified in Section 4 of the Financial Institutions Businesses Act B.E. 2551 (2008). If the commercial bank can prove that the bank has been vigilant and carried out comprehensive assessments of related parties but is unable to determine the total number of related parties, it is deemed that the commercial banks are not at fault.

¹⁵ Including residential mortgage loans qualified as retail claims as prescribed in the Notification of Bank of Thailand on Regulation on mortgage and mortgage related loan which the assigned risk weight is similar to the risk weight assigned to claims on retail portfolio.

7.2 Claims on an individual person or persons without business purpose which do not meet all four criteria as claims on retail portfolios as specified in Section 7.1 shall receive a risk weight of 100%.

7.3 Claims on an individual person and persons with business purpose which do not meet all four criteria as claims on retail portfolios specified in Section 7.1 shall be treated as claims on corporate and receive the risk weight in accordance with Section 6.

8. Residential mortgage loans

The risk weights assigned for residential mortgage loans under this section are in accordance with the Notification of Bank of Thailand on Regulation on mortgage and mortgage related loan.

9. Other Assets

9.1 A risk weight of 0% shall be assigned to:

9.1.1 Cash in Thai baht and foreign currencies

9.1.2 Inter-office balances of the commercial banks

9.1.3 Prepaid expenses

9.1.4 Assets arising from mark-to-market of derivative contracts

9.1.5 Assets that the Bank of Thailand prescribes to be deducted from the capital, such as goodwill, deferred taxes, etc.

9.2 A risk weight of 20% shall be assigned to:

9.2.1 Cash in collection process, which are cash sub-items in the balance sheet as follows: Demand instruments in collection process and instruments that the collection must be in accordance with the regulation on interbank clearing and can be collected on the following business day, such as drafts, bank cheques that have not been cleared but the customers' account have been credited, and returned cheques.

9.2.2 Investment in securities or investment in funds including accrued interests, only for the amount that Ministry of Finance has entered into a contract to provide risk protection or has agreed to bear the risks for, such as the Vayupak 1 Fund.

9.3 A risk weight of 100% shall be assigned to:

9.3.1 Investment in equity instruments and warrants in the companies that are:

(1) Companies operating financial business and financial supporting businesses¹⁶ in full consolidation group that are required to be included in consolidated financial statements

(2) Companies operating financial business and financial supporting business that commercial banks do not own more than 10% of the total issued common shares of each company, the calculation method is as follows:

Commercial banks shall compare the sum of investment¹⁷ in equity instrument and warrants, eligible financial instruments as Tier 1¹⁸ and Tier 2 capital¹⁹ of the companies as specified in (2) both direct and indirect investment²⁰ with 10% of Net Common Equity Tier 1²¹. In consequence, commercial banks shall use the sum of such investment only for an amount not exceeding 10% of Net Common Equity Tier 1 to calculate risk-weighted assets in proportion to the type of investment (Pro-rata basis)²². For the parts that are investment in equity instruments and warrants in banking book, commercial banks shall assign a risk weight of 100%. As for eligible financial instruments as capital of such companies in the banking book, commercial banks shall assign a risk weight in accordance with the types of asset. In this regard, if investments are in the trading book, commercial banks shall comply with the Notification of the Bank of

¹⁶ Refer to definitions of financial business and financial supporting businesses as specified in the Notification of the Bank of Thailand: Regulation on Consolidated Supervision

¹⁷ Refer to investments in the trading book and banking book

¹⁸ Only in case where insurance companies and securities companies are able to issue financial instruments eligible as tier 1 capital, and where such instruments are invested by commercial banks

¹⁹ Only in case where insurance companies and securities companies are able to issue financial instruments eligible as tier 2 capital, and where such instruments are invested by commercial banks

²⁰ Indirect investment means the case where commercial banks undertake equity and debt derivatives in the position of buyers of such derivatives or it is likely to receive such derivatives in the future.

²¹ Net Common Equity Tier 1 capital means tier 1 capital that is net equity capital of commercial banks deducted by the items as prescribed in the Notification of the Bank of Thailand: Components of Capital for Locally-incorporated Banks. In case of foreign banks branches, it shall be compared with 10% of net capital deducted by the items as prescribed in the Notification of the Bank of Thailand: Components of Capital for Foreign Banks Branches

²² Commercial banks shall refer to the calculation methods as specified in Attachment 4 of the Notification of the Bank of Thailand: Components of Capital for Locally-incorporated Banks, and Attachment 4 of the Notification of the Bank of Thailand: Components of Capital for Foreign Banks Branches.

Thailand: Regulation on Supervision of Market Risk and Maintenance of Capital Requirement for Market Risk of Financial Institutions.

(3) Companies providing supporting functions for the financial institution system or companies acquired from debt restructuring, as follows:

(3.1) Companies providing supporting function for the business operation of financial institutions and overall financial institution system, such as National Credit Bureau Co., Ltd., National ITMX Co., Ltd., S.W.I.F.T Co., Ltd. and Thai Rating and Information Service Co., Ltd., etc.

(3.2) Companies acquired from debt restructuring, debt repayment, execution of debt repayment or guarantee of debt repayment, as permitted by the Bank of Thailand

(3.3) Companies in liquidation process

9.3.2 Mutual fund investment units; commercial banks may specify the risk weights by the type, proportion and size of assets that the mutual fund has actually invested in (look-through) where commercial banks must be able to calculate the net asset value on a daily basis.

9.3.3 Investment in equity instruments and warrants in the companies that neither operate financial business nor financial supporting business in which commercial banks do not own more than 10% of the total issued common shares of each company.

