



# THAILAND

## FINANCIAL SECTOR ASSESSMENT PROGRAM

### DETAILED ASSESSMENT OF OBSERVANCE—BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

October 2019

This Detailed Assessment of Observance on the Basel Core Principles For Effective Banking Supervision on Thailand was prepared by a staff team of the International Monetary Fund and the World Bank. It is based on the information available as of November 2018.

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June 2019

# DETAILED ASSESSMENT OF OBSERVANCE

## BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

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This report was prepared in the context of a joint IMF-World Bank Financial Sector Assessment Program (FSAP) mission in Thailand during November 2018, led by Alejandro Lopez Mejia (IMF) and Brett Coleman (World Bank), and overseen by the Monetary and Capital Markets Department, IMF, and the Finance, Competitiveness and Innovation Global Practice, World Bank. Further information on the FSAP program can be found at <http://www.imf.org/external/np/fsap/fssa.aspx>, and [www.worldbank.org/fsap](http://www.worldbank.org/fsap).



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## Glossary

|         |  |
|---------|--|
| AML/CFT | Anti-Money Laundering/Combating the Financing of Terrorism |
| AMLO    | Anti-Money Laundering Office                               |
| BCBS    | Basel Committee Banking Supervision                        |
| BCP     | Basel Core Principles                                      |
| BOT     | Bank of Thailand   |
| CAR     | Capital Adequacy Ratio                                     |
| CDD     | Customer Due Diligence                                     |
| EWI     | Early Warning Indicator                                    |
| EWS     | Early Warning System                                       |
| FIBA    | Financial Institutions Businesses Act                      |
| FBG     | Financial Business Group                                   |
| FIPC    | Financial Institutions Policy Committee                    |
| FIPG    | Financial Institutions Policy Group                        |
| FPO     | Fiscal Policy Office                                       |
| FSAP    | Financial Stability Assessment Program                     |
| FSU     | Financial Stability Unit                                   |
| FSWG    | Financial Stability Working Group                          |
| GDP     | Gross Domestic Product                                     |
| KYC     | Know Your Customer   |
| MER     | Mutual Evaluation Review                                   |
| MOF     | Minister of Finance  |
| MPC     | Monetary Policy Committee                                  |
| NPL     | Nonperforming Loan   |
| OIC     | Office of Insurance Commission                             |
| ORM     | Operational Risk Management                                |
| PCA     | Prompt Corrective Action                                   |
| PEP     | Politically Exposed Persons                                |
| PPA     | Prompt Preventive Action                                   |
| PSC     | Payment Systems Committee                                  |
| RM      | Relationship Manager                                       |
| RMC     | Risk Management Committee                                  |
| SA      | Significant Activity                                       |
| SEC     | Securities and Exchange Commission                         |
| SET     | Stock Exchange of Thailand                                 |
| SFI     | Specialized Financial Institution                          |
| SME     | Small and Medium Enterprise                                |
| SOE     | State Owned Enterprise                                     |
| STR     | Suspicious Transaction Report                              |
| TAS     | Thai Accounting Standards                                  |
| TFRS    | Thai Financial Reporting Standards                         |

## SUMMARY ASSESSMENT

**There have been significant enhancements to the legal framework and the supervisory process since the last Basel Core Principles (BCP) review, resulting in high compliance.** The Financial Institutions Business Act (FIBA) was adopted in 2008 and establishes the Bank of Thailand (BOT) as the sole supervisor of commercial banks with powers of enforcement and narrowing the role of the Ministry of Finance (MOF) in supervision. The MOF grants and revokes licenses based on BOT recommendations; when BOT implements prompt preventive actions (PPA), the MOF must be notified ex-post.

**The independence and reputation of the BOT may be negatively impacted by several factors.** The factors include: (i) the permanent presence of the Director General of the Fiscal Policy Office (FPO) on the Financial Institutions Policy Committee (FIPC), which is not in line with international good practice; (ii) the presence of the Secretary-General of the Insurance Commission and the Secretary-General of the Securities and Exchange on the FIPC, and their participation in decisions also compromises operational independence and dilutes accountability; (iii) the legislation (BOT Act Section 42) appears to require Cabinet approval for the granting of Emergency Liquidity Assistance (ELA) to financial institutions that may seriously endanger the stability of the economic and monetary system; (iv) the BOT needs to notify the MOF after ordering action under the PPA or Prompt Corrective Action (PCA) framework; and (v) the negative net worth of the BOT exacerbates the risks to BOT's independence and vulnerability to political interference.

**The involvement of other ministerial authorities in Specialized Financial Institutions (SFIs) supervision may affect standard-setting processes and the mindset of key decision makers for commercial banks when trying to level regulatory standards.** The involvement of the FPO and the State Enterprise Office (SEPO) on SFI supervision, and the only partial transfer of responsibilities to the BOT due to the need for Ministerial approval for two core functions of the supervisory role; (i) to take corrective action against SFIs, and (ii) to set legally binding SFI regulations, may lead to reputational risk to the BOT. The BOT is generally perceived as having full supervisory powers over SFIs, same as over commercial banks, which creates a misperception given the differences in BOT independent authority. Perception of market stakeholders is that there is now a leveled playing field.

**BOT's consolidated supervision and enforcement authority has been enhanced by FIBA implementation.** FIBA provides for the supervision of banks and Financial Business Groups (FBG), on a consolidated basis. The repealed Commercial Banking Act did not address consolidated supervision. The PPA framework provides BOT with tools and measures to be applied based on the severity of the problem, and the PCA framework enables BOT to rectify a capital deficiency.

**The supervisory framework and practices provide the foundation for the continued development of risk-based supervision.** Notifications and examination manuals increasingly focus on analysis of qualitative factors such as governance, risk management and risk appetite statements to determine the bank's composite rating. The BOT examinations address both quantitative (e.g., capital, liquidity, etc) as well as qualitative aspects (e.g., adequacy of board policies, quality of risk

management, etc). To ensure that the Bank complies with notifications, transaction testing is performed to assess bank operations and processes. Inspection reports reflect a move-away from an audit approach and compliance approach. Issuance of best practices guidance and defining supervisory expectations would encourage the continued migration from auditing to risk analysis and facilitate corrective action based on qualitative factors. An additional pillar for the transition is ensuring that banks' internal controls and audit adequately monitor and control transaction risk to enable BOT to increase reliance on their work.

**Efficiency of enforcement actions would be increased by aligning FIBA requirements and BOT internal practices.** In Chapter 5, FIBA outlines the measures available to BOT to effect corrective and preventive action, and the situations in which they may be applied. A determinant factor to support application of the measures is whether the situation may "cause damage to the public interest," in which case, the MOF must be notified of the actions taken. As addressed in Section 92 of FIBA, the definition of causing damage to the public interest is broad and would require notification in most cases. The BOT issued the internal document, Guideline for Enforcement of PPA, and PCA (Guideline), which groups the measures in Chapter 5 and their application, and labeled them as PPA measures. In accordance with the Guideline, PPA will be applied to banks classified as "Weak" and causing damage to the public interest. Application of the measures, under FIBA Chapter 5, is not linked to the BOT bank classification system. However, in the Guideline, the BOT has linked application of the measures to the classification of the bank. The discrepancy makes the application more stringent under the internal Guideline. Chapter 5 measures are more effective if applied at an early stage, when vulnerabilities that may affect the bank's condition are identified. The BOT has not had to invoke PPA as banks implement BOT recommendations (orders) communicated after supervisory activities.

**The BOT's corpus of regulations, guidelines, and supervisory manuals is comprehensive and enforceable and builds on international standards.** The BOT sets conservative capital adequacy requirements (CAR), and foreign bank branches are required to hold regulatory capital like subsidiaries. There are comprehensive and detailed requirements for corporate governance and risk management, commensurate with the risk profile and systemic important of banks. BOT supervisors evaluate the effectiveness of risk management policies, processes, and practices on an ongoing basis and instruct banks to make corrections where appropriate.

**The asset classification and provisioning regulation falls short of international good practice in some areas, but the impact is limited, and a revised regulation which complies with international good practice will come into effect soon.** The definitions of restructuring and rescheduling and the current practices surrounding nonperforming loan (NPL) identification are weaker than international standards. The BOT supervisors are well-aware of these gaps in the regulation and perform in depth procedures to assess the weaknesses. Current provisioning levels are also high compared to international peers. The BOT's revised regulation which addresses the observed gaps will be implemented once IFRS 9 becomes effective in 2020. This will also bring the Thai accounting standards for financial instruments fully in line with IFRS.

**The Anti-Money Laundering Act was amended to strengthen requirements on banks.** As evidenced by documentation provided during the assessment, there has been significant improvement in the anti-money laundering/combating the financing of terrorism (AML/CFT) supervision regime and banks have demonstrated more developed understanding and implementation of AML/CFT obligations e.g., the quality of suspicious transaction report (STR) filings has been shown strong improvement. A mutual evaluation review (MER) by the Asia Pacific Group identified gaps in the AML/CFT standards. For example, lawyers and attorneys are not covered, identification of beneficial owners is not always required to be identified, there is no explicit requirement for politically exposed person (PEP) source of wealth to be identified, and originator and beneficiary information for wire transfers is not required for transactions originated by non-customers of the bank. There is no requirement for filing STRs on transactions between government entities, including state owned enterprises (SOEs). Amendments to legislation addressing these shortcomings are undergoing the approval process.

## INTRODUCTION

- 1. This assessment of the implementation of the BCP by the BOT is part of the FSAP undertaken by the IMF and the World Bank.** The assessment was performed October 25 through November 16, 2018 and is based on the regulatory and supervisory framework in place at the time of this visit.
- 2. Compliance was measured against standards issued by the Basel Committee on Banking Supervision (BCBS) in 2012.**<sup>1</sup> Since the previous assessment, conducted in 2008, the BCP standards have been revised and reflect the international consensus for minimum standards based on global experience. The view is that supervision should be based on a process involving well-defined requirements, supervisory onsite and offsite determination of compliance with requirements and risk assessments, and a strong program of enforcement and corrective action and sanctions. The 2012 revision placed increased emphasis on corporate governance, on supervisors conducting reviews to determine compliance with regulatory requirements, and on thoroughly understanding the risk profile of banks and the banking system.
- 3. The assessors appreciated the high quality of cooperation received from the authorities.** The mission extends its thanks to the staff of the BOT for its excellent cooperation and hospitality. The BOT provided a comprehensive and detailed self-assessment and granted access to supervisory manuals, onsite inspection reports, monitoring reports, and risk assessments.

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<sup>1</sup> Basel Committee on Banking Supervision: *Basel Core Principles for Effective Banking Supervision*, May 2012: <http://www.bis.org/publ/bcbs230.pdf>.

## INSTITUTIONAL AND MARKET STRUCTURE— OVERVIEW

**4. Thailand has a sizeable and diversified financial sector.** The financial system assets amount to 259 percent of GDP (June 2018). Assets of Thailand's 30 commercial banks (including 15 foreign branches or subsidiaries) account for 46 percent of financial sector assets, while 8 state-owned SFIs account for 15.6 percent. The three largest commercial banks account for 44 percent of banking sector assets. In 2017, the banking assets amounted to 125 percent of GDP, compared to 103 percent in 2007. Other segments of the financial sector have grown significantly. The market capitalization of the Stock Exchange of Thailand (SET) in 2017 was 96.6 percent of GDP, up from 67 percent of GDP in 2005 (and from 37 percent of GDP in 2008 at the depth of the international financial crisis). Likewise, insurance sector assets have grown from 10 percent of GDP in 2006 to over 25 percent of GDP in 2017 now constituting 9 percent of financial sector assets. Savings and credit cooperatives and credit unions represent about 6.5 percent of the financial sector assets.

**5. The commercial banking sector appears to be sound and stable with a diversified lending profile and a steady source of funding.** As of end-2017, the loan portfolio of the commercial banking sector was diversified and distributed among the following sectors: financial and insurance (23 percent); mortgages, real estate, and construction (20 percent); manufacturing (15 percent); consumer finance (14 percent); wholesale and retail trade (13 percent); and others (15 percent). To support banking sector activities, commercial banks have been traditionally funded by customer deposits, which represented more than 70 percent of total funding in December 2017. At the same time, banks have been consistently well capitalized, with an aggregate capital adequacy ratio above 15 percent over the last decade and reaching a peak of 18.5 percent in Q3 2017, well above the regulatory requirement of 8.5 percent, and with no banks below 15.5 percent. Commercial banks' NPLs are also low at 3 percent (down from a peak of 6.8 percent in 2007) but have ticked up from 2.15 percent in 2014 primarily due to loans to the mining sector as well as wholesale and retail trade.

**6. SFIs, savings and credit cooperatives, and credit unions provide a significant amount of financial services to households but experience weaker governance and supervision than commercial banks.** SFI mandates focus on providing financial access to those who are underserved by commercial bank and provide some 25 percent of consumer loans (compared to 41 percent of consumer loans provided by commercial banks). The eight SFIs were recently (2015) brought under the supervision of BOT, but still do not face the same disclosure requirements or supervision regime as commercial banks. Their reported NPLs of 4.5 percent are higher than commercial banks. Likewise, their aggregate capital adequacy ratio (CAR) of 12.5 percent is lower than commercial banks but still above BOT regulatory requirement of 8.5 percent. There are 1,409 savings and credit cooperatives and 544 credit unions, which provide 16 percent of consumer loans. Risks are accumulating in this segment as the deposits and investment in securities continue to grow robustly due to search-for-yield behavior. Saving cooperatives invest the excess liquidity in long-term

securities and long-term lending to other cooperatives that lack of liquidity. In addition, there is a maturity mismatch between the long-term assets and the short-term funding from borrowing from financial institutions and other savings and credit cooperatives. With the relative small size and limited linkage to other institutions in financial system, the saving cooperatives currently do not pose significant financial stability risks. However, risks are accumulating in this segment as debt rollover is allowed, and these institutions are monitored but not prudentially supervised by the Ministry of Agriculture.

## PRECONDITIONS FOR EFFECTIVE BANKING SUPERVISION

### A. Soundness and Sustainability of Macroeconomic Policy

**7. Since the last FSAP in 2008, the BOT has continued to conduct a managed float exchange rate regime and inflation targeting policy.** Macroeconomic policies remain on the same regime and have been effective in preserving economic growth and maintaining price stability during periods of uncertainty. Thailand's sound macro policy coupled with strong fundamentals, including a large build-up of international reserves and low foreign debt, shielded the economy from the global economic crisis in 2008–2009.

**8. GDP growth in 2017 continued a positive trend, reaching 4.0 percent yoy in Q4.** Headline inflation dropped below the target range in 2015–17, resulting from a decline in oil prices and falling core inflation, but is projected to rise along with stronger domestic demand and move toward lower bound of the target in H1/2018. Overall, financial conditions continue to be accommodative and conducive to economic growth. Financial stability remains sound but there remain pockets of risk, especially in search-for-yield behavior due to the prolonged low interest rate environment and low debt serviceability of households and small and medium enterprises (SMEs), which are been closely monitored. Thailand's external position reflects a current account surplus and low foreign debt. International reserves stood at US\$215 billion representing 50 percent of GDP as of Q1/2018, and low foreign debt.

**9. The fiscal stance remains expansionary to support economic recovery.** The fiscal deficit is expected to widen to support the expansion of public investment. Public debt to GDP registered at 41.2 percent at the end of 2017, below the fiscal sustainability framework of 60 percent. The Fiscal Responsibility Act B.E. 2561 (2018) was issued in 2018 to enhance transparency in the government budget process.

### B. Financial Stability Policy Framework

**10. The BOT assumes the leading role in safeguarding financial stability.** The BOT monitors systemic risk and cooperates with the relevant supervisory authorities, primarily the Securities and Exchange Commission (SEC), the Office of Insurance Commission (OIC), and the FPO to ensure

financial system stability with respect to financial institutions, financial markets, payments systems, and sustainability of macroeconomic policies.

**11. There are several departments and committees within the BOT tasked with monitoring financial stability risks.** In 2016, the BOT established the Financial Stability Unit (FSU) to monitor and identify areas of financial risk build-up and cross-cutting issues, drawing on sectoral surveillance conducted by different departments within the BOT as well as cooperate with other supervisory authorities by exchanging information and jointly conducting risk monitoring and assessments. The FSU develops the tools and capacity for financial stability assessments, undertaking the design of macroeconomic scenarios for stress testing, and developing a macroprudential toolkit and framework in preparation for policy functions. The FSU also acts as secretariat for financial stability meetings and is the editor of the Financial Stability Report.

**12. The FSU and line departments meet regularly to discuss and assess financial stability issues both formally and informally.** The sub-committee of Financial Stability holds formal, quarterly meetings chaired by the BOT Governor, during which risk assessments are discussed. In preparation for the sub-committee meetings, the BOT internal Financial Stability Working Group (internal FSWG) meets to discuss issues regarding financial stability and risk assessments. Assistant governors from financial stability-related line departments participate in the internal FSWG meetings, where the meetings are chaired by assistant governors of the Monetary Policy Group and Financial Institutions Policy Group with the Financial Stability Unit director as a secretary.