9.3.4 Land, premises, equipment, other fixed assets, and assets held for sale.

9.3.5 Other assets that risk weights have not been assigned

9.4 A risk weight of 250% shall be assigned to:

9.4.1 Investment in equity instruments and warrants issued by companies operating financial business and financial supporting business where commercial banks own more than 10% of the total issued common shares of each company (except companies under the scope of full consolidation that are required to be included in the consolidated financial statements, and companies providing supporting functions for the financial institution system or acquired from debt restructuring); the calculation method is as follows:

Commercial banks shall compare the sum of direct and indirect¹⁸ investment¹⁹ in equity instruments and warrants of the company with 10% of Net Common Equity Tier 1. In consequence, commercial banks shall use the sum of such investments only for an amount not exceeding 10% of Net Common Equity Tier 1²² to calculate risk-weighted assets in proportion to the type of investment in each company (Pro-rata basis). For the parts that are investment in equity instruments and warrants in banking book, commercial banks shall assign a risk weight of 250%. In this regard, if investments are in the trading book, commercial banks shall comply with the Notification of the Bank of Thailand: Regulation on Supervision of Market Risk and Maintenance of Capital Requirement for Market Risk of Financial Institutions. In this regard, if the risk weight following the aforementioned Notification is less than 250%, commercial banks shall assign a risk weight of 250%.

9.5 Assign a risk weight of 100% divided by 8.5% (100/8.5%), or equal to 1176.5%

9.5.1 Value of loans or investments in debt instruments for the part that is less than minimum loss, where commercial banks are protection buyers and are in the first loss position, where materiality threshold is specified in an agreement on credit protection (details in Section 5.2 of Attachment 7).

9.5.2 Investment in equity instruments and warrants of companies operating businesses other than financial businesses and supporting businesses where commercial banks own more than 10% of the total issued common shares of each company.

II. Non-performing assets

In case where commercial banks classify assets and off-balance items following Section I.1 – I.8 as non-performing assets, commercial banks shall assign them a risk weight of 150%, except for residential mortgage loans following **the Notification of Bank of Thailand on Regulation on mortgage and mortgage related loan (not included the residential mortgage loans which the assigned risk weight is similar to the risk weight assigned to claims on retail portfolio)** which is classified as non-performing assets, commercial banks shall assign a risk weight of 100%.

Nonetheless, where the aforementioned non-performing debts have high specific provisions relative to total exposures, commercial banks shall assign the lower risk weights in accordance with the regulations as prescribed by the Bank of Thailand, as follows:

1. Non-performing assets with no credit risk mitigation as prescribed by the Bank of Thailand, following Attachments 5 - 7 shall be assigned the following risk weights:

1.1 Where specific provisions are less than 20% of total exposures: a risk weight of 150% shall be assigned.

1.2 Where specific provisions are at least 20% but less than 50% of total exposures: a risk weight of 100% shall be assigned.

1.3 Where specific provisions are at least 50% of total exposures and where payments are less than one year past due: a risk weight of 50% shall be assigned.

1.4 Where specific provisions are at least 50% of total exposures and where payments are over one year past due: a risk weight of 100% shall be assigned.

2. Non-performing assets with no credit risk mitigation as prescribed by the Bank of Thailand in regulations on credit risk mitigation under the SA but fully collateralised by: (1) Commercial Real Estate (CRE) (2) Residential Real Estate (RRE) and (3) Receivables²³ shall be assigned the following risk weights:

2.1 Where specific provisions are less than 15% of total exposures: a risk weight of 150% shall be assigned.

2.2 Where specific provisions are at least 15% but less than 50% of total exposures: a risk weight of 100% shall be assigned.

2.3 Where specific provisions are at least 50% of total exposures and where payments are less than one year past due: a risk weight of 50% shall be assigned.

2.4 Where specific provisions are at least 50% of total exposures and where payments are over one year past due: a risk weight of 100% shall be assigned.

3. Residential mortgage loans that receive a risk weight of 35% as prescribed in the Notification of Bank of Thailand on Regulation on mortgage and mortgage related loan and are non-performing assets shall be assigned the following risk weights:

²³ Commercial banks shall refer to the definitions and guidelines for collaterals in the form of CRE, RRE and Receivables of commercial banks following the Notification of the Bank of Thailand: Regulation on the Calculation of Risk-weighted Assets for Commercial Banks under the Internal Ratings-based Approach (IRB).

3.1 Where specific provisions are less than 20% of total exposures: a risk weight of 100% shall be assigned.

3.2 Where specific provisions are at least 20% of total exposures: a risk weight of 50% shall be assigned.

4. Residential mortgage loans that receive a risk weight of 75% as prescribed in the Notification of Bank of Thailand on Regulation on mortgage and mortgage related loan and are non-performing assets shall be assigned the following risk weights:

4.1 Where specific provisions are less than 20% of total exposures: a risk weight of 100% shall be assigned.

4.2 Where specific provisions are at least 20% but less than 50% of total exposures: a risk weight of 75% shall be assigned.

4.3 Where specific provisions are at least 50% of total exposures: a risk weight of 50% shall be assigned.

Regulations on the calculation of credit risk-weighted assets under the Simplified Standardized Approach (SSA)

In calculating credit risk-weighted assets under the SSA, retail banks using the SSA shall comply with the following regulations as prescribed by the Bank of Thailand.

I. Calculation of credit risk-weighted assets under the SSA

(1) On-balance sheet assets

Retail banks shall calculate net asset value where, for each asset, retail banks shall deduct the specific provision of that asset to obtain the net asset value. The net asset value shall be multiplied by the risk weight prescribed by the Bank of Thailand in Section II to obtain risk-weighted assets.

(2) Off-balance sheet items that are not derivatives

Retail banks shall calculate net value of off-balance sheet items where, for each off-balance sheet item, retail banks shall deduct the specific provision of that item to obtain the net value of such item. The net value shall be multiplied by the Credit Conversion Factor (CCF) prescribed by the Bank of Thailand in Attachment 2 to obtain credit equivalent amount. The net credit equivalent amount shall be multiplied by the risk weight prescribed by the Bank of Thailand in Section II to obtain credit risk-weighted assets.