**13. The BOT, SEC, and OIC coordinate financial system surveillance through the FSWG.** These authorities also participate in the 3-Regulator Steering Committee, which reports to both the Committee and the Joint Meeting of the Monetary Policy Committee (MPC) and the FIPC. The SEC and the OIC are also members of the FIPC. Risks to financial stability are discussed and key issues consolidated at FSWG meetings. Key issues are then escalated to the Joint Meeting of the MPC and the FIPC as well as the 3-Regulator Steering Committee.

## C. Well Developed Public Infrastructure

**14. Thailand has a civil legal system based on case law, where the court decides a case based on an interpretation of statutory provisions.** Under the Constitution, the sovereign power belongs to the Thai people. The King as Head of State exercises such power through the Parliament, the Cabinet, and the Courts. The Constitution is the supreme law of the State to which all legislative sources are subject. Enactment of a law could be done by the power of the Legislative Branch (Parliament) or through the Executive Branch (Cabinet). Subordinated law can be issued in the form of a Royal Decree, proposed by the Cabinet with the suggestion of the minister of the relevant ministry authorized under a specific act to set forth details under the guidelines of such act. Subordinated law can also be issued in the form of ministerial regulation by the minister who is authorized under a specific act to issue or change detailed regulations from time to time.

**15. Courts in Thailand are classified into four categories: Constitutional, Administrative, Military, and the Courts of Justice.** The Constitutional Court has powers and duties in adjudicating

and ruling on constitutional cases. The Administrative Court tries and adjudicates administrative disputes between state organizations and the private sector, whereas the Military Court tries and adjudicates cases involving persons within its jurisdiction. The Courts of Justice try and adjudicate all cases including most of the business cases except those specified by the Constitution or other laws. The Courts of Justice are classified into three levels: Courts of First Instance (which comprise general courts, juvenile and family courts, and specialized courts), the Courts of Appeal (which consist of the Court of Appeal and nine Regional Courts) and the Supreme Court (which is the final court of appeal in all civil and criminal cases in the country).

**16. The practice of law is in accordance with the Lawyer Act, the Judicial Service Act (the Judicial Service or the Court of Justice Act), and the Public Prosecution Organ and Public Prosecutor Act.** Lawyers must obtain a license by passing an examination of the Lawyer Council of Thailand and become its member. Judges and public prosecutors must pass the examination of the Institute of Legal Education of Thai Bar Association. Thereafter, they will be recruited by the Judicial Commission or the Public Prosecutor Commission, as a case may be, through the examination arranged by them.

**17. The Accounting Profession Act establishes the Federation of Accounting Professions (FAP) (October 2004) as a self-regulated entity aiming to promote and develop the accounting profession.** The FAP has the power and responsibility to formulate accounting and auditing standards; develop a code of ethics; ensure that accountants and auditors act in compliance with laws and regulations; issue, suspend, or revoke auditing licenses; and issue the regulation for Continuing Professional Development (CPD). Thai Accounting Standards (TAS) and Thai Financial Reporting Standards (TFRS) are in line with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), except for the standards covering financial instruments (IAS 32, IAS 39, and IFRS 7). The Thai Standards of Auditing (TSA) conform to the International Standards on Auditing (ISA). TASs and TFRSs are applied to all public companies, banks, insurance companies, securities companies, and mutual funds.

**18. The BOT is empowered under the BOT Act to operate the payment systems and conduct activities to maintain payment systems stability.** BAHTNET (The BOT Automated High-Value Transfer Network) is the only large value payment system (LVPS) operated on real time gross settlement basis and is considered as a Systemically Important Payment System (SIPS). BAHTNET, owned and operated by BOT, provides inter-institution funds transfer service for financial institutions and provides final settlement to net clearing positions from retail payment systems such as cheque clearing (ICAS) and interbank retail funds transfer system (ITMX). Under the BOT Act, the Payment Systems Committee (PSC) is established and empowered to formulate policies about the payment systems under supervision of the BOT and inter-bank clearing systems to ensure their efficiency and stability and to monitor the BOT's related activities. The PSC acts as both the oversight board of the payment systems and the FMI's board for BAHTNET. The PSC performs other oversight functions such as establishing supervisory policies and the oversight framework. As an FMI Board, the PSC oversees the operations and key performance of BAHTNET and approves the risk management framework for the BAHTNET's operations.

**19. The National Credit Bureau (NCB) is the single private credit bureau in Thailand banks can join.**

The NCB is the result of the 2005 merger by the Thai Credit Bureau and Central Credit Information Services. The NCB is governed by the Credit Information Business Act B.E. 2545 (2002) and aims to gather loan data from financial institution members and in return offers reliable credit data of both consumers and corporates for financial institutions to analyze credit risk of the borrowers. As of June 2017, the NCB had 96 members including banks, nonbanks, leasing companies, and saving cooperatives. Currently, the NCB encourages more numbers of saving cooperatives and other financial institutions to join the membership as to improve data coverage. Since May 2017, the NCB has been offering NCB scores for both consumers and SMEs to members, which could be incorporated into their internal credit scoring.

**20. The legal framework specifies duties and responsibilities of, and grants authority to, supervisory agencies to oversee financial safety net mechanisms.**

The BOT, the SEC, and the OIC are responsible for supervising, issuing policies, and resolving entities under supervision in the financial institutions (commercial banks, finance companies, and credit foncier companies) sector, capital market, and insurance sector, respectively. The BOT performs the duty as “a lender of last resort” of financial institutions in accordance with the BOT Act; while the Deposit Protection Agency (DPA) is responsible for deposit protection.

**21. The Deposit Protection Act B.E. 2551 (DPA Act) was passed in 2008, establishing the DPA supervised by the MOF.**

The DPA acts as a paybox-plus<sup>2</sup> and has three primary objectives as stated in the deposit protection law: (i) to provide protection for deposits in financial institutions; (ii) to enhance confidence and stability in the financial institution system; and (iii) to manage financial institutions subject to control under the Financial Institutions Businesses Act and liquidate financial institutions whose licenses have been revoked. Membership under the DPA scheme is compulsory for all financial institutions, comprising commercial banks (both local and foreign), finance companies, and credit foncier companies; currently, there are 35 member institutions. The maximum annual premium rate that members remit to the Deposit Protection Fund cannot exceed 1 percent of the average value of eligible deposits at the insured institution; at present, the annual premium rate is 0.01 percent. As of end-2017, the size of the Deposit Protection Fund was THB 120.03 billion. This represents around 3 percent of insured deposits.

**22. The DPA protects Baht deposits and accrued interest of both individuals and legal persons.**

The types of accounts under DPA protection include current accounts, savings accounts, fixed deposit accounts, certificates of deposit, deposit receipts, and other deposit accounts under different names with obligations to pay back depositors. However, Non-Resident Baht Accounts (NRBAs), derivative-embedded deposits, and interbank deposits are excluded from the deposit protection scheme.

**23. Several measures have been taken by the SEC in collaboration with the SET and the Thai Institute of Directors (IOD) to enhance corporate governance standards.**

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<sup>2</sup> DPA’s mandate also covers liquidation.

these measures are the requirement that companies obtain approval to issue and offer for sale securities to protect investors from unfair practices and ensure the availability of adequate information for making investment decision in accordance with international standards and the Investment Governance Code for institutional investors.

**24. For financial institutions and financial business groups, the BOT focuses on enhancing corporate governance and management systems.** In May 2018, the BOT revised the regulations on (i) fit and proper criteria of the director, manager, person with power of management, and advisor of the financial institution; (ii) the directors' responsibilities in financial institution management; (iii) the establishment of the board of directors and subcommittees including their composition, qualifications, and responsibilities; and (iv) disclosure of information. Moreover, the BOT has recently revised the Handbook for Directors of Financial Institutions to be in line with the changing environment by focusing on the roles and responsibilities of the board for each aspect of governance.

## MAIN FINDINGS

### A. Responsibilities, Objectives, Powers, Independence, and Cooperation (CPs 1–3, and 13)

**25. The BOT has clear objectives and the necessary legal powers to conduct ongoing supervision, address compliance with laws, and undertake timely corrective actions to address safety and soundness concerns for banks.** In the areas where the BOT recommends and the MOF approves (licensing, revoking a license and approving non-Thai shareholders and directors), there have been no instances where the MOF has not followed the BOT's recommendations.

**26. The current mix of roles in SFI supervision and regulation between the MOF and the BOT, increases the BOT's reputational risk as a result of potential political interference that could spill over to its role as the regulator and supervisor of banks.** There are eight SFIs in Thailand, each with a different mandate assigned by its founding law. Four SFIs are deposit-taking institutions and comply with the definition of a commercial bank in accordance with FIBA. The SFIs are regulated and supervised by the BOT with extensive involvement of the State Enterprise Policy Office (SEPO) as owner and the Fiscal Policy Office (FPO) as policy maker. The minister of finance has delegated large parts of supervision to BOT but not the corresponding powers to take corrective action against problems in SFIs or to set legally binding SFI regulations without ministerial approval. This incomplete transfer of responsibilities exposes the BOT to reputational risk that could affect its role as regulator and a supervisor of banks.

**27. FIBA provides a framework for the BOT to set minimum enforceable prudential standards for banks and banking groups as well as guidance to clarify good practices.** The BOT issues banking notifications that are subordinate legislation of FIBA and considered as law. The BOT guidance is not considered as law since the BOT issues it without referring to a statutory provision. Guidance is usually released to apply industry best practice in areas such as risk management. Thai

banks have not challenged the non-binding nature of the BOT's guidance and have complied with all orders and recommendations imposed by the BOT examiners based on this guidance. To better explain its policy positions and further strengthen its standing in the international supervisory community, the BOT should publish more comprehensive response papers to public consultations on important notifications instead of, or in addition to, attaching brief questions and answers to the notifications.

**28. The BOT is well resourced, has transparent processes for the appointment and removal of the governor and members of its governing body, and has adequate legal protection for its staff.** The process for the appointment and removal of the governor and the members of the FIPC is transparent, and the BOT has adequate resources for the conduct of effective supervision and appropriate training plans. Discussions with supervisors and banks confirmed that BOT staff have credibility based on their professionalism and integrity. The BOT regularly benchmarks its salary scales to the market and has sufficient funding to cover cross-border inspections and training. The legal framework for banking supervision includes adequate legal protection for the supervisors.

**29. Rotations of frontline supervisory staff appear to occur as a matter of practice.** These should be formalized in policy and enforced within the supervision groups to ensure adequate rotation in supervisory staff. Relationship managers and their teams should be rotated to other (supervisory) roles after 3–5 years of supervising the same institution or banking group. While there should be room for flexibility in the rotation policy, a maximum period that any supervisor can be assigned to the same institution should also be established.

**30. While the assessors did not observe evidence of a lack of independence, there are a few factors that have the potential to interfere with the BOT's independence.** First, the permanent presence of the Director General of the Fiscal Policy Office (FPO) on the FIPC is not in accordance with international good practice. Second, the presence of the Secretary-General of the Insurance Commission and the Secretary-General of the Securities and Exchange on the FIPC, and their participation in decisions also compromises operational independence and dilutes accountability. Third, Section 42 of BOT Act requires that when a financial institution faces a liquidity problem that may seriously endanger the stability of the economic and monetary system, the BOT, after approval of the FIPC and the Cabinet, may approve the granting of a loan or financial assistance to that financial institution. Hence, any ELA to a D-SIB is likely to fall under Section 42, expose the BOT to political interference, and delay the process. Fourth, the BOT needs to notify the MOF in case it applies the PPA framework and the Prompt Corrective Action. Finally, even though the BOT has continued to discharge its duties for many years despite negative net worth, its weak financial position further exacerbates the risk to the BOT's independence and vulnerability to political interference.

**31. Parts of the SFI supervision and regulation were recently transferred to the BOT, and SFIs are supervised by a separate department that reports to the Assistant Governor of the Supervision Group, same as the commercial bank supervision departments.** In other words, SFI and commercial bank regulatory and supervisory actions are decided by the same staff, following the same procedures. Considering their significantly differing degrees of independence, it is not

unlikely that contamination seeps through and that matters arising in the SFI area spill over to the commercial bank decision-making process, particularly because some commercial banks also have state ownership.

**32. Formal and informal arrangements for domestic and international cooperation have been established and function well in practice.** Domestic coordination at senior levels occurs through cross directorship of the FIPC and the 3-Regulators Steering Committee. At the working level, various working groups have been established and hold regular meetings, including domestic supervisory colleges. These arrangements are formalized in Memorandums of Understanding (MOUs) and allow the exchange of confidential information, based on the FIBA provisions. The foreign exposures of Thai banks are small; nevertheless, the BOT has concluded MOUs with most host supervisors and has provided the assessors with evidence of effective cooperation.

## **B. Methods of Ongoing Supervision (CPs 8–10, and 12)**

**33. The supervisory process is well established.** BOT bases its supervisory scope on a risk-based analysis of the banks. Banks are supervised by a team of examiners under a relationship manager (RM); the team is responsible for onsite examinations and offsite analysis. The process is flexible, enabling BOT to promptly respond to a changing environment by: (i) decreasing reliance on an annual onsite examination or expanding offsite analysis and communications with banks, resulting in ongoing monitoring; (ii) expanding the use of early warning indicators (EWI); and (iii) incorporating the possible impact of macroeconomic trends into the supervisory scope.

**34. Effective follow-up ensures that recommendations from BOT are implemented.** Recommendations in examination reports are discussed with senior bank management and a copy of the report is sent to the bank's board. Date for responses are established and examiners follow-up as part of their offsite ongoing monitoring. Numerous examples of examination reports follow-up were shared with assessors.

**35. A bank's risk profile is reflected in a composite rating.** Banks are analyzed and, based on their risk profiles, governance and operating policies, are assigned forward-looking ratings covering the significant activities that may have an impact on financial condition and performance. At the completion of the analysis, the bank is also assigned a composite rating that aids supervisors in developing their supervision plans. The BOT can further leverage its risk analysis by increased targeting of activities to areas of higher risk and more narrowly scoping annual onsite examinations, as appropriate.

**36. The BOT's consolidated supervision powers have been significantly enhanced.** FIBA was amended to include consolidated supervision over banking groups and FBGs. FIBA grants the BOT authority to approve the establishment of FBGs, require changes in their structure if it impedes proper supervision, and to supervise the bank, its parent, subsidiaries, and affiliates as if they were the same juristic person. The BOT maintains detailed organizational charts of all FBGs and their ultimate beneficial owners.

**37. The BOT supervisory framework and practices provide the foundation for the continued development of risk-based supervision.** Notifications and examination manuals increasingly focus on analysis of qualitative factors such as governance, risk management and risk appetite statements in determining the bank's composite rating. The BOT onsite examination has focused both on the quantitative (e.g., capital, liquidity) as well as qualitative aspects (e.g., adequacy of board policies, quality of risk management). Moreover, to ensure that the Bank complies with the BOT notifications, transaction testing is performed to assess bank operations and processes. Inspection reports are moving away from past audit and compliance approaches. Issuance of best practices guidance and defining supervisory expectations would encourage the migration from auditing to risk analysis and facilitate corrective action based on qualitative factors. An additional pillar is ensuring banks' internal controls and audit adequately monitor and control transaction risk.

### C. Corrective and Sanctioning Powers of Supervisors (CP 11)

**38. The BOT has available a broad range of possible measures to timely address safety and soundness issues, but BOT internal procedures could be enhanced.** As currently described under the Guideline, PPA measures are applied to banks classified as "weak" and which "would cause damage to public interest." Chapter 5 of FIBA defines and provides the BOT authority to apply the measures addressed in the BOT Guideline but does not link their application to the bank classification. Chapter 5 very broadly defines actions causing public damage and requiring notification to the MOF. The BOT is of the opinion that Chapter 5 measures may be applied and not require MOF notification. Amending the Guideline to clarify that Chapter 5 measures may be applied independent of a specific bank classification and also clarifying the need to notify MOF would increase effectiveness and clarity for supervisors.

**39. Aligning FIBA, the Guideline and the BOT practice would expedite application of PPA.** It is a good practice to have internal guidelines that put in practice legal and regulatory requirements. Banks promptly respond to the BOT inspection report recommendations (orders) and the BOT has not had to apply stronger measures. However, situations change, and now is a good opportunity to issue a notification and amend the Guideline accordingly to clarify the BOT authority to implement PPA and the circumstances. The Guideline has integrated the financial triggers according to the early warning system (EWS) aligning it with PPA/PCA. Additionally, the BOT is enhancing qualitative elements such as the quality of risk management into triggers.