(3) Off-balance sheet items that are derivatives

Retail banks shall calculate counterparty credit risk-weighted assets of derivatives in both trading book and banking book in accordance with the regulations as prescribed in the Notification of the Bank of Thailand on the Calculation of Counterparty Credit Risk-Weighted Assets for Derivative Transactions.

(4) Positions in unsettled transactions

Retail banks shall calculate credit risk-weighted assets in accordance with the Notification of the Bank of Thailand on the Calculation of Credit Risk-weighted Assets for Failed Trade and Non-delivery versus Payment (Non-DvP) Transactions for Commercial Banks.

Where retail banks have credit risk mitigation (CRM) under the SSA, retail banks may carry out credit risk mitigation in accordance with the methods prescribed by the Bank of Thailand in Section III.

Where retail banks have assets and off-balance sheet items denominated in foreign currencies, retail banks shall convert those values into Thai Baht using the current exchange rates as at the reporting date as prescribed in the Notification of the Bank of Thailand on Guideline on Accounting of Financial Institutions.

II. Assigning risk weights to claims¹

Retail banks shall classify assets and off-balance sheet items, and apply risk weights in accordance with the regulations prescribed by the Bank of Thailand, by dividing assets into 2 categories as follows: 1. Performing assets and off-balance sheet items, and 2. Non-performing assets

1. Performing assets and off-balance sheet items, dividing into 9 classifications:

1.1 Claims on sovereigns and central Banks

1.1.1 Thai Baht denominated claims on the Thai government and the Bank of Thailand (including the Financial Institutions Development Fund, and the Deposit Protection Agency): The portion of assets and off-balance sheet items that do not exceed the retail banks' liabilities in Thai Baht shall be assigned a risk weight of 0%.

1.1.2 Claims on foreign sovereigns and central banks denominated in domestic currency of their respective country: The portion of assets and off-balance sheet items that do not exceed the retail bank's liabilities in each currency, shall be assigned a risk weight of 0%.

For Euro denominated assets and off-balance sheet items of governments in the European Community, retail banks shall first compare Euro denominated liabilities with Euro denominated assets of the country that has the lowest Local Currency Rating.

1.1.3 Claims on Thai and foreign sovereigns and central banks denominated in the domestic currency of their respective country that exceed retail banks'

¹ mean assets and off-balance items

liabilities denominated in the same currency shall be assigned risk weights in accordance with the OECD Country Risk Classification Scores², and following risk weights shall be used.

OECD Country Risk Classification Scores	0 - 1	2	3	4 - 6	7	No Country Risk Classification Score
Risk weight (%)	0	20	50	100	150	100

In this regard, in comparing value of assets and liabilities items with retail banks' liabilities following Section 1.1.1 – 1.1.3, retail banks shall use the amount of assets after deducted by specific provision. In case of off-balance sheet items which are OTC derivatives, the credit equivalent amount after deducted by specific provision shall be used, and in case of off-balance sheet items which are not derivatives, the amount of off-balance sheet items after deducted by specific provision and multiplied by Conversion Factor prescribed by the Bank of Thailand, shall be used.

1.1.4 Claims on Thai and foreign sovereigns and central banks denominated in foreign currencies shall be assigned risk weights in accordance with OECD Country Risk Classification Scores, and the risk weights following Section 1.1.3 shall be used.

1.1.5 Claims on the Bank for International Settlements, the International Monetary Fund, the European Central Bank, the European Community, European Financial Stability Facility (EFSF) and European Stability Mechanism (ESM) shall be assigned a risk weight of 0%.

1.2 Claims on local government organizations, state agencies, and state enterprises

1.2.1 Claims on local government organizations³, state agencies and state enterprises⁴ (non-central government public sector entities or PSEs) in Thailand: risk weights shall be assigned in accordance with type of PSEs, which are divided into 2 categories as follows:

² OECD Country Risk Classification Scores mean the consensus scores based on assessments by a number of Export Credit Agencies (ECAs) following the Arrangement on Guidelines for Officially Supported Export Credits available on the OECD website.

³ Mean provincial administrations established by specific laws as follows: (1) Provincial Organizations (2) Municipal (3) Local Administration (4) Special Regional Administration, namely: Bangkok and Pattaya

⁴ Following the list in Attachment 1.1 or further prescribed by the Bank of Thailand

(1) Claims on PSEs using the same risk weights as claims on financial institutions

Claims on local government organizations, state agencies and state enterprises established by specific laws shall be assigned the same risk weights as claims on financial institutions as prescribed in Section 1.4, namely:

(1.1) Claims on state enterprises that are financial institutions⁴

(1.2) Claims on PSEs that are not financial institutions, namely: claims on local government organizations, state agencies and state enterprises which are not financial institutions⁴

In this regard, claims on PSEs that are not financial institutions, with original maturities not exceeding 3 months, shall not receive the lower risk weight as claims on financial institutions prescribed in Section 1.4.3, but shall be assigned risk weights as prescribed Section 1.4.2.

(2) Claims on PSEs using the same risk weights as claims on corporate

Claims on commercial state enterprises established by the Civil and Commercial Code or the Law on Public Company Limited ⁴ shall be assigned the same risk weights as claims on corporate as prescribed in Section 1.6.

1.2.2 Claims on PSEs in foreign countries

Retail banks shall classify PSEs in accordance with the regulations as prescribed by supervisory authority of the country where such PSEs are located, and use risk weights as prescribed by the Bank of Thailand for each type of PSE claims⁵.