### D. Corporate Governance (CP 14)

**40. The BOT's corpus of regulations, guidelines, and the corporate governance supervisory manual are comprehensive, enforceable, and in line with international good practice.** The BOT has been updating its governance regulation to keep up with the development of international good practices. At the assessment date, the BOT regulation with regards to corporate governance of financial institutions have already been enhanced at solo basis by the newly issued regulation, which has been in effect since June 2018. For FBG, the enhancement to the governance requirement will be in effect from May 2019 onwards. In the meantime, the governance of FBG follows the existing BOT

notification no. FPG 8/2560 on supervision of corporate governance of financial business group which covers almost all aspects of effective governance. The enhancement to the corporate governance regulation aims to strengthen management systems, transparency, and market discipline by reinforcing the BOT's expectation of (i) responsibility of the parent company board on oversight of subsidiaries, and (ii) composition of the parent company's board and subcommittees.

**41. Similarly, some requirements of the corporate governance regulation are still subject to transitional and grandfathering measures and are not yet enforced at the assessment date.**

For example, independent directors that have been in service for more than nine years will be grandfathered till May 2022. The requirement for a risk oversight committee also comes into effect on May 1, 2019.

## **E. Prudential Requirements, Regulatory Framework, Accounting, and Disclosure (CPs 15–29)**

**42. The BOT determines that banks have comprehensive risk management processes, including effective board and senior management oversight, to identify, measure, evaluate, monitor, report, and control all material risks on a timely basis.** The BOT has comprehensive and detailed requirements for various risk categories (credit risk, market risk, operational risk, liquidity risk, and IT risk) which include conservative assumptions and are linked to capital adequacy requirements. The BOT also requires the development of, and reviews, banks' contingency plans. The risk management supervision process is commensurate with the risk profile and the systemic importance of banks. The BOT supervisors evaluate the effectiveness of risk management policies, processes, and practices on an ongoing basis and instruct financial institutions to make corrections where appropriate. As a risk-based supervisor, the BOT should better articulate its supervisory expectations by publishing best-practice guides, after thematic reviews or when a diverging range of practices is observed, for example on risk management and governance. This will also contribute to the international standing of the BOT as a world class prudential supervisor.

**43. The BOT sets conservative capital adequacy requirements, the components of capital absorb losses and the capital requirements are in line with Basel III.** The average CET1 ratio for D-SIBs sits around 15 percent and 16 percent for non-D-SIBs. Foreign bank branches are required to hold capital like domestic banks. Three banks can use internal models for credit risk, and two foreign bank branches have been accredited to use the market risk internal model approach. The BOT has a well-staffed specialized team that accredits and oversees modelling by banks. Even though the BOT has the power to set individual capital ratios and will require a 1 percent add-on for D-SIBs by 2020, it has not yet tailored capital ratios to the risk profile of individual banks. The BOT should build on its risk-based supervisory framework to develop a methodology that facilitates individual capital ratios, at least for its largest and most complex banks.

**44. Parts of the credit risk and asset classification requirements fall short of international good practice, but the impact is limited due to strong supervision practices and high provisions.** The BOT's definition of restructuring and rescheduling is not in line with the definition

of forbearance in international good practice; it should include financial difficulty of the borrower, and it should not be conditioned on the bank making a loss. Also, the probation period for restructured exposures to be upgraded is currently three months, while international good practice requires it to be a minimum of one year. The BOT regulation also allows an upgrade of the exposure to take place when restructuring or rescheduling is granted. Moreover, there is also no limit on the number of times banks can reschedule or restructure (evergreening). Furthermore, the regulation should be more detailed on the level of application of the asset classification (borrower or transaction level). Finally, banks should be required to include a list of indicators to determine the “unlikelihood to pay” in their policies. The BOT supervisors are well-aware of these gaps in the regulation and perform in-depth procedures to address these weaknesses. Current provisioning coverage levels are standing at 140 percent, high compared to international peers.

**45. The BOT has issued a revised regulation to be implemented after TFRS 9 becomes effective in 2020, which should address most of the shortcomings identified above.** That is, the assets will be classified into 3 classes: performing, under-performing, and nonperforming. For assets classified as performing, provisions shall be set against expected credit losses over a 12-month period, while for assets classified as under-performing and nonperforming, provisions shall be set against expected credit losses over the expected life. The revised regulation was not in force at the time of the assessment but is expected to address most of the weaknesses listed above.

**46. A detailed related-party lending legal framework has been established.** The definition of related party is broad and provides significant latitude for the BOT to use supervisory judgment. Directors, senior managers and persons with power of management are not permitted to borrow from the bank. The BOT closely monitors related party transactions and reviews intra-group lending.

**47. Country, liquidity, market, interest rate, and operational risks are monitored under a fully-developed and comprehensive regulatory framework.** Basel guidance is followed in the monitoring of these risks, and the data collected and analyzed by BOT provides a comprehensive overview that feeds the risk dashboards. Cross-border lending and establishments are increasing and highlight the need for close monitoring of risk appetite statements and growth strategies.

**48. At the assessment date, the Thai accounting standards are generally in line with IFRS.** The BOT's asset classification and provisioning standards used in banks' financial statements are more conservative provisioning standards than IAS 39. Quantitative impact studies have revealed that the quantitative outcomes of the current BOT provisioning standards are closer to IFRS 9. The latter will be fully implemented in 2020.

**49. The mutual evaluation review by the Asia Pacific Group disclosed areas for improvement in AML/CFT supervision.** The Anti-Money Laundering Office (AMLO) is the primary regulator but BOT also plays an important role. The MER identified gaps in the AML/CFT standards. For example, identification of beneficial owner is not always required to be identified, there is no explicit requirement for PEP source of wealth to be identified, and originator and beneficiary information for wire transfers is not required for transactions originated by non-customers of the bank. There is no requirement to file STRs for transactions between government entities, including

SOEs. Amendments to legislation are undergoing the approval process to address these shortcomings.

## DETAILED ASSESSMENT

**50. The assessment of compliance of each principle will be made based on the following four-grade scale: compliant, largely compliant, materially noncompliant, and noncompliant.** A “not applicable” grading can be used under certain circumstances. While gradings in self-assessments may provide useful information to the authorities, these are not mandatory as the assessors will arrive at their own independent judgment.

- **Compliant:** a country will be considered compliant with a Principle when all essential criteria<sup>3</sup> applicable for this country are met without any significant deficiencies. There may be instances, of course, where a country can demonstrate that the Principle has been achieved by other means. Conversely, due to the specific conditions in individual countries, the essential criteria may not always be sufficient to achieve the objective of the Principle, and therefore other measures may also be needed in order for the aspect of banking supervision addressed by the Principle to be considered effective.
- **Largely compliant:** A country will be considered largely compliant with a Principle whenever only minor shortcomings are observed that do not raise any concerns about the authority’s ability and clear intent to achieve full compliance with the Principle within a prescribed period of time. The assessment “largely compliant” can be used when the system does not meet all essential criteria, but the overall effectiveness is sufficiently good, and no material risks are left unaddressed.
- **Materially non-compliant:** A country will be considered materially non-compliant with a Principle whenever there are severe shortcomings, despite the existence of formal rules, regulations and procedures, and there is evidence that supervision has clearly not been effective, that practical implementation is weak, or that the shortcomings are sufficient to raise doubts about the authority’s ability to achieve compliance. It is acknowledged that the “gap” between “largely compliant” and “materially non-compliant” is wide, and that the choice may be difficult. On the other hand, the intention has been to force the assessors to make a clear statement.
- **Non-compliant:** A country will be considered non-compliant with a Principle whenever there has been no substantive implementation of the Principle, several essential criteria are not complied with, or supervision is manifestly ineffective.

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<sup>3</sup> For the purpose of grading, references to the term “essential criteria” in this paragraph would include additional criteria in the case of a country that has volunteered to be assessed and graded against the additional criteria.

**51. In addition, a Principle will be considered not applicable when, in the view of the assessor, the Principle does not apply given the structural, legal, and institutional features of a country.**

**52. Unless the country explicitly opts for any other option, compliance with the Core Principles will be assessed and graded only with reference to the essential criteria.** As a second option, a country may voluntarily choose to be assessed against the additional criteria, in order to identify areas in which it could enhance its regulation and supervision further and benefit from assessors' commentary on how it could be achieved. However, compliance with the Core Principles will still be graded only with reference to the essential criteria. Finally, to accommodate countries that further seek to attain best supervisory practices, a country may voluntarily choose to be assessed and graded against the additional criteria, in addition to the essential criteria. Thailand has opted for assessment he against the essential and additional criteria.

**53. The detailed Principle-by-Principle self-assessment should provide a “description” of the system with regard to a particular Principle.** The template also includes spaces for a grading or “assessment,” and a “comments” section, if the country opts to include a grade in its self assessment.

- The “description” section of the template should provide information on the practice in the country being assessed. It should cite and summarize the main elements of the relevant laws and regulations. This should be done in such a way that the relevant law or regulation can be easily located, for instance by reference to URLs, official gazettes, and similar sources. Insofar as possible and relevant, the description should be structured as follows: (i) banking laws and supporting regulations; (ii) prudential regulations, including prudential reports and public disclosure; (iii) supervisory tools and instruments; (iv) institutional capacity of the supervisory authority; and (v) evidence of implementation and/or enforcement or the lack of it.
- The “assessment” section, if the country opts to include the grade in the self-assessment, should contain only one line, stating whether the system is “compliant,” “largely compliant,” “materially non-compliant,” “non-compliant,” or “not applicable” as described above.
- The “comments” section will be used by the assessors to explain why a particular grading was given, in particular when a less than “compliant” grading was given. This could be structured as follows: (i) reasons related to the state of the laws and regulations and their implementation; (ii) the state of the supervisory tools and instruments, for instance reporting formats, EWS, and inspection manuals; (iii) the quality of practical implementation; (iv) the state of the institutional capacity of the supervisory authority; and (v) enforcement practices. In case of a less than “compliant” grading, this section will be used to highlight which measures would be needed to achieve full compliance, or why, notwithstanding the system seems compliant based on laws, regulations, and policies being in place, yet a less than “compliant” grading was given, perhaps due to weaknesses in procedures or implementation. Countries choosing not to include grades in the self assessment can use this section to introduce additional information, in particular

make reference to planned initiatives aimed at amending existing practices, or legislation and regulation still in draft.

| <b>Table 1. Thailand: Detailed Assessment</b>                 |  |
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| <b>A. Supervisory Powers, Responsibilities, and Functions</b> |  |
| <b>Principle 1</b>  | <b>Responsibilities, objectives, and powers.</b> An effective system of banking supervision has clear responsibilities and objectives for each authority involved in the supervision of banks and banking groups. <sup>4</sup> A suitable legal framework for banking supervision is in place to provide each responsible authority with the necessary legal powers to authorize banks, conduct ongoing supervision, address compliance with laws, and undertake timely corrective actions to address safety and soundness concerns. <sup>5</sup>  |
| <b>Essential criteria</b>                                     |  |
| <b>EC1</b>  | The responsibilities and objectives of each of the authorities involved in banking supervision <sup>6</sup> are clearly defined in legislation and publicly disclosed. Where more than one authority is responsible for supervising the banking system, a credible and publicly available framework is in place to avoid regulatory and supervisory gaps.  |
| Description and findings re EC1                               | <p>The BOT is the sole authority responsible for banking supervision. The responsibilities and objectives related to banking supervision are stipulated in two Acts as follows:</p> <ul style="list-style-type: none"> <li>• The BOT Act, B.E. 2485 (1942) as amended (BOT Act) sets out the structure, objectives, tasks, and powers of the BOT.</li> <li>• The Financial Institution Business Act, B.E. 2551 (2008) as amended (FIBA), sets out powers of the BOT in supervising financial institutions, including commercial banks, finance companies, and credit fonciers.</li> </ul> <p>Section 7 of the BOT Act specifies one of the main objectives of the BOT as maintaining stability of the financial institution system, and Section 8 indicates the powers of the BOT, including supervision and examination of financial institutions.</p> <p>The FIPC is established, under the BOT Act, to formulate and execute policies in supervision of financial institutions as well as to monitor the BOT's operations regarding banking supervision (Section 28/10). The FIPC consists of the BOT's governor as the chairman, the Director-General of the Fiscal Policy Office, the Secretary-General of the OIC, the Secretary-General of the SEC, and five experts appointed by the BOT Board (Section 28/9).</p> |

<sup>4</sup> In this document, "banking group" includes the holding company, the bank and its offices, subsidiaries, affiliates, and joint ventures, both domestic and foreign. Risks from other entities in the wider group, for example nonbank (including nonfinancial) entities, may also be relevant. This group-wide approach to supervision goes beyond accounting consolidation.

<sup>5</sup> The activities of authorising banks, ongoing supervision, and corrective actions are elaborated in the subsequent Principles.

<sup>6</sup> Such authority is called "the supervisor" throughout this paper, except where the longer form "the banking supervisor" has been necessary for clarification.

FIBA empowers the BOT to regulate banks, including foreign bank branches and banks, which are foreign banks' subsidiaries, in all stages of the banking business life cycle, including the licensing process and ongoing operations, except for issuance and revocation of a license, which shall be exercised by the Ministry of Finance on recommendation of the BOT.

To be more specific, the BOT is empowered by FIBA as follows:

i. Sole authorities to the BOT

- Approving the establishment or change of a location of a head office or a branch, or closure of a branch (Section 13).
- Approving the establishment of a bank's representative office outside Thailand or a foreign bank's representative office (Section 14).
- Permitting a bank to issue preference shares (Section 15).
- Approving non-Thai shareholders and directors exceeding the prescribed limit (Section 16).
- Permitting a person to possess shares of a bank exceeding the specified threshold (Section 18).
- Approving the appointment or reappointment of a director or a manager of a bank (Section 25).
- Approving sale, transfer, purchase, or acquisition of important parts of business of a bank (Section 43).
- Supervising and examining a bank, a parent company, subsidiary, and affiliate of the bank for the purpose of the banking group's stability (Section 57).
- Permitting a bank to establish or acquire a subsidiary (Section 58).
- Appointing financial institution supervisors to examine a bank, its parent company, subsidiaries, affiliates, or companies in its banking group, including debtors or related persons of such bank (Section 85).
- Ordering a bank to rectify the operation, to increase or reduce its capital, to suspend its operations, or to remove its directors or managers, or ordering the control of or the closure of a bank if its condition may cause damage to the public interest (Section 90).
- Ordering control or closure of a bank in case of failure to maintain its capital fund lower than specified ratios (Section 96 and 97).

ii. Authorities by the Ministry of Finance upon recommendation of the BOT (The Minister prescribes with the recommendation of the BOT)

- Licensing of a bank (Section 9) and licensing a branch of a foreign bank (Section 10).
- Approving non-Thai shareholders and directors exceeding the prescribed limit in case of strengthening banking system stability (Section 16).
- Revoking a banking license due to certain circumstances (Section 83, 90, 93, 95, 97, 110, and 111).