1.3 Claims on multilateral development banks (MDBs)

1.3.1 Claims on the following multilateral development banks (MDBs)⁶ shall be assigned a risk weight of 0%.

⁵ Supervisory authority in the country where PSEs are located may assign the risk weight of claims on PSEs to be the same as claims on sovereigns, claims on financial institutions or claims on corporate. If the supervisory authority prescribes the risk weight of claims on PSEs is the same as claims on sovereigns, retail banks shall use the risk weight that the Bank of Thailand prescribes for claims on sovereigns and central banks.

⁶ The Bank of Thailand may amend the list of MDBs to receive a risk weight of 0% in Section 1.3.1, if the BCBS amends its lists.

- The World Bank Group comprised of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC) and International Development Association (IDA)
- The Asian Development Bank (ADB)
- The Africa Development Bank (AfDB)
- The European Bank for Reconstruction and Development (EBRD)
- The Inter-American Development Bank (IADB)
- The European Investment Bank (EIB)
- The European Investment Fund (EIF)
- The Nordic Investment Bank (NIB)
- The Caribbean Development Bank (CDB)
- The Islamic Development Bank (IDB)
- The Council of Europe Development Bank (CEDB)
- The International Finance Facility for Immunization (IFFIm)
- The Multilateral Investment Guarantee Agency (MIGA)
- Asian Infrastructure Investment Bank (AIIB)

1.3.2 Claims on multilateral development banks not specified in Section 1.3.1 shall be assigned a risk weights of 100%.

1.4 Claims on financial institutions

1.4.1 Claims on financial institutions mean Thai financial institutions under the supervision of the Bank of Thailand, such as commercial banks, finance companies, credit foncier companies, asset management companies⁷, and foreign financial institutions under supervision of foreign supervisory authorities.

⁷ Means asset management companies following the Emergency Decree on the Asset Management Company B.E. 2541 (1998).

1.4.2 Claims on financial institutions shall be assigned risk weights in accordance with the Country Risk Classification Scores of the sovereigns and central banks for the countries where the financial institutions are registered as follows:

OECD Country Risk Classification Scores	0 - 1	2	3	4 - 6	7	No Country Risk Classification Score
Risk weight (%)	20	50	100	100	150	100

1.4.3 For claims on financial institutions denominated in their country's domestic currency with original maturity not exceeding 3 months⁸: The portion of assets and off-balance sheet items not exceeding retail banks' liabilities denominated in that currency shall be assigned a risk weight of 20%, regardless of the Country Risk Classification of the country's sovereign and central bank. The portion exceeding the liabilities shall be assigned risk weights in accordance with the Country Risk Classification Scores for the sovereign and central bank of the country that the financial institution is registered in, using risk weights specified in Section 1.4.2.

In this regard, in comparing value of assets and liabilities items with retail banks' liabilities, retail banks shall apply the same principle as specified in Section 1.1.

1.5 Claims on securities companies

Risk weights for claims on securities companies shall be the same as those for claims on financial institutions specified in Section 1.4.

1.6 Claims on corporate

1.6.1 Claims on corporate mean claims on legal entities established by the Civil and Commercial Code or the Law on Public Company Limited, including claims on an individual person and persons⁹ who have objectives to borrow for their businesses, and small business loans unqualified to be retail claims specified in Section 1.7.1, but excluding claims already classified as the claims under Section 1.1 – 1.5 and Section 1.7.

⁸ Includes deposits in savings accounts, current accounts, Nostro accounts, call loan and overdraft loan (O/D), but excludes claims that have been rolled over.

⁹ Means joint borrowings by more than one individual.

1.6.2 Claims on corporate shall be assigned a risk weight of 100%.

For assets and off-balance sheet items under Section 1.1 - 1.6 with a risk weight of 150% and for which provisioning has been made, the retail banks may apply lower risk weights as prescribed by the Bank of Thailand, as follows:

- (1) If such assets and off-balance sheet items have specific provisions less than 20% of total outstanding loans, a risk weight of 150% shall be assigned;
- (2) If such assets and off-balance sheet items have specific provisions at least 20% but less than 50% of total outstanding loans, a risk weight of 100% shall be assigned;
- (3) If such assets and off-balance sheet items have specific provisions at least 50% of total outstanding loans, a risk weight of 50% shall be assigned.

Moreover, for assets and off-balance sheet items under Section 1.1 - 1.6 with a risk weight of 100% with specific provisions of at least 50% of total outstanding loans, a risk weight of 50% shall be assigned.

1.7 Claims on retail portfolios

1.7.1 Claims on retail portfolios which meet all of the following criteria shall have a risk weight of 75%.

- (1) Orientation criterion: Claims on an individual person, persons, or small businesses

In this regard, retail banks shall specify suitable internal guidelines for considering small businesses consistent with retail banks' lending and risk management practices.

- (2) Product criterion: Claims in the form of revolving credits or lines of credit including credit cards and overdrafts (O/D), personal loans and hire purchase loans or contingent liabilities, but excluding investment in debt or equity securities of listed and non-listed companies in securities exchanges.

- (3) Granularity criterion: Claims on retail portfolios must be sufficiently diversified to the extent that risks are reduced. The total credit line for credits and contingent liabilities granted to each retail debtor and related parties¹⁰ must not

¹⁰ Retail banks shall refer to the definition of related parties as specified in Section 4 of the Financial Institutions Businesses Act B.E. 2551 (2008). If the retail banks can prove that they have been vigilant and carried out comprehensive BOT Notification No 3-2563 (25 December 2020)-check

exceed 0.2% of total credit lines and contingent liabilities of qualified retail portfolios¹¹ but excluding credit lines for non-performing retail loans.

(4) Low value of individual exposures: the aggregate of credit lines and contingent liabilities granted to each retail debtor and related parties shall not exceed an absolute threshold of 50 million baht.

In this regard, the calculation of total credit lines granted to each retail debtor and related parties shall include all off-balance items which are not derivatives, using the notional amount (before multiplied by credit conversion factor). For retail debtors which are small businesses, retail banks shall also include credit equivalent amount of OTC derivatives in the calculation of total credit lines.