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|                                 | <p><u>Role of the BOT in the regulation and supervision of SFIs</u></p> <p>There are four deposit-taking SFIs not included in the scope of the BCP. Nonetheless, Section 120 of FIBA which is now declared in Royal Thai Government Gazette and currently legally effective provides the statutory ground for the MOF to assign the BOT as regulator and supervisor. In December 2014, the Cabinet approved the BOT to be the regulator of SFIs with the following duties: (i) issuing regulations for SFI supervision with approval of the MOF; (ii) reviewing the fit and proper criteria for directors and senior management; (iii) supervising through onsite and offsite monitoring; and (iv) providing effective enforcement. With the objective to define the supervisory roles, the MOF issued Ministerial Order Nr 433/2558, dated April 2, 2015, to assign the BOT with the supervision of eight SFIs according to Section 120 of the FIBA. This allows BOT to carry out the four mandates as prescribed by the Cabinet and empowers BOT to perform its roles, including prescribing regulations for SFIs supervision through the enforcement of FIBA, but with the approval of the MOF, and reporting SFI supervision outcomes to the MOF. Hence, the BOT regulates and supervises the SFIs, but its regulations and corrective actions must still be approved by the MOF.</p> <p>All related laws, acts, regulations, and notifications are required to be published in the Government Gazette.</p> |
| <b>EC 2</b>                     | <p>The primary objective of banking supervision is to promote the safety and soundness of banks and the banking system. If the banking supervisor is assigned broader responsibilities, these are subordinate to the primary objective and do not conflict with it.</p>   |
| Description and findings re EC2 | <p>The primary role of banking supervision is to maintain safety and soundness of banks and the financial institution system (BOT Act Section 7).</p> <p>The BOT has other duties and responsibilities such as promoting consumer protection (Section 39 of the FIBA), promoting financial inclusion, and providing financial literacy to the public. These are clearly subordinate to the BOT primary objective to maintain the financial institutions system stability. This can be seen from the structure of the BOT and the prominence given to the departments that are responsible for fulfilling the primary objectives and the duties of banking supervision, including the Regulatory Policy Department, Financial Institution Applications Department, and four Banking Supervision Departments.</p> <p>In 2016, the BOT established the Financial Consumer Protection and Market Conduct Department separate from the Banking Supervision Departments.</p>  |
| <b>EC3</b>                      | <p>Laws and regulations provide a framework for the supervisor to set and enforce minimum prudential standards for banks and banking groups. The supervisor has the power to</p>  |

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|                                 | increase the prudential requirements for individual banks and banking groups based on their risk profile <sup>7</sup> and systemic importance. <sup>8</sup>  |
| Description and findings re EC3 | <p>The BOT is empowered by FIBA to issue prudential policies and requirements for banks and banking groups. In addition, the BOT has the power to increase the prudential requirements for individual banks (Section 30). In practice, prudential standards are issued as notifications, guidelines, or circulars.</p> <p>Notifications are applied either on a solo or consolidated basis and are binding. Guidance notes are not binding, but in case a bank does not comply with the BOT's guidance, the BOT will implement several measures such as stating recommendations in the bank's examination report or considering its composite rating.</p> <p>FIBA empowers the BOT to set prudential standards for banks such as capital adequacy ratios, liquidity requirements, single lending limits or large exposures, investment limits, asset classification and provisions, related lending, and consolidated supervision, etc.</p> <p>i. Maintenance of Capital Funds and Assets</p> <ul style="list-style-type: none"> <li>• Maintaining capital fund with amount, types, and categories in accordance with the rule prescribed by the BOT (Section 29).</li> <li>• Maintaining capital fund in proportion to banks' assets, liabilities, and any other risks in accordance with the rule prescribed by the BOT (Section 30).</li> <li>• Disclosing information related to maintenance of capital funds and information related to the banks' risks or their banking groups' risk in accordance with the rules prescribed by the BOT (Section 31).</li> </ul> <p>ii. Investment by Banks</p> <ul style="list-style-type: none"> <li>• Investing in securities for their ownership in accordance with the rule prescribed by the BOT (Section 33).</li> <li>• Possessing or owning shares of any companies not exceeding the specified ratios in accordance with the rule specified by the BOT (Section 34).</li> <li>• Not possessing or owning shares of other banks (Section 35).</li> </ul> <p>iii. Restrictions on Granting of Credits</p> <ul style="list-style-type: none"> <li>• Granting credits to the banks' major shareholders or to business with related interest not exceeding specified thresholds (Section 49).</li> <li>• Granting credits to one or several persons jointly in any project or for the same purpose not exceeding specified thresholds (Section 50).</li> </ul> |

<sup>7</sup> In this document, "risk profile" refers to the nature and scale of the risk exposures undertaken by a bank.

<sup>8</sup> In this document, "systemic importance" is determined by the size, interconnectedness, substitutability, global or cross-jurisdictional activity (if any), and complexity of the bank, as set out in the BCBS paper on *Global systemically important banks: assessment methodology and the additional loss absorbency requirement*, November 2011.

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|  | <ul style="list-style-type: none"> <li>• Granting credits to each type of business not exceeding the thresholds prescribed by the BOT (Section 51).</li> <li>• Granting credits to the banks' parent company, subsidiaries, or affiliates not exceeding the threshold prescribed by the BOT (Section 59).</li> </ul> <p>iv. Classification of Assets and Provisioning</p> <ul style="list-style-type: none"> <li>• Classifying assets and contingent liabilities and writing off or making provisions for such assets and contingent liabilities in accordance with the rule prescribed by the BOT (Section 60 and Section 61).</li> <li>• Ceasing recognition of and reversing accrued interest received as income from classified assets in accordance with the rules prescribed by the BOT (Section 62).</li> </ul> <p>v. Management of Assets and Maintenance of Liquid Assets</p> <ul style="list-style-type: none"> <li>• Managing assets, liabilities, and contingent liabilities to be in line with deposits, borrowings, or acceptance of money from the public in accordance with the rules prescribed by the BOT (Section 63).</li> <li>• Maintaining liquid assets in proportion to deposits or loans at the ratio not less than that prescribed by the BOT (Section 64).</li> </ul> <p>vi. Banking group supervision</p> <ul style="list-style-type: none"> <li>• No banking group shall be established unless permitted by the BOT in accordance with the rules prescribed by the BOT (Section 54).</li> <li>• The companies within a banking group may undertake only financial business or supporting businesses as prescribed by the BOT, and may not undertake any other trade or business (Section 56).</li> <li>• For the purposes of examination of the stability of a banking group, the BOT shall have the power to supervise and examine the banks, their parent company, subsidiaries, and affiliates as if they were the same juristic person, in accordance with the rules prescribed by the BOT (Section 57 paragraph one).</li> <li>• The BOT shall have the power to prescribe the ratio of capital funds or capital of the banking group of the banks to assets, liabilities, contingent liabilities, or variables and any other risks, or to prescribe other ratios of the banking group of such banks, and to require the banking group to disclose information among each other in accordance with the rules prescribed by the BOT (Section 57 paragraph two).</li> </ul> <p>Moreover, the BOT has power over each individual bank in accordance with their risk profile and systemic importance, including strengthening requirements as follows:</p> <ul style="list-style-type: none"> <li>• If an individual bank has high risk exposure, the BOT may order the bank to undertake any relevant and appropriate capital maintenance measures (Section 30).</li> </ul> |
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|                                 | <p>FIBA empowers the authority to order a bank to rectify its condition or operations as follows:</p> <ul style="list-style-type: none"> <li>• If the condition or operation of a bank may cause damage to the public interest, the BOT may order it to rectify such condition or operation or order the control or the closure of such bank (Section 90).</li> <li>• If any individual bank's capital fund is lower than the required capital fund, that bank shall propose a plan for rectifying its condition and operation to the BOT for approval (Section 95) or the BOT may order the control of such bank (Section 96 and 97).</li> </ul>   |
| <b>EC4</b>                      | <p>Banking laws, regulations, and prudential standards are updated as necessary to ensure that they remain effective and relevant to changing industry and regulatory practices. These are subject to public consultation, as appropriate.</p>  |
| Description and findings re EC4 | <p>Banking laws, regulations, and prudential standards are updated to ensure the effectiveness of banking and banking system supervision in line with both domestic circumstances and international standards. After the 1997 financial crisis, the Commercial Banking Act, B.E. 2505 (1962) was replaced by FIBA which came into force in 2008.</p> <p>FIBA was updated in B.E. 2558 (2015), in response to emerging prudential issues, namely, the granting of credits to a bank's directors, managers, deputy managers, assistant managers, persons holding an equivalent position under a different title, persons with power of management, and any related person of those persons in the case where the credits were approved prior to holding these positions.</p> <p>In addition, the BOT Act was amended in 2018 to implement a bank resolution framework for dealing with distressed banks whose failure may have systemic impact. The new framework aims to ensure that problem banks are addressed in a timely and orderly manner and costs to the public are minimized. In a crisis, the BOT proposes a resolution scheme to the MOF and the Cabinet for approval. Once approved, the FIDF is then empowered to implement it.</p> <p>The BOT has also consistently updated notifications concerning current concerns in supervision of banks and the banking system and has withdrawn outdated notifications. Other than following the BOT's usual practice in reviewing existing notifications regarding the changing environment and banking business developments, the BOT has also reviewed notifications following the Royal Decree on Revision of Law B.E. 2558 (2015). The Royal Decree requires to have the review of law every five years as from the date that law comes into force or on the following grounds.</p> <p>It is deemed appropriate to improve, revise, or repeal law if:</p> <ul style="list-style-type: none"> <li>• There is a written petition or a recommendation of an interested organization or the general public which is reasonable.</li> <li>• There is a recommendation of the Law Reform Commission.</li> <li>• That law has not been enforced or executed for more than three years as from the date that law comes into force</li> </ul> |

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|                                 | <p>Regulations are proposed to the Financial Institutions Policy Sub-Committee (FIPS) and approved by the Financial Institutions Policy Committee (see CP 2 EC 2 for their composition), before public consultation. Once the comments received are incorporated, the regulation will be submitted to the FIPS and the FIPC only if the changes are considered material by the Deputy Governor.</p> <p>Public consultation</p> <p>Before banking laws and regulations come into force, the BOT arranges a hearing with stakeholders on the consultation draft of the laws or regulations. The process is in accordance with Section 77 of the Constitution, including the Royal Decree on Revision of Law B.E. 2558 (2015), which requires the authority to hold a public consultation.</p> <p>The Royal Decree’s implementing guidelines require the State agency drafting any acts to have acts heard and commented by the public via the State agency’s website for at least 15 days. The hearing process shall provide any related information such as rationale of having the acts. Generally, all draft laws in Thailand are processed through the Council of State which acts as an advisory body in providing legal advice for the government. The Council of State usually arranges public consultations by post or electronic mail on all draft laws and publishes them on its own website (<a href="http://www.krisdika.go.th/wps/portal/general">http://www.krisdika.go.th/wps/portal/general</a>), so that they can be conveniently accessible, observed, and commented by the public. The BOT usually has a 30-day consultation periods with banks. Banks expressed overall satisfaction with the BOT’s consultation process and timelines, particularly with the publication of “questions and answers” as part of the notifications.</p> |
| <b>EC5</b>                      | <p>The supervisor has the power to:</p> <ol style="list-style-type: none"> <li>(a) Have full access to banks’ and banking groups’ Boards, management, staff and records in order to review compliance with internal rules and limits as well as external laws and regulations.</li> <li>(b) Review the overall activities of a banking group, both domestic and cross-border.</li> <li>(c) Supervise the activities of foreign banks incorporated in its jurisdiction.</li> </ol>  |
| Description and findings re EC5 | <p>(a) Section 71 of FIBA gives the BOT full access to banks’ and banking groups’ boards, management, staff, and records, such as:</p> <ul style="list-style-type: none"> <li>• Ordering a bank and its banking group to submit any report or any information or present any document.</li> <li>• Ordering a bank to have its directors, managers, officers, employees, persons with power of management, or auditors to testify or present information, account, document, and other evidence related to the business of the bank.</li> <li>• Appointing an auditor or specialist to conduct an examination in the case that financial statements, reports, information, documents, or explanations submitted by a bank are incomplete or ambiguous or it deems necessary or appropriate.</li> </ul>  |

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|            | <p>Furthermore, under Section 85 of FIBA, the BOT is empowered to appoint BOT's officers or external experts as bank supervisors to examine business, assets and liabilities of a bank, its parent company, its subsidiaries or affiliates, and other companies within the banking group. For example, bank supervisors are authorized to order a director, an officer, an employee or a person responsible for collecting or processing the bank's data to testify on the business, assets, and liabilities of the bank, to submit copies, or to present information, accounts, documents, seals, or other evidence.</p> <p>The BOT has not yet appointed an auditor or specialist to conduct a special examination.</p> <p>(b) The BOT's power to review overall banking group's activities</p> <ul style="list-style-type: none"> <li>• The BOT supervises locally-incorporated banks on both solo and consolidated basis considering all their domestic and cross-border operations. The legal framework for the supervision of a financial business group is set out under Division 5 of FIBA (Section 53 – Section 59). The establishment of a financial business group shall receive prior approval from the BOT (section 54). The BOT is empowered to supervise and examine a bank, its parent company, its subsidiaries and affiliates as if they were the same legal person in accordance with the rules prescribed in the notification of the BOT (Section 57).</li> </ul> <p>(c) The BOT's power to supervise foreign activities of banks</p> <ul style="list-style-type: none"> <li>• The BOT has the power to supervise all activities of banks, including branches and investment activities, domestically and foreign. Section 13 of FIBA requires banks to seek approval from the BOT before opening a branch. Section 58 of FIBA requires that banks seek approval before establishing a subsidiary. In granting the permission, the BOT may impose conditions. In this respect, the BOT has issued the BOT Notification No. FPG. 8/2554: Regulations on the Establishment and Oversight of Overseas Branches of Thai Commercial Banks to supervise banks' overseas establishments.</li> <li>• Section 85 of FIBA empower the BOT to appoint supervisors to examine all banking activities which includes meeting the banks' employees at all levels, entering the premises and collecting information and documents in relation to all activities of the banks.</li> </ul> |
| <b>EC6</b> | <p>When, in a supervisor's judgment, a bank is not complying with laws or regulations, or it is or is likely to be engaging in unsafe or unsound practices or actions that have the potential to jeopardize the bank or the banking system, the supervisor has the power to:</p> <ul style="list-style-type: none"> <li>(a) Take (and/or require a bank to take) timely corrective action.</li> <li>(b) Impose a range of sanctions.</li> <li>(c) Revoke the bank's license.</li> <li>(d) Cooperate and collaborate with relevant authorities to achieve an orderly resolution of the bank, including triggering resolution where appropriate.</li> </ul>   |

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| Description and findings re EC6 | <p>The BOT is empowered by FIBA to act on banks that do not comply with the laws or regulations or engage in unsafe or unsound practices or actions that may jeopardize the banks or the banking system, including the following actions;</p> <p>(a) Timely corrective action</p> <ul style="list-style-type: none"> <li>• If a bank engages in imprudent banking practice, e.g., having high substandard loans or having high market risk exposure and inadequate risk management, supervisors will take immediate action to rectify the issues (Section 85).</li> <li>• If a bank violates or fails to act in accordance with the laws and regulations, or the conditions prescribed in the license, the BOT has the power to issue a written warning, to order a prohibition of an act in violation, or to order a removal of any or all directors, managers, or persons with power of management (Section 89).</li> <li>• If the condition or operation of a bank may damage the public interest (Section 92), the BOT has the power to order the bank to rectify the condition or operation, write-down and increase its capital, within the time specified or immediately. Such order is deemed to be a resolution of the shareholders meeting (Section 90).</li> <li>• If a bank suspends the repayment of an obligation when it falls due, the BOT shall appoint a bank supervisor to investigate such circumstances and shall have the power to place the bank under control, to order the closure or issue any order as deemed appropriate (Section 93).</li> <li>• In the case where a bank's capital falls short of the minimum requirement: <ul style="list-style-type: none"> <li>- A bank must submit the plan for rectification of its condition and operation to the BOT. If the bank fails to comply, the BOT shall have the power to order the bank to take any action as deemed appropriate or to order the closure of such bank (Section 95).</li> <li>- In case where a bank's capital falls below 60 percent of the requirement, the BOT shall order the bank to be placed under control (Section 96).</li> <li>- In case where a bank's capital maintenance falls below 35 percent of the requirement, the BOT shall issue an order closing the business of such bank (Section 97).</li> </ul> </li> </ul> <p>(b) Impose a range of sanctions</p> <p>Where a bank violates or fails to comply with FIBA, or stipulations or notifications issued under FIBA, or rules attached to the license, the BOT has the discretion to impose wide range of sanctions on the bank as follows;</p> <ul style="list-style-type: none"> <li>• Issuing of written warning to the bank or relevant person (Section 89).</li> <li>• Issuing of an order to prohibit any action in violation of or to take action in compliance with FIBA or stipulations or notifications issued by virtue of FIBA Act or rules attached to the license (Section 89).</li> <li>• Ordering the removal of any or all directors, managers or persons with power of management (Section 89).</li> </ul> |
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|                                 | <ul style="list-style-type: none"> <li>• Appointing of other persons to replace the person so removed as appropriate (Section 90).</li> <li>• Ordering such bank to rectify the condition or operation (Section 90).</li> <li>• Ordering such bank to reduce or increase its capital or both within a specified period (Section 90).</li> <li>• Ordering such bank to suspend its operations, in whole or in part, within a specified period (Section 90).</li> <li>• Ordering the control of or the closure of such bank's business (Section 90).</li> </ul> <p>(c) Revoke the bank's license</p> <p>In the case that BOT orders the closure of a bank, the BOT shall propose to the Minister to withdraw the license. (Section 93 95 and 97)</p> <p>(d) Cooperate and collaborate with relevant authorities</p> <p>To achieve an orderly resolution of the bank, the BOT is empowered to cooperate and collaborate with relevant authorities such as the Ministry of Finance, the DPA, the SEC, the OIC, the Office of the Attorney General, or National Police Bureau. For example, if the BOT orders any bank to be placed under control, according to Section 102 of FIBA, the BOT shall issue a notification of the appointment of a Control Committee consisting of a chairman and other members of at least two but not exceeding four, provided that at least one member shall be proposed by the Deposit Protection Agency.</p> <p>The FIPC provides a forum for the BOT to coordinate and engage with other supervisors and authorities in resolution planning and actions. In normal times, the FIPC convenes regularly to discuss issues in relation to banking supervision and monitoring including emerging risks and concerns. In times of crises, the FIPC has a decision-making role regarding the resolution scheme.</p> <p>The BOT has also signed a Cross-border Cooperation Agreement (COAG) with relevant home and host supervisory and resolution authorities of a G-SIFI, due to the potential systemic relevance of its operations in Thailand. Such arrangement provides a basis for coordination in crisis preparations and facilitates communication during business as usual and in times of crises. (Please refer to CP3 / CP13 for more details)</p> |
| <b>EC7</b>                      | The supervisor has the power to review the activities of parent companies and of companies affiliated with parent companies to determine their impact on the safety and soundness of the bank and the banking group.   |
| Description and findings re EC7 | As mentioned in EC5, the establishment of the financial business group requires prior approval from the BOT (Section 54) and the BOT has the power to review the overall activities of a banking group as if they were the same legal person (Section 57). Under consolidated supervision, the BOT is empowered to supervise different forms of financial business groups, namely, a group with financial institution as a parent company and a group with non-financial institution (holding company) as a parent company. In addition, to  |