Nonetheless, in cases where a particular retail debtor has several credit lines totaling over 50 million Baht, the Bank of Thailand permits retail banks to classify credit card debts as claims on retail portfolios assigned a risk weight of 75%. For the remaining debts, retail banks shall categorise them by the type of credit line and assign risk weight of 100%. If retail banks are unable to separate credit card debts from other debts, a risk weight of 100% shall be assigned to total debts.

1.7.2 Claims on individual persons or persons which do not meet all four criteria as claims on retail portfolios specified in Section 1.7.1 shall receive a risk weight of 100%.

1.7.3 Claims on individual persons and persons with business purposes which do not meet all four criteria as claims on retail portfolios specified in Section 1.7.1 shall receive the same risk weight as claims on corporate following Section 1.6.

1.8 Residential mortgage loans

The risk weights assigned for residential mortgage loans under this section are in accordance with the Notification of Bank of Thailand on Regulation on mortgage and mortgage related loan.

assessments of related parties but are unable to determine the total number of related parties, it is deemed that the retail banks are not at fault.

¹¹ Including residential mortgage loans qualified as retail claims as prescribed in the Notification of Bank of Thailand on Regulation on mortgage and mortgage related loan which the assigned risk weight is similar to the risk weight assigned to claims on retail portfolio.

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1.9 Other Assets

1.9.1 A risk weight of 0% shall be assigned to:

- Cash in Thai baht and foreign currencies
- Inter-office balances of the commercial banks
- Prepaid expenses
- Assets arising from mark-to-market of derivative contracts
- Assets that the Bank of Thailand prescribes to be deducted from the capital, such as goodwill and deferred taxes, etc.

1.9.2 A risk weight of 20% shall be assigned to:

- Cash in collection process, which are cash sub-items in the balance sheet as follows: Demand instruments in collection process and instruments that the collection must be in accordance with the regulation on interbank clearing and can be collected on the following business day, such as drafts, bank cheques that have not been cleared but the customers' account have been credited, and returned cheques.
- Investment in securities or investment in fund units including accrued interests, only for an amount that the Ministry of Finance has entered into a contract to provide risk protection or has agreed to bear the risks for, such as the Vayupak 1 Fund.

1.9.3 A risk weight of 100% shall be assigned to:

(1) Investment in equity securities and warrants in the companies that are:

(1.1) Companies operating financial business and financial supporting businesses¹² in full consolidation group that are required to be included in consolidated financial statements

(1.2) Companies operating financial business and financial supporting businesses that retail banks do not own more than 10% of the total issued common shares of each company, the calculation method is as follows:

¹² Refer to definitions of financial business and supporting businesses as specified in the Notification of the Bank of Thailand on Consolidated Supervision

Retail banks shall compare the sum of investment¹³ in equity instruments and warrants, securities counted as Tier 1 capital¹⁴ and securities counted as Tier 2 capital¹⁵ of the companies as specified in (1.2) both direct and indirect investment¹⁶ with 10% of Net Common Equity Tier 1. In consequence, retail banks shall use the sum of such investment only for an amount not exceeding 10% of Net Common Equity Tier 1¹⁷ to calculate risk-weighted assets in proportion to the type of investment (Pro-rata basis)¹⁸. For the parts that are investment in equity instruments and warrants in banking book, retail banks shall assign a risk weight of 100%. As for eligible financial instruments as capital of such companies in banking book, retail banks shall assign a risk weight in accordance with the type of asset. In this regard, if investments are in the trading book, retail banks shall comply with the Notification of the Bank of Thailand on Supervision of Market Risk and Maintenance of Capital Requirement for Market Risk of Financial Institutions.

(1.3) Companies providing supporting functions for the financial institution system or companies acquired from debt restructuring, as follows:

(1.3.1) Companies providing supporting functions for the sake of business operation of financial institutions and overall financial institution system, such as National Credit Bureau Co., Ltd., National ITMX Co., Ltd., S.W.I.F.T Co., Ltd. and Thai Rating and Information Service Co., Ltd, etc.

(1.3.2) Companies acquired from debt restructuring, debt repayment, execution of debt repayment or guarantee of debt repayment, as permitted by the Bank of Thailand

(1.3.3) Companies in liquidation process

(2) Mutual fund investment units; retail banks may specify the risk weights by the type, proportion and size of assets that the mutual fund has actually

¹³ Mean investments in the trading book and banking book

¹⁴ Only in case where insurance companies and securities companies are able to issue financial instruments that can be counted as tier 1 capital, and where such instruments are invested by retail banks

¹⁵ Only in case where insurance companies and securities companies are able to issue financial instruments that can be counted as tier 2 capital, and where such instruments are invested by retail banks

¹⁶ Indirect investment means the case where commercial banks undertake equity and debt derivatives in the position of buyers of such derivatives or it is likely to receive such derivatives in the future

¹⁷ Net common equity tier 1 capital means tier 1 capital that is net equity capital of retail banks deducted by the items as prescribed in the Notification of the Bank of Thailand on Components of Capital for Locally-incorporated Banks

¹⁸ Retail banks shall refer to the calculation methods as specified in Attachment 4 of the Notification of the Bank of Thailand on Components of Capital for Locally-incorporated Banks.

invested in (look-through) where retail banks must be able to calculate the net asset value on a daily basis.

(3) Investment in equity instruments and warrants in the companies that neither operate financial business nor financial supporting business in which retail banks have do not own more than 10% of the total issued common shares of each companies.

(4) Land, premises, equipment, other fixed assets and assets held for sale.

(5) Other assets that risk weights have not been assigned

1.9.4 A risk weight of 250% shall be assigned to:

(1) Investment in equity instruments and warrants issued by companies operating financial business and financial supporting business where retail banks own more than 10% of the total issued common shares of each companies (except companies under the scope of full consolidation group that are required to be included in consolidated financial statements, and companies providing supporting functions for the financial institution system or acquired from debt restructuring); the calculation method is as follows:

Retail banks shall compare the sum of investment¹⁵ in such equity instruments and warrants of the company with 10% of Net Common Equity Tier 1. In consequence, retail banks shall use the sum of such investment only for an amount not exceeding 10% of Net Common Equity Tier 1¹⁷ to calculate risk-weighted assets in proportion to the type of investment in each company (Pro-rata basis)¹⁸. For the part that are investments in banking book, retail banks shall assign a risk weight of 250%. In this regard, if investments are in the trading book, retail banks shall comply with the Notification of the Bank of Thailand on Supervision of Market Risk and Maintenance of Capital Requirement for Market Risk of Financial Institutions. In this regard, if the risk weight following the aforementioned Notification is less than 250%, retail banks shall assign a risk weight of 250%.

1.9.5 Assign a risk weight of 100% divided by 8.5% (100/8.5%), or equal to 1176.5% to:

(1) An investment in equity instruments and warrants of companies operating businesses other than financial business and supporting businesses where retail banks own more than 10% of total issued common shares of each companies.

2. Non-performing assets

In case where retail banks classify assets and off-balance items following Section I.1 – I.8 as non-performing assets, retail banks shall assign them a risk weight of 150%, except for residential mortgage loans following **the Notification of Bank of Thailand on Regulation on mortgage and mortgage related loan (not included the residential mortgage loans which the assigned risk weight is similar to the risk weight assigned to claims on retail portfolio)** which is classified as non-performing assets, retail banks shall assign a risk weight of 100%

Nonetheless, where the aforementioned non-performing debts have high specific provisions relative to total exposures, retail banks shall assign the lower risk weights in accordance with the regulations as prescribed by the Bank of Thailand, as follows:

2.1 Non-performing assets with no credit risk mitigation as prescribed by the Bank of Thailand, following the regulations on credit risk mitigation in Section III, shall be assigned the following risk weights:

2.1.1 Where specific provisions are less than 20% of total exposures: assign a risk weight of 150%

2.1.2 Where specific provisions are at least 20% but less than 50% of total exposures: assign a risk weight of 100%

2.1.3 Where specific provisions are at least 50% of total exposures and where payments are less than one year past due: assign a risk weight of 50%

2.1.4 Where specific provisions are at least 50% of total exposures and where payments are over one year past due: assign a risk weight of 100%

2.2 Non-performing assets with no credit risk mitigation as prescribed by the Bank of Thailand in regulations on credit risk mitigation under the SA but fully collateralised by: (1) Commercial Real Estate (CRE) (2) Residential Real Estate (RRE) and (3) Receivables¹⁹ shall be assigned the following risk weights:

2.2.1 Where specific provisions are less than 15% of total exposures: assign a risk weight of 150%

¹⁹ Retail banks shall refer to the definitions and guidelines for collaterals in the form of CRE, RRE, and Receivables of retail banks following the Notification of Bank of Thailand Notification on the Calculation of Risk-weighted Assets for Commercial Banks under the Internal Ratings-based Approach (IRB).

2.2.2 Where specific provisions are at least 15% but less than 50% of total exposures: assign a risk weight of 100%

2.2.3 Where specific provisions are at least 50% of total exposures and where payments are less than one year past due: assign a risk weight of 50%

2.2.4 Where specific provisions are at least 50% of total exposures and where payments are over one year past due: assign a risk weight of 100%.

2.3 Residential mortgage loans that receive a risk weight of 35% as prescribed in the Notification of Bank of Thailand on Regulation on mortgage and mortgage related loan and are non-performing assets shall be assigned the following risk weights:

2.3.1 Where specific provisions are less than 20% of total exposures: assign a risk weight of 100%

2.3.2 Where specific provisions are at least 20% of total exposures: assign a risk weight of 50%

2.4 Residential mortgage loans that receive a risk weight of 75% as prescribed in the Notification of Bank of Thailand on Regulation on mortgage and mortgage related loan and are non-performing assets shall be assigned the following risk weights:

2.4.1 Where specific provisions are less than 20% of total exposures: assign a risk weight of 100%

2.4.2 Where specific provisions are at least 20% but less than 50% of total exposures: assign a risk weight of 75%

2.4.3 For specific provisions of at least 50% of total exposures: assign a risk weight of 50%

III. Credit risk mitigation (CRM) for the SSA

1. Minimum requirements for credit risk mitigation

1.1 Minimum statutory requirements

1.1.1 Retail banks must have documents or agreements related to credit risk mitigation that are binding on all related parties, are enforceable by law, and do not contradict nor contest other legislations.

1.1.2 Retail banks must have processes and frameworks to evaluate legal clauses, and shall follow up and review whether such documents or agreements continue to be legally enforceable.

1.2 Retail banks must have processes to control other types of risk which may arise from an implementation of credit risk mitigation, such as operational risk, market risk and credit concentration risk.

If the retail banks do not control other risks which may arise from the implementation of credit risk mitigation, the Bank of Thailand may determine that such retail banks must maintain additional capital funds or implement other measures as prescribed in the Bank of Thailand Notification on Supervisory Review Process (Pillar 2).

1.3 Retail banks shall comply with the regulations regarding disclosure of risk mitigation as prescribed by the Bank of Thailand in the Notification of the Bank of Thailand on Disclosure on Capital Requirement of Commercial Banks.

1.4 The claims' risk weights after credit risk mitigation must not be higher than their risk weights before risk mitigation.

2. Types of credit risk mitigation

There are two main types of credit risk mitigation that the Bank of Thailand allows retail banks to use under the SSA: 1) Financial Collaterals; and 2) Guarantees

2.1 Financial collaterals

2.1.1 Minimum requirements for use of financial collaterals for credit risk mitigation

Retail banks must comply with the following minimum requirements in addition to minimum requirements for credit risk mitigation in Section III.