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|                                  | ensure that the controller of the banking group satisfies the fit and proper criteria, the appointment of a director, manager, person with power of management or advisor of the parent company of a financial institution and its subsidiaries undertaking financial business, requires prior approval from the BOT (Section 55). Refer to CP12 EC5 and AC1 for more details).  |
| <b>Assessment of Principle 1</b> | Compliant  |
| Comments                         | <p>The BOT has objectives and the necessary legal powers to conduct ongoing supervision, address compliance with laws and undertake timely corrective actions to address safety and soundness concerns for banks. In the areas where the MOF decides based on recommendation of the BOT (licensing of a bank, revoking a license, and approving non-Thai shareholders and directors), there have been no instances where the MOF has not followed the BOT's recommendations.</p> <p>Although, the BOT has been delegated statutory power in supervising SFIs according to section 120 of FIBA and three supervisory authorities have agreed to develop a framework for responsibilities of each party, there still be a mix of roles in practice. Furthermore, the BOT is empowered to issue SFIs' regulations with approval of the MOF but not corresponding powers to take corrective action against problems in SFIs. This incomplete transfer of responsibilities may potentially expose the BOT to reputational risk especially when an SFI encounters problems. This is resulting from a misperception of its supervisory role in the banking system since the BOT is may be perceived as having full supervisory powers over the SFIs. This weakness has been considered in the assessment of CP 2.</p> <p>Thai banks have not challenged the non-binding nature of the BOT's guidance and have complied with all recommendations imposed by the BOT examiners based on this guidance. Banks also expressed overall satisfaction to the assessors with the consultation process and timelines.</p> <p>Based on the discussions of this CP, the assessors suggest that, where appropriate, the BOT should publish response papers to consultations on important notifications instead of, or in addition to, attaching questions and answers to the relevant notification. This would give the BOT an opportunity to better explain its policy positions in writing. It would also further strengthen the international standing of the BOT in the regulatory community, clarify and give more prominence to BOT policy positions.</p> |
| <b>Principle 2</b>               | <b>Independence, accountability, resourcing, and legal protection for supervisors.</b> The supervisor possesses operational independence, transparent processes, sound governance, budgetary processes that do not undermine autonomy and adequate resources, and is accountable for the discharge of its duties and use of its resources. The legal framework for banking supervision includes legal protection for the supervisor.   |
| <b>Essential criteria</b>        |  |

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| <b>EC1</b>                      | The operational independence, accountability and governance of the supervisor are prescribed in legislation and publicly disclosed. There is no government or industry interference that compromises the operational independence of the supervisor. The supervisor has full discretion to take any supervisory actions or decisions on banks and banking groups under its supervision.   |
| Description and findings re EC1 | <p>The operational independence, accountability and governance of the BOT are prescribed in legislation and publicly disclosed as follows:</p> <p>Firstly, to achieve operational independence, the BOT Act clearly states that the BOT is a legal person which is a state agency and is neither a government agency nor state enterprise under the law on budgetary procedure and other laws (Section 5). In this regard, the BOT is self-financed and thus does not rely on government funding and its budget is under the responsibility of the BOT Board (Section 25(1)). Furthermore, the BOT Act clearly specifies that the Governor shall be independent in the management and administration of the BOT's affairs (Section 28/16). He has specific term of position for five years (Section 28/18) and shall not be revoked from the position without explicit cause as specified in Section 28/19 of the BOT Act.</p> <p>Secondly, to ensure accountability, the BOT Board and the FIPC are established under the BOT Act (Section 17) to undertake the BOT's tasks set out under Section 8. The BOT Board and FIPC powers and duties are clearly prescribed in the BOT Act:</p> <ul style="list-style-type: none"> <li>• The BOT Board has the powers and duties to generally control over the business and operations of the BOT including assessment of the general operation of the Governor (Section 17(1) and Section 25). The composition and appointment of the BOT Board is detailed in EC 2.</li> <li>• The FIPC has the power to monitor the implementation of the supervision and examination of financial institutions, including policies concerning financial institutions (Section 17(3) and Section 28/10). The composition and appointment of the FIPC is detailed in EC 2.</li> <li>• The BOT Act also stipulates that there shall be an Auditing Committee to supervise the BOT's business and report to the BOT Board and the Minister on a quarterly basis (Section 55). The Office of the Auditor-General shall be the Accounting Auditor of the BOT (Section 56). The BOT has duties to provide and publish reports as follows.</li> </ul> <p>Thirdly, it is explicitly stated in the BOT Act that the Chairman of the BOT Board, the experts of the BOT Board, the experts of the FIPC, and the Governor shall not be or have not been political officials (Section 18 Section 26 and Section 28/17 of the BOT Act). Moreover, to ensure that there is no government intervention in the BOT's business, the BOT Act prescribes the process for the appointment and dismissal of the BOT Board, the FIPC and the Governor as to be mentioned in EC 2.</p> <p>Fourthly, it is explicitly stated in the BOT Act that the Chairman of the BOT Board, the experts of the BOT Board, the experts of the FIPC, and the Governor shall not be a director</p> |

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|                                 | <p>or holding any position in a financial institution. (Section 18 Section 26 and Section 28/17 of the BOT Act).</p> <p>The power to grant and revoke a banking license is exercised by the MOF on recommendation of the BOT. Under FIBA, the BOT is empowered to appoint its officers or external persons as bank supervisors (Section 85 of FIBA) and to take supervisory actions when any financial institution violates or fails to comply with requirements in the Act. (Division 5 of FIBA: Rectification of condition or operation of financial institution).</p> <p>FIBA grants the BOT power to propose to the Minister to revoke a banking license (Sections 83, 90 (5), 93, 95, 97, 110, and 111) including, among other things, cases where the bank fails to comply with the BOT's corrective order, fails to maintain capital funds above the level required by law, or when the bank's operations may cause damage to the public. Any financial institution intending to dissolve or suspend its operation shall obtain prior approval from the BOT (Section 78).</p>  |
| <b>EC2</b>                      | <p>The process for the appointment and removal of the head(s) of the supervisory authority and members of its governing body is transparent. The head(s) of the supervisory authority is (are) appointed for a minimum term and is removed from office during his/her term only for reasons specified in law or if (s)he is not physically or mentally capable of carrying out the role or has been found guilty of misconduct. The reason(s) for removal is publicly disclosed.</p>  |
| Description and findings re EC2 | <p>The process for the appointment and removal of the BOT Board, the Financial Institutions Policy Committee and the Governor, including their terms of office are clearly specified in the BOT Act as follows.</p> <p><b>Board</b></p> <p>The BOT Board members consist of the Chairman appointed by His Majesty the King, the Governor, three Deputy- Governors, the Secretary-General of the Office of the National Economic and Social Development, the Director-General of the FPO, and five experts appointed by the Minister (Section 24). To ensure that the process for the appointment of the Chairman and the experts is transparent and there is no government intervention, section 28/1 stipulates the selection process. The Minister shall appoint a selection committee comprising seven members to select the members of the BOT's Board. At the time of the appointment and during their duties, the selection committee shall not be a political official and have no personal benefit or interest in contravention to the duties imposed by this Act. The selection committee shall vacate from office when the selection process and the appointment of the experts to be a Chairman or experts has been completed (Section 28/4).</p> <p><b>The Financial Institutions Policy Committee (FIPC)</b></p> <p>The members of the FIPC consist of the Governor, as the Chairman, two Deputy-Governors determined by the Governor; one of which shall be assigned by the Governor to be a Deputy-Chairman, the Director-General of the FPO, the Secretary-General of the Insurance</p> |

Commission, the Secretary-General of the SEC and five experts appointed by the BOT Board (Section 28/9).

The Chairman of the BOT Board, the experts of the BOT Board and the experts of the FIPC shall hold office for a term of three years and may be reappointed but shall not hold office for more than two consecutive terms (Section 19 and Section 26). In addition to the term expiration, any experts of the Board shall vacate upon (Section 20 and Section 26):

- Death.
- Resignation.
- Being of 70 years of age.
- Disqualification or having any prohibited characteristics under Section 18.
- Absence from the board meetings without reasonable excuse for more than three consecutive meetings.
- Being removed by the Minister upon the recommendation of the BOT Board due to serious misconduct or gross incompetence in the performance of duties, if reason for the removal shall be specified explicitly.

The removal of the Chairman of the BOT Board, the experts of the BOT Board and the experts of the FIPC is so significant that will be published in the Government Gazette. Such publication will also include the reason for removal.

#### **The Governor**

The Governor is appointed by His Majesty the King upon the recommendation of the Cabinet. To that the process for the appointment of the Governor is transparent and there is no government intervention, section 28/14 lays out the Governor selection process. In this regard, the Minister of finance shall appoint a selection committee consisting of seven members who have held previous positions stipulated under Section 28/1 functioning to nominate not less than two suitable persons to be selected as a Governor. The selection committee shall vacate from office when the selection process and appointment of the Governor has been completed.

The Governor shall hold office for a term of five years and may be reappointed for not more than one term (Section 28/18). In addition to the term expiration, the Governor shall be removed from office for reasons specified under Section 28/19.

- Death.
- Resignation.
- Lack of characteristics or having prohibited characteristics as prescribed in Section 28/17.
- Being removed by the Cabinet upon the recommendation of the Minister due to serious misconduct or dishonest performance of duties.
- Being removed by the Cabinet upon the recommendation of the Minister or by the proposal of the Minister upon the recommendation of the BOT Board due to gross

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|                                 | <p>incompetence in the performance of duties or incapability, if reason for the removal shall be specified explicitly.</p> <p>The removal of the Governor is so significant that will be published in the Government Gazette and will include the reason for removal.</p>   |
| <b>EC3</b>                      | The supervisor publishes its objectives and is accountable through a transparent framework for the discharge of its duties in relation to those objectives. <sup>9</sup>  |
| Description and findings re EC3 | <p>As mentioned in CP1, the BOT Act and FIBA are the main laws governing the BOT's banking supervisory duties. The BOT's objectives are clearly specified in both laws and are published in the Government Gazette. All BOT notifications under FIBA shall come into force upon publication in the Government Gazette (Section 7 of FIBA).</p> <p>In addition, the BOT has published information related to its roles and responsibilities on the BOT website, for instances, the objectives prescribed under the BOT Act (Please see CP 1 for details), the BOT three-year strategic plan formulating the onward operations, the annual report and weekly reports demonstrating the BOT's overall operation.</p> <p>As a banking supervisor, the BOT publishes information about Financial Supervision in Practice which contains details relating to subjects as banks' policies on supervision, examination, and analysis, overview of supervisory procedures, financial businesses under the BOT's supervision, onsite examination, offsite examination, supervision of banks, asset management companies and nonbanks, troubled or non-compliant banks and supporting functions</p> <p>Furthermore, the BOT publishes an annual supervision report providing the supervisory information such as the overall operation of banks, supervision, and development of banks system including to guidelines for future supervision and continuous development.</p> |
| <b>EC4</b>                      | The supervisor has effective internal governance and communication processes that enable supervisory decisions to be taken at a level appropriate to the significance of the issue and timely decisions to be taken in the case of an emergency. The governing body is structured to avoid any real or perceived conflicts of interest.   |
| Description and findings re EC4 | <p>Supervisory decisions are taken at many levels and the BOT has an institution-wide formal approval and escalation policy. Any supervisory recommendations or orders that do not significantly affect the bank's overall risk would be given by directors and senior directors, and any decision that would have an impact to the bank's overall risk would be made by assistant governor. In addition, any issues that have an impact to Composite Rating of the bank will be decided by the Financial Institutions Examination Development Sub-committee.</p> <p>The internal governance for supervisory decision at high level is mainly operated under two sub-committees, namely, the Financial Institutions Examination Development Sub-committee (FIED) and the Financial Institutions Policy Sub-committee (FIP). The FIED is</p>   |

<sup>9</sup> Please refer to Principle 1, Essential Criterion 1.

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|                                 | <p>tasked with issues related to financial institutions examination, whereas FIP is tasked with issues concerning regulatory and supervisory framework, including licensing, financial institutions development and resolution framework. Both FIED and FIP Sub-committees are chaired by the deputy governor for Financial Institution Stability and consist of assistant governors, senior directors under the Financial Institutions Policy Group, Supervision Group.</p> <p>As part of the BOT's crisis management framework, the BOT has established the Crisis Management Committee (CMC) to facilitate a centralized supervisory decision and take timely action during a crisis. The CMC is chaired by the Governor and consists of Deputy Governors, and Assistant Governors. For the process to provide liquidity assistance under Section 42 of the BOT act, the CMC will be called to make decision on the resolution and amount of liquidity facilities to be provided. This will be further escalated to the FIPC and the Minister for final approval.</p>  |
| <b>EC5</b>                      | <p>The supervisor and its staff have credibility based on their professionalism and integrity. There are rules on how to avoid conflicts of interest and on the appropriate use of information obtained through work, with sanctions in place if these are not followed.</p>  |
| Description and findings re EC5 | <p>Section 25(4) of the BOT Act authorizes the BOT Board to issue the regulations on the prevention of personal benefit involvement and the code of conduct of the board members, the governor, officers and employees. There are sanctions in place if these regulations and the code of conduct are not followed. Appropriate disciplinary actions, ranging from written reprimand to probation, salary reduction, and termination of employment by discharge or dismissal and legal prosecution, will be taken depending on the severity of the infringement. The BOT has taken disciplinary action in the past.</p> <p>Senior decision makers in supervisory matters must avoid taking positions in financial institutions for a year once they resign from the BOT for less than one year. The BOT staff and their families must avoid giving as well as receiving gifts, money, or other benefits from others who have related business with the BOT and the amount should not exceed THB 3,000 since those might cause dependence and impartiality of the examiner.</p> <p>The BOT has set up data security practices of Financial institutions' information and electronic systems access to information for a supervisor in each level of position and in different department to protect confidential information being access only by the authorized person.</p> <p>Section 46 of the BOT Act prohibits the board members, the governor, officers and employees to conduct any act which may cause the conflict between their personal and the BOT's interest. Any person who fails to keep any information acquired during performing their duties as confidential shall be liable to imprisonment or a fine as specified by law (Section 74 of the BOT Act and Section 154 of FIBA Act).</p> |

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| <b>EC6</b>                      | <p>The supervisor has adequate resources for the conduct of effective supervision and oversight. It is financed in a manner that does not undermine its autonomy or operational independence. This includes:</p> <ul style="list-style-type: none"> <li>• A budget that provides for staff in sufficient numbers and with skills commensurate with the risk profile and systemic importance of the banks and banking groups supervised.</li> <li>• Salary scales that allow it to attract and retain qualified staff.</li> <li>• The ability to commission external experts with the necessary professional skills and independence, and subject to necessary confidentiality restrictions to conduct supervisory tasks.</li> <li>• A budget and program for the regular training of staff.</li> <li>• A technology budget sufficient to equip its staff with the tools needed to supervise the banking industry and assess individual banks and banking groups.</li> <li>• A travel budget that allows appropriate onsite work, effective cross-border cooperation and participation in domestic and international meetings of significant relevance (e.g., supervisory colleges).</li> </ul>  |
| Description and findings re EC6 | <p>As mentioned in EC1, the BOT is self-financed with revenue from interest income, gains from foreign exchange, among others, and therefore does not rely on the government's funding or approval for its operation. Its budget plan is approved by the BOT Board (Section 25(1)).</p> <p>This financial independence has allowed the BOT to make all necessary investment in human resources, IT systems and other needed infrastructures. The BOT has a total of 500 officers responsible for the areas of regulatory policies and supervision of licensed financial institutions in Thailand.</p> <p>The BOT's salary scales are competitive with the private sector, averaging at the top quartile of the banking industry. The BOT's salary structure is reviewed regularly to ensure its competitiveness to attract and retain staff.</p> <p>In term of professionalism, the BOT has continuously conducted training for supervisors to enhance their knowledge and understanding about the business of the financial institutions, including updating them on new international regulatory standards. The trainers consisting of internal speakers and professional guest speakers who are invited from various agencies, both local and international supervisory agencies. The assessors obtained a list of attended trainings for 2018 and 2017.</p> <p>Moreover, within the BOT, supervisors rotate to other departments, performing related tasks such as Financial Institution Applications Department, Regulatory Policy Department or Payment Systems Policy Department to improve their skills and experience. The BOT supervisors also go on external secondment in banks and payment companies in Thailand</p> |