(1) Debtors must pledge the financial collaterals for at least the life of the exposures, and collateral valuations must be carried out at least every 6 months.

(2) Retail banks must have methods to assess and check that the collaterals do not have a material positive correlation with the debtors. For example,

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securities issued by debtors or by any related entities shall be excluded as collaterals as they will not be able to provide effective risk protection.

(3) Retail banks must specify clear processes and procedures for liquidation, in case where debtors default on their obligations, to ensure that the retail banks have full legal rights to liquidate the collaterals promptly.

(4) In case where collaterals are deposited with a custodian, retail banks must ensure that the custodian has rigorous processes in segregating other parties' securities, which are collaterals deposited with it, from its own assets.

(5) Retail banks must maintain capital for transactions where both sides of the transactions are secured e.g. repurchase/reverse repurchase and securities lending/borrowing transactions (repo-style transactions), and collateral postings in connection with OTC derivatives and other borrowings²⁰.

(6) In cases where retail banks act as agents in undertaking repo-style transactions between customers with third parties, and the retail banks provide guarantees to the customers against defaults on repayment of the third parties, then retail banks' risk is the same as if retail banks are the customers' counterparties. Retail banks shall also calculate credit risk-weighted assets for such transactions.

2.1.2 Eligible financial collaterals

The Bank of Thailand permits retail banks to use liquid financial collaterals for which market values or prices can be determined to mitigate credit risk, as follows:

²⁰ For example, if a retail bank undertakes (1) Repo transactions with a counter party A, that is, the retail bank borrows from counterparty A and pledges security "a" as collateral, and (2) Reverse Repo transactions with counter party B, that is, the retail bank lends to counterparty B and receives security "b" as collateral; the retail bank must maintain capital funds for both transactions. For instrument (1), the retail bank's risk is when the value of pledged security "a" is higher than cash received from the counterparty; for instrument (2), the retail bank's risk is similar to normal secured credits where the value of collateral "b" can deteriorate.

- Other similar transactions include Securities Borrowing and Lending transactions (SBL). For example, retail bank (1) borrows security A from counterparty 1 and gives security B as collateral and (2) lends security C to counterparty 2 and receives security D as collateral; the retail bank must maintain capital funds for both transactions. For transaction (1), the risk is when the counterparty cannot return collateral B that was pledged when the retail banks borrowed security A as its value may be higher than security A; for instrument (2), the risk is when the counterparty cannot return security C that was borrowed as its value may be higher than the collateralized security D. Further, the retail banks must also maintain capital funds against issuer risks for securities B and C.

(1) Cash, deposits at lending banks, certificates of deposit and bills of exchange issued by the lending banks²¹, including cash that retail banks received as collaterals from issuing Credit Linked Notes, First to Default CLN and Proportionate CLN to transfer credit risk of debtors in their banking book

(2) Gold

(3) Debt securities issued by sovereigns and central banks; local government organization, state agencies, and state enterprises (non-central government public sector entities or PSEs); that the supervisory authority requires use the same risk weight as claims on sovereigns and multilateral development banks (MDBs) with 0% risk weight. Debt securities used as financial collaterals must have a credit rating better or equivalent to Rating Grade 4 or above.

As such, the Bank of Thailand shall not permit credit risk mitigation if the exposures and the collaterals have maturity mismatches or currency mismatches.

2.1.3 Calculation of Credit Risk Mitigation by Financial Collateral

The retail bank shall adopt the Simple Approach and apply the risk weights of the collaterals instead of the risk weights of the debtors for the secured portion of the exposures, and apply the risk weights of the debtors for the remaining unsecured portion of the exposures, as follows:

(1) On-balance sheet assets

Retail banks shall divide net credit equivalent amounts of transactions, which are gross credit equivalent amount minus specific provisions, into two portions and calculate risk-weighted assets, as follows:

(1.1) Collateralised portion of net credit equivalent amounts (Secured net credit equivalent amounts): Retail banks shall multiply the secured net credit equivalent amount, the fair values of the financial collaterals, by of financial collaterals' risk weights as specified in Section II instead of the debtors' risk weights.

(1.2) Non-collateralised portion of net credit equivalent amounts (Unsecured net credit equivalent amounts): Retail banks shall multiply the

²¹ For of deposits, certificates of deposit and bills of exchange issued by the lending banks which have been deposited with another financial institution in a non-custodial arrangement where assets are pledged or rights have been transferred to the lending banks; where this pledge or rights transfer is unconditional and irrevocable, the risk weight of financial institution that oversees the assets shall be applied for the secured portion of the exposure.

unsecured net credit equivalent amount, the difference between the net credit equivalent amounts and the secured net credit equivalent amounts, by the debtors' risk weights.

(2) Other off-balance sheet items that are not derivatives

Retail banks shall divide the net credit equivalent amounts of transactions, the notional amounts of the contracts minus specific provisions and multiplied by credit conversion factor (CCF) as prescribed by the Bank of Thailand, into two portions and calculate risk-weighted assets, as follows:

(2.1) Collateralised portion of net credit equivalent amounts (Secured net credit equivalent amounts): Retail banks shall multiply the secured net credit equivalent amounts, the fair values of the financial collaterals multiplied by credit conversion factor of the off-balance sheet items for credit risk mitigation, by the risk weights of financial collaterals as specified in Section II instead of the debtors' risk weights.

(2.2) Non-collateralised portion of net credit equivalent amounts (Unsecured net credit equivalent amounts): Retail banks shall multiply the unsecured net credit equivalent amounts, which are equal to the difference between the net credit equivalent amounts and the secured net credit equivalent amounts, by the debtors' risk weights.

(3) Off-balance items that are derivatives

Retail banks shall divide net credit equivalent amounts, gross credit equivalent amounts minus specific provisions, into two portions and calculate risk-weighted assets, as follows:

(3.1) Collateralised portion of net credit equivalent amounts (Secured net credit equivalent amounts): Retail banks shall multiply the secured net credit equivalent amounts, the fair value of the financial collaterals, by risk weights of the financial collaterals as specified in Section II instead of the counterparties' risk weights.

(3.2) Non-collateralised portion of net credit equivalent amounts (Unsecured net credit equivalent amounts): Retail banks shall multiply the unsecured net credit equivalent amounts, the difference between the net credit equivalent amounts and the secured net credit equivalent amounts, by the counterparties' risk weights.

2.1.4 Minimum risk weights for secured net exposures

Risk weights of the secured net credit equivalent amounts shall not be lower than 20%, except for the following cases where a risk weight of 0% is permitted.

(1) Collateral in the form of cash or cash equivalent collaterals specified in Section 2.1.2 (1)

(2) Collaterals in the form of securities issued by sovereigns, central banks, local government organizations, state agencies or state enterprises that receive a risk weight of 0%, where a 20% haircut has been deducted on the collateral values.

2.2 Guarantees²²

2.2.1 Minimum operational requirements for guarantees

Retail banks can mitigate credit risk by using guarantees with the following attributes.

(1) Guarantees must represent direct claims on the guarantors and must explicitly specify assets or pools of asset under the guarantees in order to define the indisputable scopes of guarantees.

(2) Guarantees must not have clauses that allow guarantors to unilaterally revoke the contracts or increase the cost of protection as a result of deteriorating credit quality of the assets under the guarantees²³, except in case where the guarantees do not meet payment obligations agreed under such contracts.

(3) Guarantees must not have clauses outside the direct control of retail banks that prevent the guarantors from their obligations to make timely compensation payments when the event that the debtors default on debt repayment, or in a credit event.

²² Including (1) export credit insurance; limit to the portion that retail banks are the beneficiaries of the insurance policy or the portions that debtors or the Export-Import Bank of Thailand or insurers or reinsurers have transferred the rights of the claims to the retail banks (2) In case where retail banks issue loans and receive certificates of claims on inherited pensions issued by the Comptroller General's Department, the retail banks shall treat the loans as if they are guarantees by the Comptroller General's Department.

²³ Note that the irrevocability condition does not require that the credit protection and the exposures be maturity matched; rather that the maturity agreed *ex ante* may not be reduced *ex post* by the guarantors.

(4) When debtors default, retail banks must have the rights of recourse against the guarantors, and must have the rights to receive compensations from the guarantors without legal actions²⁴. In this regard, the guarantors may make lump sum payments to the retail banks for the full amount of the compensation, or assume future obligations to pay out compensations to the retail banks following the guarantee contracts.

(5) Guarantees must be supported by documents that provide legal rights to claims against the guarantors.

(6) Guarantees should cover all types of payments the debtors are obliged to make under the contracts.

(7) In the case of partial guarantees, such as a guarantee of the principle payments, where interests and other expenses are excluded, the portion not covered by the guarantees shall be treated as an unsecured amount in accordance with methodology for proportional cover agreement in Section 5.

2.2.2 Type of guarantors

The Bank of Thailand permits the following guarantors to be used for credit risk mitigation: sovereigns and central banks²⁵, local government organizations, state agencies, state enterprises, and other organizations receiving risk weight not exceeding 20%, where the guarantors' risk weights must be lower than those of the debtors'.

2.2.3 Calculations of credit risk mitigation using guarantees

(1) Retail banks shall divide the net exposures into two portions, where the guaranteed portion shall be assigned the risk weight of the guarantors, and the remaining unguaranteed portion shall be assigned risk weight of the debtors.

(2) As the Bank of Thailand permits the use of risk weight of 0% for loans or investments in securities issued by sovereigns or central banks of any country denominated in that country's domestic currency that do not exceed the retail banks' liabilities denominated in the same currency, therefore the risk weight of 0% shall also apply to loans or investments in securities guaranteed by such sovereigns or central banks

²⁴ If a guarantor is the Small Industry Credit Guarantee Corporation (SICGC), the Bank of Thailand allows such guarantees to be effective for the credit risk mitigation, despite SICGC regulations prescribe that legal actions must be taken against the debtors first.

²⁵ Includes the Bank for International Settlements, the International Monetary Fund, the European Central Bank, the European Community, **European Financial Stability Facility (EFSF) and European Stability Mechanism (ESM)**.

in that country's domestic currency that does not exceed the retail banks' liabilities denominated in the same currency.

3. Multiple types of credit risk mitigation

3.1 In cases where retail banks have multiple types of credit risk mitigation to protect against risk from the same exposures, for example, where the retail banks have both financial collaterals and guarantees, the retail banks shall apportion assets by the type of credit risk mitigation and calculate risk-weighted assets separately for each portion.

3.2 In cases where retail banks use credit risk mitigations from the same counterparty but where credit risk mitigations have different maturities, the retail banks shall apportion assets into different groups and calculate risk-weighted assets separately for each credit risk mitigation expiry.

4. Double counting of credit risk mitigation

The effect of credit risk mitigation shall not be double count. Therefore, no additional recognition of credit risk mitigation for capital purpose will be granted on claims for which an issue-specific ratings is used that already reflect that credit risk mitigation.

5. Proportional cover

In case where the value of the risk protection agreements are less than the exposures, and the secured and unsecured portions have the same seniority, i.e. the retail banks and the guarantors share losses on a pro-rata basis, the value of risk protection that may be used for risk mitigation shall also be reduced proportionately. That is, the secured portion shall be assigned the risk weights of the guarantor, while the remaining shall be treated as unsecured portions and shall be assigned the risk weight of the debtors as per usual.