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|  | <p>and work with other international regulators such as JFSA, MAS, BNM, etc. They sign confidentiality letters when doing so.</p> <p>The budget and program for regular training of staff is sufficiently provided. The average training days for each staff are approximately two weeks per year. Both internal and external training programs are provided with the aim to enhance the quality of the BOT supervisors for risk-based supervision. For example, the BOT has established the School of Supervisors in 1999 to train Supervisors and financial institutions' policy personnel. It also regularly sends officers to participate in training programs held by the South East Asian Central Banks Research and Training Center (SEACEN), the EMEAP Working Group on Banking Supervision, APEC, World Bank, U.S. Federal Reserve, IMF, and BIS, among others, to strengthen supervisors' skills in line with changes in the global environment.</p> <p>In addition to human resources development, heavy investment has been made in IT and the centralized data management system (DMS) that supports economic and financial analysis and bank supervision work. A travel budget is well-equipped for the onsite work, effective cross-border cooperation and participation for both domestic and international meetings (e.g., supervisory colleges).</p>  |
| <p><b>EC7</b></p>                      | <p>As part of their annual resource planning exercise, supervisors regularly take stock of existing skills and projected requirements over the short- and medium-term, taking into account relevant emerging supervisory practices. Supervisors review and implement measures to bridge any gaps in numbers and/or skill-sets identified.</p>   |
| <p>Description and findings re EC7</p> | <p>The BOT regularly reviews the adequacy of skilled staff to ensure that current supervisory practices are properly addressed over the short- and medium-term.</p> <p>The BOT's supervisors are trained continuously by attending specific courses developed each year (School of Supervisors) including seminar and lectures given by experts. Internship and secondment are provided to enhance supervisory skills in specialized business or areas. As banking regulation and supervision becomes more challenging under the fast-changing business environment, the BOT is well-prepared to tackle this issue by recruiting and training staff with more specialized skills e.g., financial engineering, IT specialists to bridge gaps in numbers and skill-sets.</p> <p>Training needs survey is regularly conducted to identify areas of knowledge that the supervisors need. The result of survey is considered when developing training courses and the result is also used for preparing training roadmap for bank supervisors individually in order to develop their soft skills, such as communication, interview, presentation, writing and analysis skill, and technical skills. For example, in 2016, training needs focused on macro prudential supervision, payment system roadmap, underwriting and credit process, financial innovation and new products, corporate governance, IFRS 9 accounting standard, and trade finance.</p> |

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| <b>EC8</b>                       | In determining supervisory programmes and allocating resources, supervisors take into account the risk profile and systemic importance of individual banks and banking groups, and the different mitigation approaches available.   |
| Description and findings re EC8  | <p>All Thai banks are subject to onsite examination at least once a year, while subsidiaries of foreign bank, foreign bank branches, asset management companies (AMCs) and nonbanks with level 1 or 2 rating are subject to onsite examination at least once every three years; those with level 4 or 5 rating are subject to onsite examination at least once a year.</p> <p>The BOT will closely monitor financial institutions with level 4 rating and supervisory intervention will be implemented for financial institutions with level 5 rating.</p> <p>(Please refer to CP8 for further details).</p>  |
| <b>EC9</b>                       | Laws provide protection to the supervisor and its staff against lawsuits for actions taken and/or omissions made while discharging their duties in good faith. The supervisor and its staff are adequately protected against the costs of defending their actions and/or omissions made while discharging their duties in good faith.   |
| Description and findings re EC9  | <p>Section 5 of the Act on Tortious Liability of Officials B.E. 2539 (1996) provides protection to individual government official including the BOT personnel, whereby civil action can only be taken against the organization, not individual officer. Under the law, the government organization must be accountable to an affected third party following the performance of duties by its officer. This principle is affirmed by the Supreme Administrative Court order no. 880/2548, dated 28th December B.E. 2548 (2005). In this case, the Supreme Administrative Court had an opinion that the Plaintiff cannot file a case against the Governor as the Defendant No. 2 but shall directly sue the BOT as the Defendant No. 1 which is a government agency liable to an aggrieved person for the result of a wrongful act by its officer in the performance of his duties. However, if there is a case that the officer is sued, which may occur due to his or her tortious act, the BOT will provide legal assistance to them under the BOT internal regulation: Assistance for Legal Proceedings and for Protection of Life, Body, and Property of Employees B.E. 2546 (2003); so that, the case may finally be dismissed on the ground of the above reason.</p> <p>The legal assistance under the BOT internal regulation covers all kind of cases, not only civil case, criminal case or administrative case, and assists the officers, not only current but also former, who carry out their duties in good faith, being accused, sued, cited as a witness, threaten or injured to life, body or property. The assistance includes expenses in the defense against legal proceedings and, if necessary, service of a legal officer.</p> |
| <b>Assessment of Principle 2</b> | Largely Compliant   |
| Comments                         | The process for the appointment and removal of the governor and the members of the FIPC is transparent, and the BOT has adequate resources for the conduct of effective supervision and appropriate training plans. Discussions with supervisors and banks confirmed that BOT staff has credibility based on their professionalism and integrity. The   |

BOT regularly benchmarks its salary scales to the market and has sufficient funding to cover overseas inspections and training. The legal framework for banking supervision includes adequate legal protection for the supervisors.

While the assessors have not observed any objective evidence of lack of independence of the BOT, there are some factors that have the potential to interfere with the BOT's operational independence:

- First, the permanent presence of the Director General of the FPO on the FIPC is not in accordance with international good practice. The FIPC is a decision-making body. The BOT clarified that the presence of the Director General of the FPO contributes to checks and balances and facilitates BOT's actions during a crisis. The assessors agree that there is an obligation to explain to the government the impact of the BOT's activities (external accountability), but there are other mechanisms than participation in a decision-making body to achieve this objective. A well-designed system of accountability supports independence. The assessors consider that the membership of the FIPC could be expanded during crisis situations or if the FPO needs to be involved, or other coordinating structures could be used.
- Second, the presence of the Secretary-General of the Insurance Commission and the Secretary-General of the Securities and Exchange on the FIPC, and their participation in decisions also compromises operational independence and dilutes accountability. The assessors understand that this was decided to ensure better coordination between the agencies. Yet, the direct involvement of officials from other agencies in the BoT decision making is not good practice.
- Third, Section 42 of the BOT Act affects the independence of the BOT, risks political interference in the BOT and implies government underwriting of ELA. It requires that when a financial institution faces a liquidity problem, which may seriously endanger the stability of the economic and monetary system, the BOT, after approval of the FIPC and the Cabinet may approve the granting of a loan or financial assistance to that financial institution.
- Fourth, the BOT needs to inform the Minister in case Prompt Preventive Action or Prompt Corrective Action is taken (see Principle 11).
- Finally, the BOT has had negative net worth for several years; the assessors confirm that the BOT has continued to adequately discharge its duties for many years despite its weak financial position. Nevertheless, a weak financial position further exacerbates the risks to the BOT's, reputation, independence and vulnerability to political interference outlined above.

The BOT also supervises Specialized Financial Institutions (SFIs). There are eight SFIs in Thailand, each with a different mandate assigned by its founding law. Four SFIs are deposit taking institutions and three comply with the definition of a commercial bank in accordance with FIBA. The SFIs are regulated and supervised by the BOT with extensive involvement of the State Enterprise Policy Office (SEPO) as owner and the FPO as policy

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|                                 | <p>maker. This involvement affects the independence of the BOT in the regulation and supervision of the SFIs. It also poses a reputational risk, as explained in CP 1.</p> <p>In terms of governance, the SFIs are supervised by a separate department, the Specialized Financial Institutions Supervision and Examination Department, but this department reports to the Assistant Governor of the Supervision Group, just like the commercial bank supervision departments. The assessors were also informed that the supervisory governance and decision-making for commercial banks and SFIs is the same. In other words, the members of the Financial Institution Examination Development Sub Committee and the Financial Institutions Policy subcommittee must decide both on commercial banks and SFIs regulatory and supervisory actions, considering their divergent degrees of independence. It is not unlikely that contamination seeps through and that matters arising in the SFI area spill over to the commercial bank decision making process, particularly because some commercial banks also have state ownership.</p> <p>The assessors make the following recommendations:</p> <ul style="list-style-type: none"> <li>- The composition of the FIPC should not include the Director General of the FPO on a permanent basis, but he/she could be added in crisis times.</li> <li>- Rotations among supervisory staff assigned to individual institutions appear to occur as a matter of practice. Rotations should be formalized in a policy and enforced within the supervision groups to ensure renewal in supervisory staff. Relationship managers should be rotated to other roles after 3–5 years of supervising the same institution/banking group. While there should be room for flexibility in the rotation policy, a maximum period that any supervisor can be assigned to the same institution should also be established.</li> </ul> |
| <b>Principle 3</b>              | <b>Cooperation and collaboration.</b> Laws, regulations or other arrangements provide a framework for cooperation and collaboration with relevant domestic authorities and foreign supervisors. These arrangements reflect the need to protect confidential information. <sup>10</sup>  |
| <b>Essential criteria</b>       |   |
| <b>EC1</b>                      | Arrangements, formal or informal, are in place for cooperation, including analysis and sharing of information, and undertaking collaborative work, with all domestic authorities with responsibility for the safety and soundness of banks, other financial institutions and/or the stability of the financial system. There is evidence that these arrangements work in practice, where necessary.   |
| Description and findings re EC1 | The BOT supervises financial institutions that can be part of financial conglomerates, which may include entities such as securities companies and insurance companies, supervised by the SEC and the OIC respectively. Various arrangements have been established to facilitate  |

<sup>10</sup> Principle 3 is developed further in the Principles dealing with “Consolidated supervision” (12), “Home-host relationships” (13) and “Abuse of financial services” (29).

coordination between the BOT, the Minister, the SEC, the OIC, and other relevant supervisory authorities such as the AMLO.

Cooperation occurs at two levels:

(a) High-level: High-level cooperation emphasizes policy-making decisions.

The high-level cooperation among domestic supervisory authorities has been achieved through cross-directorships, the FIPC, and the 3-Regulators Steering Committee as follows:

- Example of cross-directorship: The Governor of the BOT is a board member of the SEC, the OIC, and the AMLO.
- The FIPC, comprising the BOT Governor (as chairman), the BOT Deputy Governors, the Director-General of the Fiscal Policy Office (FPO) under the Ministry of Finance, the Secretary-General of the SEC, the Secretary-General of the OIC and five qualified expert committee members, institutionalizes the cooperation and information sharing among the key domestic supervisory authorities. The FIPC is the decision-making body for policy affecting financial institutions, such as policies regarding prudence, market conduct, efficiency, as well as licensing and closures of financial institutions.
- The 3-Regulators Steering Committee (established in 2017) is a non-statutory body comprising the BOT, SEC, and OIC. Secretary Generals as well as high level executives of the BOT, SEC, and OIC provide a regular platform for the three key financial regulators to discuss policy issues. The Committee meets at least quarterly to facilitate the oversight of regulated entities and ensure financial stability. Several working groups have been formed; financial stability, market conduct, data sharing platform, financial technology, and cyber security.

Moreover, in 2017, the BOT and the SEC have issued a joint policy statement related to corporate governance, giving priority to put investors first for financial conglomerate to address companies' conflict of interest.

(b) Working-level: Working-level coordination emphasizes execution and information exchange.

- The BOT, the SEC, and the OIC conduct semi-annual 3-Regulators Meetings since 2009. Matters of discussion include financial stability, financial sector development, areas of common regulatory and supervisory interest, and the ASEAN financial integration.
- The working groups, formed under the 3-Regulators Steering Committee, hold regular meetings and execute the action plans. One of the outcomes of 3-Regulators coordination is the harmonized macro stress test framework, designed to assess the impact of unfavorable conditions on the capital adequacy ratio, liquidity, and overall financial stability.
- Recently the BOT, the SEC, and the OIC jointly conducted mystery shopping for banking, securities and insurance products offered by bank branches, aiming to raise market conduct standard of the banking industry.
- Another Mid-level coordination arrangement is the Domestic Supervisory College, as a meeting platform with the BOT, the SEC, the OIC, and the financial conglomerates. The

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|                                 | <p>College aims to promote effective sharing of information, monitor risks of the groups, and ensure financial stability. Since 2015, the BOT has hosted the Domestic Supervisory Colleges to discuss relevant matters in respect of the business plan of the financial group, its organizational structure, the examination procedure, the corporate governance, cross business and cross selling transactions, supervisory concerns, market conduct and mis-selling. Section 154 (4) of FIBA gives the BOT power to disclose information to domestic and foreign supervisors. In this respect, the BOT has the ability to share information with other domestic regulators. In addition, the BOT has an MOU with the SEC, the OIC, and the AMLO.</p> <ul style="list-style-type: none"> <li>• The cooperation with AMLO has resulted in joint bank inspection in 2017 on a Know Your Customer (KYC) matter (see CP 29)</li> <li>• Additional arrangements for cross agency cooperation in crisis preparedness and crisis management are in place.</li> </ul>   |
| <b>EC2</b>                      | <p>Arrangements, formal or informal, are in place for cooperation, including analysis and sharing of information, and undertaking collaborative work, with relevant foreign supervisors of banks and banking groups. There is evidence that these arrangements work in practice, where necessary.</p>  |
| Description and findings re EC2 | <p>In order to enhance efficiency of supervision, risk mitigation and exchange of important information for cross-border banking supervision, close cooperation between the BOT and other foreign supervisors is established as follows.</p> <p>The BOT has established formal arrangements of information sharing and mutual cooperation with foreign supervisors through several MOU on information exchange for effective cross-border banking supervision. As the majority of overseas branches of Thai banks are located in Asia, the BOT signed the MOUs with several supervisors in the region such as Hong Kong (HKMA), Japan (FSA), Vietnam (SBV), Cambodia (NBC), India (RBI), Malaysia (BNM), Singapore (MAS), China (CBRC), Philippines (BSP), and Indonesia (OJK). This sets the scope of supervisory cooperation between home and host country supervisors in the areas of information sharing and communication during the licensing process and the ongoing supervision.</p> <p>When granting approval for Thai banks' overseas branches/subsidiaries, the BOT sets conditions, which include submission of the following reports to the BOT:</p> <ul style="list-style-type: none"> <li>• A certificate from the head office confirming that its subsidiary will follow the banking acts, regulatory and supervisory policy, and the head office will support liquidity and capital increase when its subsidiary's capital decreases or is likely to decrease lower than the regulatory requirement.</li> <li>• Business plan and organizational structure.</li> <li>• An internal audit report of overseas branch operations conducted by the head office.</li> <li>• An external audit report of overseas branches.</li> <li>• A copy of an examination report conducted by the host supervisor together with its recommendations.</li> </ul> |

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|                                 | <p>In order to assess the vulnerabilities and risk management practices of the Thai banking groups and foreign bank branches/subsidiaries as well as to exchange major concerns and examination results between home and host supervisors, the BOT has actively participated in supervisory colleges organized by home supervisors, as well as hosted supervisory colleges for the internationally-active Thai banks regularly (Please refer to CP 13).</p> <p>Occasionally, the BOT has collaboration and joint IT Examination with other regulators; for examples; MAS (Please refer to CP 13) .Should there be changes in financial institutions that need close attention, the BOT will contact home and host regulators by phone, email or letter to discuss the issues of concern.</p> <p>The BOT have bilateral meetings with a number of regulators in the region including Malaysia, Singapore, Indonesia, Philippines, Lao, Vietnam, China, and Hong Kong. The bilateral meeting is held every two years to enhance cooperation between authorities, exchange views on regional and global economic situation, update and sharing knowledge on financial system developments (e.g., fintech, cyber security strategy), as well as facilitate capacity building programs for their staffs.</p> <p>Moreover, there are regular regional and international regulatory and supervisory meetings across various levels of seniority which the BOT supervisors have been participating, for examples, ASEAN Economics Community (AEC), Executives' Meeting of East Asia and Pacific Central Bank (EMEAP), Supervision and Implementation Group (SIG), and the Financial Stability Board (FSB) Regional Consultative Group (RCG). These meetings provide various formal and informal arrangements that facilitate collaborative work and information exchanges between the BOT and foreign supervisors and help strengthen supervisory coordination.</p> |
| <b>EC3</b>                      | <p>The supervisor may provide confidential information to another domestic authority or foreign supervisor but must take reasonable steps to determine that any confidential information so released will be used only for bank-specific or system-wide supervisory purposes and will be treated as confidential by the receiving party.</p>  |
| Description and findings re EC3 | <p>Section 154 (4) of FIBA, empowers the BOT to disclose confidential information to facilitate the supervision of domestic and foreign supervisors. Hence, the BOT can share information on financial institutions and examination results with other domestic supervisory authorities including the MOF, SEC, OIC, DPA and AMLO in the case where such confidential information shall be used for supervisory purposes as prescribed in the MOUs.</p> <p>For information sharing with foreign supervisors, the MOUs between BOT and foreign supervisory authorities include the protection clause of confidential information. For example, the information shall be used only for banking supervision and must be kept confidential. The MOUs also include the clauses on safeguarding of confidential information shared as follows:</p> <ul style="list-style-type: none"> <li>• Any confidential information received from the other Authority shall be used exclusively for lawful supervisory purposes.</li> </ul>  |

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|                                 | <ul style="list-style-type: none"> <li>• All information provided shall remain the property of the Authority providing such information. To the extent permitted by Law, the Authorities shall hold confidential all information received pursuant to the MOU and will not disclose such information to a third party without obtaining prior written consent of the other Authority that produced or provided the information.</li> <li>• If either Authority is legally compelled to disclose any confidential information, the Authority that provided the information should be promptly notified and the Authority compelled to disclose such information should exercise its best endeavor to take reasonable steps to resist disclosure of such information.</li> <li>• If information is released, it should be on condition that the third party use it only for lawful purposes, be under the same confidentiality restrictions, and be subject to any other conditions required by the Authority which originally provided the information.</li> </ul> |
| <b>EC4</b>                      | <p>The supervisor receiving confidential information from other supervisors uses the confidential information for bank-specific or system-wide supervisory purposes only. The supervisor does not disclose confidential information received to third parties without the permission of the supervisor providing the information and is able to deny any demand (other than a court order or mandate from a legislative body) for confidential information in its possession. In the event that the supervisor is legally compelled to disclose confidential information it has received from another supervisor, the supervisor promptly notifies the originating supervisor, indicating what information it is compelled to release and the circumstances surrounding the release. Where consent to passing on confidential information is not given, the supervisor uses all reasonable means to resist such a demand or protect the confidentiality of the information.</p>   |
| Description and findings re EC4 | <p>Section 74 of the BOT Act and Section 154 of FIBA state that the BOT management and staff performing their duties authorized under this Act, have the duty to deny any requests for confidential supervisory information, except for the purpose of legal investigation, court proceeding, supervisory purpose, or otherwise required by law.</p> <p>The bilateral MOUs between the BOT and SEC, OIC, and DPA stipulate that no information may be passed on to the third party without prior consent of the originating authority, while the MOUs between the BOT and foreign supervisors includes a similar clause as described in EC3.</p>  |
| <b>EC5</b>                      | <p>Processes are in place for the supervisor to support resolution authorities (e.g., central banks and finance ministries as appropriate) to undertake recovery and resolution planning and actions.</p>   |
| Description and findings re EC5 | <p>In Thailand, the BOT is the supervisor and resolution authority for banks, whereas the DPA is responsible for paying out insured deposits and liquidating banks. Information sharing and coordination arrangements between the BOT and DPA are clearly stated in the DPA Act and FIBA, for example, the BOT's sharing of bank examination reports with the DPA upon request (Section 39 of DPA Act).</p>   |

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|                                  | <p>The MOU between domestic supervisors (BOT, SEC, and OIC) covers exchange of information and coordination in times of crises. At present, the 3-Regulators Steering Committee as mentioned in EC1 and the FIPC serve as a forum for communication and cooperation between the authorities on cross-sectoral issues. The Steering Committee would be a forum to seek support from relevant domestic supervisors in taking resolution actions, if needed.</p> <p>The MOUs with foreign supervisors as mentioned in EC2 also include elements of coordination and preparation during time of crisis, which would facilitate a group recovery and resolution planning. Moreover, as a host supervisor of a G-SIFI and given the potential systemic relevance of its operations in Thailand, the BOT has concluded a Cross-border Cooperation Agreement (COAG) with the relevant home supervisor and has attended a Supervisory College and Crisis Management Group (CMG) meetings with relevant home and host supervisory and resolution authorities. Through Supervisory college and CMG, the BOT is kept informed of parts of the group recovery plan and resolution plan, which would enable consistent resolution actions. Please refer to CP13 EC6 for further details on cross-border coordination and collaboration to undertake resolution.</p> |
| <b>Assessment of Principle 3</b> | Compliant   |
| Comments                         | The assessors discussed domestic and cross border cooperation with the relevant supervisors. They reviewed the MOUs as well as agendas of supervisory colleges held. They obtained evidence that cooperation between and information sharing with domestic and international authorities is effective.  |
| <b>Principle 4</b>               | <b>Permissible activities.</b> The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined and the use of the word “bank” in names is controlled.  |
| <b>Essential criteria</b>        |   |
| <b>EC1</b>                       | The term “bank” is clearly defined in laws or regulations.  |
| Description and findings re EC1  | Section 4 of FIBA defines the term “financial institution business” to include commercial, finance, and credit foncier (mortgage financing) business and the business undertaken by specialized financial institutions (SFI). A commercial bank is defined as a public limited company licensed to undertake commercial banking business, and includes retail banking, and branches and subsidiaries of foreign banks.  |
| <b>EC2</b>                       | The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined either by supervisors, or in laws or regulations.  |
| Description and findings re EC2  | The permissible activities of a bank are defined in Section 4 of FIBA. Section 4 defines “commercial banking business” as the undertaking of the business of acceptance of money or deposits subject to withdrawal on demand or at the end of a specified period and of   |

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|                                 | <p>utilizing such money to, for instance grant credits, buy or sell of bills of exchange or any other negotiable instruments, buy and sell of foreign exchange. Commercial bank business is specifically differentiated from "financial business" by the ability to provide checking accounts.</p> <p>Section 36 of FIBA empowers the BOT to allow banks to engage in activities, which are connected or incidental to commercial banking business or any business traditionally regarded as commercial banking practice or any other business of similar nature.</p>   |
| <b>EC3</b>                      | The use of the word "bank" and any derivations such as "banking" in a name, including domain names, is limited to licensed and supervised institutions in all circumstances where the general public might otherwise be misled.   |
| Description and findings re EC3 | Section 9 of FIBA specifies that the commercial banking business may be undertaken only by a juristic person in the form of a public limited company, licensed by MOF with the recommendation of the BOT. Section 11 of FIBA requires a commercial bank to use a name beginning with the word "bank," as specified in the license. Section 12 of FIBA specifies that no person other than a bank shall use a name or a word denoting name in a commercial banking business as "bank" or any other word that has the same meaning.   |
| <b>EC4</b>                      | The taking of deposits from the public is reserved for institutions that are licensed and subject to supervision as banks. <sup>11</sup>  |
| Description and findings re EC4 | <p>Institutions taking deposits from the public in Thailand include commercial banks, finance companies, credit foncier companies, and must obtain a license from MOF with the recommendation of the BOT and are subject to supervision by the BOT. For the SFIs, which are also supervised by the BOT, each of them are established under their individual act. Those acts give them the right of doing business according to their mandates.</p> <p>The regulatory and the supervisory approach for finance companies and credit foncier companies, is like commercial banks, commensurate to their respective risk profile.</p> <p>The oversight and legal framework of SFIs is being strengthened to parallel commercial banks but the process has not been completed. Revision of FIBA Section 120, which has already been published in the Royal Thai Government Gazette, will further enhance SFI supervision.</p> |
| <b>EC5</b>                      | The supervisor or licensing authority publishes or otherwise makes available a current list of licensed banks, including branches of foreign banks, operating within its jurisdiction in a way that is easily accessible to the public.   |

<sup>11</sup> The Committee recognizes the presence in some countries of nonbanking financial institutions that take deposits but may be regulated differently from banks. These institutions should be subject to a form of regulation commensurate to the type and size of their business and, collectively, should not hold a significant proportion of deposits in the financial system.

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| Description and findings re EC5  | A current list of licensed banks, including branches of foreign banks, is published on the BOT website   |
| <b>Assessment of Principle 4</b> | Largely Compliant  |
| Comments                         | Permissible activities are limited to financial sectors. Through subsidiaries, banks may offer securities and insurance products. The role of BOT as supervisor of the SFIs continues to be developed with further work planned for the regulatory framework.  |
| <b>Principle 5</b>               | <b>Licensing criteria.</b> The licensing authority has the power to set criteria and reject applications for establishments that do not meet the criteria. At a minimum, the licensing process consists of an assessment of the ownership structure and governance (including the fitness and propriety of Board members and senior management) <sup>12</sup> of the bank and its wider group, and its strategic and operating plan, internal controls, risk management and projected financial condition-(including capital base). Where the proposed owner or parent organization is a foreign bank, the prior consent of its home supervisor is obtained.   |
| <b>Essential criteria</b>        |  |
| <b>EC1</b>                       | The law identifies the authority responsible for granting and withdrawing a banking license. The licensing authority could be the banking supervisor or another competent authority. If the licensing authority and the supervisor are not the same, the supervisor has the right to have its views on each application considered, and its concerns addressed. In addition, the licensing authority provides the supervisor with any information that may be material to the supervision of the licensed bank. The supervisor imposes prudential conditions or limitations on the newly licensed bank, where appropriate.   |
| Description and findings re EC1  | <p>The BOT is the sole authority responsible for banking supervision while the licensing authority is the MOF. Under Section 9 of FIBA, commercial banking business is undertaken only by a public limited company, licensed by the MOF with the recommendation of the BOT, who processes the application. Similarly, under FIBA Section 10, the MOF is empowered to grant a license for a foreign commercial bank that wishes to establish a branch in Thailand, with the recommendation of the BOT. In granting the license, the MOF may impose additional prudential conditions as deemed necessary.</p> <p>The licensing criteria are in line with ongoing prudential regulations, including, financial soundness, ownership structure, corporate governance, fit and proper of management and significant shareholders, management quality, strategic plan, business plan, risk</p> |

<sup>12</sup> This document refers to a governance structure composed of a board and senior management. The Committee recognizes that there are significant differences in the legislative and regulatory frameworks across countries regarding these functions. Some countries use a two-tier board structure, where the supervisory function of the board is performed by a separate entity known as a supervisory board, which has no executive functions. Other countries, in contrast, use a one-tier board structure in which the board has a broader role. Owing to these differences, this document does not advocate a specific board structure. Consequently, in this document, the terms "board" and "senior management" are only used as a way to refer to the oversight function and the management function in general and should be interpreted throughout the document in accordance with the applicable law within each jurisdiction.

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|                                 | <p>management systems, and in the case of foreign bank subsidiaries, supervision standards of the home supervisor.</p> <p>The BOT is responsible for accepting the application, assessing applicants against the set criteria, and providing recommendations concerning qualifications of the applicants to the MOF. Throughout the application process, the BOT and the MOF share information to address any issues concerning the application.</p> <p>A banking license may be revoked by virtue of FIBA Sections 83, 90 (5), 93, 95, 97, 110, and 111 in cases such as when the bank fails to comply with BOT's corrective order, fails to maintain capital funds above the level required by the BOT, or when the bank's operations may cause damage to the public, in which case the BOT has the power to order, a suspension of business operations, removal of directors, or closure of the bank. After the BOT orders the bank closure, the BOT shall propose to the MOF that the bank's license be revoked.</p> <p>Any bank intending to dissolve or suspend its operation shall obtain prior approval from the BOT (Section 78).</p> |
| <b>EC2</b>                      | <p>Laws or regulations give the licensing authority the power to set criteria for licensing banks. If the criteria are not fulfilled or if the information provided is inadequate, the licensing authority has the power to reject an application. If the licensing authority or-supervisor determines that the license was based on false information, the license can be revoked.</p>  |
| Description and findings re EC2 | <p>Section 9 of FIBA empowers MOF to establish licensing criteria, with the advice of BOT. In reviewing the application to make recommendations to the MOF, the BOT ensures that the applicant meets all the licensing criteria, with supporting official documents signed by an authorized official. Both the BOT and the MOF have the right to request any information in addition to the documents required by the Licensing Notification. For example, the bank may be asked to declare any wrongdoings by the directors and/or managers with significant damage to the public over the past three years.</p> <p>The BOT may recommend to MOF to reject an application if it determines that the applicant does not meet the established criteria. If information supplied in the application is later deemed to be false, the MOF has the power to revoke the license by virtue of Chapter 6 of <a href="#">Administrative Procedure Act, B.E. 2539</a> (1996)</p>  |
| <b>EC3</b>                      | <p>The criteria for issuing licenses are consistent with those applied in ongoing supervision.</p>   |
| Description and findings re EC3 | <p>Example: During the licensing of a foreign bank's subsidiary, the BOT takes into consideration: (i) feasibility of the bank's business plan and strategy, (ii) risk management, (iii) capital ratio/ fund, and (iv) fit and propriety of directors and high-level management. These factors are of a continuous nature, and thus consistent with requirements imposed on an ongoing basis, which are evaluated along with other matters throughout the course of the BOT's ongoing supervision, such as annual onsite examinations and quarterly report reviews, in which the BOT assesses the bank's compliance with prudential standards, its</p>   |

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|                                 | <p>strategic direction, and risk management capacity commensurate with the risks arising from the bank's Significant Activities.</p> <p>Should any concern arise, the BOT may visit the bank or require the bank to provide further information to assess whether the prudential and licensing requirements continue to be met.</p>   |
| <b>EC4</b>                      | <p>The licensing authority determines that the proposed legal, managerial, operational and ownership structures of the bank and its wider group will not hinder effective supervision on both a solo and a consolidated basis.<sup>13</sup> The licensing authority also determines, where appropriate, that these structures will not hinder effective implementation of corrective measures in the future.</p>  |
| Description and findings re EC4 | <p>There have not been applications filed since 2014. However, procedures are in place to ensure that consolidated supervision is not hindered by complex structures. Application of requirements were observed in applications for change in ownership of organizational restructuring, where BOT either rejected the proposal or required changes to the structure.</p> <p>The BOT ensures that the proposed legal, managerial, operational, and ownership structures of the bank will not hinder effective solo or consolidated supervision as well as the implementation of corrective measures in the future by reviewing appropriateness of ownership and corporate and the expertise of the board of directors; committees; sub-committees; and senior management, and the organizational structure, as well as ensuring that these structures comply with the BOT's corporate governance and fit-and-proper standards. File for last application filed reviewed.</p> <p>The BOT also seeks to ensure that the home supervisor conducts consolidated supervision in compliance with the Basel Core Principles. A consent letter from the home country supervisor allowing the bank to establish in Thailand must be obtained as part of the application. Further information may be obtained from the home supervisor through other channels of cooperation, such as teleconferences, meetings and MOUs on supervisory information exchange.</p> |
| <b>EC5</b>                      | <p>The licensing authority identifies and determines the suitability of the bank's major shareholders, including the ultimate beneficial owners, and others that may exert significant influence. It also assesses the transparency of the ownership structure, the sources of initial capital and the ability of shareholders to provide additional financial support, where needed.</p>   |
| Description and findings re EC5 | <p>To determine the suitability of the bank's major shareholders, including ultimate beneficial owners, and transparency of ownership structure, the BOT reviews information on the organization of the bank and its group from the bank's credit rating reports and annual reports from the past five years, which contain the bank and its group's equity holding structure. For foreign bank subsidiaries, the applicant is required to identify the 10 largest shareholders of the parent bank. The BOT then conducts a suitability assessment that</p>   |

<sup>13</sup> Therefore, shell banks shall not be licensed. (Reference document: BCBS paper on shell banks, January 2003.)

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|                                 | <p>involves a thorough assessment of the parent bank, including the financial standing and soundness, source of funds, and expertise relevant to the proposed business plan. Its executives, shareholders, and the proposed executives for the bank to be established must also meet the BOT's fit and proper criteria.</p> <p>The BOT also identifies the entity that has controlling power or influence over the bank, to ensure that the BOT can exercise its supervisory measures when necessary.</p> <p>The capital raising plan, source of funds and credit plan are included in the business plan required to be submitted with the application. The BOT also requires a letter from the applicant or the parent company to confirm commitment to provide liquidity support and capital increase when the capital fund falls, or may fall, below the level required by law.</p>   |
| <b>EC6</b>                      | A minimum initial capital amount is stipulated for all banks.  |
| Description and findings re EC6 | <p>The minimum initial capital is determined on a case-by-case basis; considering: scope of proposed business (full commercial bank or retail bank), the number of branches and ATMs allowed and the economic environment, financial sector development and financial system resiliency.</p> <p>In 2004, a finance company or credit foncier intending to convert its business to retail or commercial bank was required to have initial tier-1 capital in an amount of no less than THB 250 million and THB 5,000 million, respectively (as of August 31, 2018, equivalent to USD 7.6 million and USD 152.9 million).</p> <p>In 2011, a retail bank intending to upgrade to a full commercial bank was required to have initial tier-1 capital in an amount no less than THB 10 billion (equivalent to USD 305.8 million) the same amount is required in paid-up capital for an upgrade from a foreign bank branch to a foreign bank subsidiary.</p> <p>In 2013, a new subsidiary of a foreign bank was required minimum paid-up capital of THB 20 billion (equivalent to USD 611.7 million).</p> |
| <b>EC7</b>                      | <p>The licensing authority, at authorization, evaluates the bank's proposed Board members and senior management as to expertise and integrity (fit and proper test), and any potential for conflicts of interest. The fit and proper criteria include: (i) skills and experience in relevant financial operations commensurate with the intended activities of the bank; and (ii) no record of criminal activities or adverse regulatory judgments that make a person unfit to uphold important positions in a bank.<sup>14</sup> The licensing authority determines whether the bank's Board has collective sound knowledge of the material activities the bank intends to pursue, and the associated risks.</p>  |
| Description and findings re EC7 | <p>In assessing the application, the BOT reviews the organizational structure and requires that the applicant submit the profile of persons proposed for (i) Chairman of the board; (ii) Chairman of the executive board and/or Chief Executive Officer; and (iii) managers, or other equivalent positions. Details in the profile must include, but are not limited to, academic</p>  |

<sup>14</sup> Please refer to Principle 14, Essential Criterion 8.

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|                                 | <p>qualifications, work experience, history of lawsuits or convictions (both civil and criminal) and a list of related businesses to self- or related persons, to identify potential conflicts of interest.</p> <p>Once approved by the MOF, the bank must commence its operation within one year, during which the bank must submit the list of persons to be appointed as directors, managers and persons with power of management, to be approved by the BOT. The appointees must not possess the prohibited characteristics as specified in Section 24 of FIBA and must meet the fit and proper criteria as prescribed in BOT Notification No. FPG. 11/2561 but not limited to the following factors: (i) honesty, integrity and reputation (including record of unlawful doings and adverse regulatory judgment); (ii) competence, capability and experiences; and (iii) financial soundness. The background of each director is reviewed to determine whether the board has sound collective knowledge of activities the bank intends to pursue and the understanding of the associated risk. Compliance with other Thai and international regulators, criminal records and the Anti-Money Laundering Office is also taken into consideration.</p>   |
| <b>EC8</b>                      | <p>The licensing authority reviews the proposed strategic and operating plans of the bank. This includes determining that an appropriate system of corporate governance, risk management and internal controls, including those related to the detection and prevention of criminal activities, as well as the oversight of proposed outsourced functions, will be in place. The operational structure is required to reflect the scope and degree of sophistication of the proposed activities of the bank.<sup>15</sup></p>  |
| Description and findings re EC8 | <p>The license application requires the applicant to submit a detailed business plan to support its banking strategy. The plan must demonstrate ability to establish risk management systems commensurate with business operations, particularly for the risks arising from its Significant Activities (SAs) and to have an appropriate information technology system and management. The extent to which the risk management systems will be based in Thailand must be specified. Further, the applicant is required to submit operation details including internal controls and its AML/CFT program. In cases where there is a need for outsourced functions, the BOT will review the proposed outsourcing policy, including the applicant's oversight of these outsourced functions.</p> <p>After the MOF has granted approval for the bank to be established, the bank has one year to commence its operations, during which time the bank must submit quarterly progress reports to the BOT to ensure readiness and adequacy of all systems. Prior to commencing operations, the BOT conducts a thorough onsite examination that includes an assessment of the organizational structure, operational systems, policy making procedures, reporting lines, risk management systems, internal control mechanisms, and workflow process. The BOT would only grant approval to commence operations if it determines that all systems are adequate.</p> |

<sup>15</sup> Please refer to Principle 29.

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| <b>EC9</b>                       | The licensing authority reviews pro forma financial statements and projections of the proposed bank. This includes an assessment of the adequacy of the financial strength to support the proposed strategic plan as well as financial information on the principal shareholders of the bank.   |
| Description and findings re EC9  | <p>As part of the application process, the applicant is required to submit a business plan for the proposed bank, comprising of detailed: (i) the business strategy; (ii) pro-forma financial statements for no less than three years, with documentation on assumptions made; and (iii) plan for the establishment of the head office, branch or financial business group. The BOT reviews the business plan and determines the adequacy of the financial strength to support the plan and proposed operations.</p> <p>In an establishment of a foreign bank subsidiary, the BOT requires a confirmation letter from the parent bank that it will, among other things, provide liquidity and capital to support its subsidiary immediately when the capital fund of the subsidiary falls or may fall below the level required by law. Furthermore, the BOT takes into consideration the experience, expertise, performance, financial standing, risk management and governance of the parent company to ensure that it could provide said support to the proposed subsidiary, should it be needed.</p> |
| <b>EC10</b>                      | In the case of foreign banks establishing a branch or subsidiary, before issuing a license, the host supervisor establishes that no objection (or a statement of no objection) from the home supervisor has been received. For cross-border banking operations in its country, the host supervisor determines whether the home supervisor practices global consolidated supervision.  |
| Description and findings re EC10 | <p>A foreign bank applicant is required to submit to the BOT, together with its application, a consent letter from its home supervisor allowing the establishment of a branch or subsidiary in Thailand and confirming that there is no concern, such as on the bank's financial soundness and integrity. The foreign bank applicant must also provide information on the home country's consolidated supervision regulatory regime as part of the supporting documents for its application.</p> <p>In reviewing the application, the BOT takes into consideration soundness and credibility of the home supervisor in applying international standards of banking supervision, as well as the nature of its supervisory relationship with the BOT, including cooperation channels such as MOUs and involvement in international fora such as EMEAP and SEACEN that may assist the BOT in obtaining information on the foreign bank when needed.</p>  |
| <b>EC11</b>                      | The licensing authority or supervisor has policies and processes to monitor the progress of new entrants in meeting their business and strategic goals, and to determine that supervisory requirements outlined in the license approval are being met.  |
| Description and findings re EC11 | The BOT monitors new entrants regarding their compliance with all the licensing requirements, including their business and strategic goals.   |

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|                                  | The new bank must comply with supervisory requirements applicable to all banks and is subject to the BOT's ongoing supervision, including reporting requirements, meetings and examinations, along with assessments on the bank's ability to meet its business goals and licensing requirements. Significant deviations from the intended strategic targets will be addressed as part of the bank's strategic risk assessment.  |
| <b>Assessment of Principle 5</b> | Compliant   |
| Comments                         | Applications for new banks are only accepted in pre-determined periods. The last period for filing applications closed in 2014; four licenses were granted. One application was denied in 2016 because it was filed after closing of the 2010–2014 licensing period established in the Financial Sector Master plan. Application reviewed included a request by the applicant for a waiver on paid-in capital at inception, the BOT denied, and the MOF concurred.  |
| <b>Principle 6</b>               | <b>Transfer of significant ownership.</b> The supervisor <sup>16</sup> has the power to review, reject and impose prudential conditions on any proposals to transfer significant ownership or controlling interests held directly or indirectly in existing banks to other parties.   |
| <b>Essential criteria</b>        |   |
| <b>EC1</b>                       | Laws or regulations contain clear definitions of "significant ownership" and "controlling interest."  |
| Description and findings re EC1  | <p>Section 4 of FIBA defines a "major shareholder" as a person holding or possessing shares of a financial institution in an amount exceeding 5 percent of outstanding shares, including shares held by "related persons" who may exert management influence on the bank's parent company, subsidiaries or affiliates. The term "major shareholder" extends to include beneficial owners of said shares, as it covers the holding of shares by related persons who may exert management control through a chain of ownership or by exercising their voting rights as nominees.</p> <p>Section 4 of FIBA also defines control as:</p> <ul style="list-style-type: none"> <li>• Holding more than 50 percent of a company's total shares.</li> <li>• Having power to control majority of votes in a company shareholders' meeting.</li> <li>• Having power to control the appointment or removal of persons with power of management (senior executives and executive directors) or at least one-half of the company's board of directors.</li> <li>• Having power to control the company's operations in any other manner as prescribed by the BOT.</li> </ul> |

<sup>16</sup> While the term "supervisor" is used throughout Principle 6, the Committee recognizes that in a few countries these issues might be addressed by a separate licensing authority.

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|                                 | A person is presumed to have a controlling interest when holding 20 percent or more of outstanding shares in a company, whether held directly or indirectly.   |
| <b>EC2</b>                      | There are requirements to obtain supervisory approval or provide immediate notification of proposed changes that would result in a change in ownership, including beneficial ownership, or the exercise of voting rights over a particular threshold or change in controlling interest.  |
| Description and findings re EC2 | <p>Section 17 of FIBA states that any person who directly or indirectly holds or possesses shares of a financial institution in an amount of 5 percent or more of outstanding shares shall report the holding or possession of the shares to the BOT in accordance with the rules prescribed in BOT Notification No. FPG. 57/2551. The number of shares shall include the shares held by related persons.</p> <p>Under Section 18 of FIBA, any person seeking to hold more than 10 percent of outstanding shares must obtain prior approval from the BOT. To obtain approval from the BOT, the acquirer must demonstrate the potential benefits of such acquisition, and must meet the criteria set by the BOT, including: fit and proper, financial soundness, relevancy of expertise and experience, and business networks that may be utilized.</p> <p>Section 16 of FIBA prohibits holding of shares by non-Thais exceeding of 25 percent, unless permitted by the BOT. The BOT may permit non-Thais to hold shares up to 49 percent of total shares sold, whereas the MOF, with recommendation from the BOT may permit shareholdings by non-Thais to exceed 49 percent only when such holding is necessary to rectify or strengthen the operations of the financial institution, or to preserve the stability of the financial system. The MOF may impose additional conditions as necessary.</p> |
| <b>EC3</b>                      | The supervisor has the power to reject any proposal for a change in significant ownership, including beneficial ownership, or controlling interest, or prevent the exercise of voting rights in respect of such investments to ensure that any change in significant ownership meets criteria comparable to those used for licensing banks. If the supervisor determines that the change in significant ownership was based on false information, the supervisor has the power to reject, modify or reverse the change in significant ownership.   |
| Description and findings re EC3 | <p>Under Section 18 of FIBA, any person seeking to hold more than 10 percent of outstanding shares is required to obtain prior approval from the BOT. This includes shares held indirectly through related persons (as defined in Section 4 of FIBA). Section 21 of FIBA prohibits financial institutions from paying dividends or any other form of benefits or grant voting rights to shares held in contravention of Section 18 requirements.</p> <p>In reviewing fitness of the proposed shareholder, the BOT determines whether the person meets the fit and proper criteria comparable to those used for licensing banks i.e., good reputation, relevant expertise, good financial standing and performance record, sound risk management system, good governance, with sound supervision standards of home supervisor. The applicant must also be able to demonstrate the potential benefits to the financial institution, as well as its ability to meet the BOT's prudential requirements. Applicants are required to declare that they are free of any AML/CFT offense, criminal</p>   |

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|                                 | <p>record, or past supervisory sanction that would make them unfit, which the BOT will verify against the records kept by AMLO, Royal Thai Police and other relevant regulators. The fit and proper checks extend to the entity's executives and major shareholders.</p> <p>The BOT may reject the proposed acquisition if these requirements are not met, or if checks with domestic and global databases or comments from other regulators reveal that the person may be unfit to hold significant ownership in a bank. Should the BOT later find that the change in significant ownership was based on false or misleading information, the BOT is entitled to modify or reverse a previously granted approval based on Chapter 6 of the Administrative Procedure Act B.E. 2539.</p> <p>If the person fails to dispose the excess shares within the period prescribed by the BOT, Section 19 of FIBA empowers the BOT to file a motion to the court to order the disposal of the excess shares, where the court shall have the power to order a sale by auction or by any other method.</p>  |
| <b>EC4</b>                      | <p>The supervisor obtains from banks, through periodic reporting or onsite examinations, the names and holdings of all significant shareholders or those that exert controlling influence, including the identities of beneficial owners of shares being held by nominees, custodians and through vehicles that might be used to disguise ownership.</p>  |
| Description and findings re EC4 | <p>All banks are required to register as public limited companies, whereby Section 8 of SEC's Notification: Rules, Conditions and Procedures Governing the Disclosure of Information and Other Acts of a Listed Company requires that they disclose the 10 largest shareholders in their annual reports.</p> <p>Section 22 of FIBA requires the bank to examine its register of shareholders prior to each shareholder's meeting, or prior to each distribution of dividends or any other form of benefits and report the findings to the BOT. The report must include the names, related persons (including beneficial owners), and equity holdings of any person in possession of more than 5 percent of the bank's total shares.</p> <p>A financial institution that fails to comply with Section 22 shall pay a fine of up to THB 500,000 with additional fine of THB 5,000 per day during the violation period (Section 125 of FIBA).</p> <p>In addition, the BOT has issued a letter to the Thai Bankers' Association and the Association of International Banks requesting all banks to report equity holdings held through nominees and custodians and any other vehicles that may be used to disguise ownership to the BOT. During onsite visits, supervisors review whether the holdings of shares through nominees are compliant with relevant laws.</p> |
| <b>EC5</b>                      | <p>The supervisor has the power to take appropriate action to modify, reverse or otherwise address a change of control that has taken place without the necessary notification to or approval from the supervisor.</p>  |
| Description and findings re EC5 | <p>The BOT monitors changes in significant ownership through periodic reports and onsite visits. If it is found that a person has failed to obtain prior approval to hold shares in an</p>  |

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|                                  | amount exceeding 10 percent, the BOT, in pursuant to Section 19 of FIBA, can apply to the court for an order for the sale of the excess shares held by auction or any other methods.  |
| <b>EC6</b>                       | Laws or regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material information which may negatively affect the suitability of a major shareholder or a party that has a controlling interest.  |
| Description and findings re EC6  | <p>Banks are required to notify the BOT of any information that may negatively affect their major shareholders' fit and proper status. This may include, for example, events where the shareholder's financial position is significantly impacted, or when supervisory actions have been taken by other Thai or international regulators.</p> <p>For a foreign bank's subsidiary, after the MOF has approved its establishment, any change in the foreign bank's shareholders of or its parent company must have obtained prior approval by the BOT, whereby additional conditions may be imposed by the BOT as deemed necessary.</p> |
| <b>Assessment of principle 6</b> | Compliant   |
| Comments                         | Since 2017 there have been two significant ownership changes approved and two denied. One denial was due to failing the fit-and-proper review and the other due to the proposed ownership structure that would have hindered consolidated supervision.  |
| <b>Principle 7</b>               | <b>Major acquisitions.</b> The supervisor has the power to approve or reject (or recommend to the responsible authority the approval or rejection of), and impose prudential conditions on, major acquisitions or investments by a bank, against prescribed criteria, including the establishment of cross-border operations, and to determine that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.   |
| <b>Essential criteria</b>        |   |
| <b>EC1</b>                       | <p>Laws or regulations clearly define:</p> <ul style="list-style-type: none"> <li>• What types and amounts (absolute and/or in relation to a bank's capital) of acquisitions and investments need prior supervisory approval.</li> <li>• Cases for which notification after the acquisition or investment is sufficient. Such cases are primarily activities closely related to banking and where the investment is small relative to the bank's capital.</li> </ul>  |
| Description and findings re EC1  | <p><u>Acquisition and Investment</u></p> <p>Chapter 3 Division 2 of FIBA establishes acquisition/investment limits. Banks, including their related persons, are not permitted to acquire or hold shares in any company exceeding the following limits, as stipulated in Section 34 of FIBA:</p> <p>(i) <u>Individual limit:</u> (Section 34, 2 and 3)</p>   |

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|                                 | <ul style="list-style-type: none"> <li>• No financial institution shall hold shares in any company in an amount exceeding 5 percent of the financial institution’s capital funds.</li> <li>• No financial institution shall hold more than 10 percent of the company’s outstanding shares.</li> </ul> <p>(ii) <u>Aggregate limit</u>: (Section 34, 1)</p> <ul style="list-style-type: none"> <li>• No financial institution shall invest more than 20 percent of total capital funds, in the aggregate holding of shares in all companies.</li> </ul> <p>The BOT may grant approval to hold shares exceeding the limits only when such acquisition is due to debt restructuring, debt repayment, enforcement of debt payments, providing security for granting of credits, or for the operation of a supporting business.</p> <p>Under the BOT’s consolidated supervision, a financial institution is allowed to hold shares in a company, in excess of the aforementioned limits, provided that the company is in the financial institution’s Financial Business Group, for which, the company is permitted to undertake only (i) financial businesses such as commercial banking, finance, credit foncier, hire, purchasing, leasing, or (ii) supporting businesses that complement the operation of the financial institution and its Financial Business Group.</p> <p>The financial institution and its holding company are also permitted to conduct Venture Capital (VC) business that invests in SMEs or Financial Technologies (FinTech). For other businesses, the BOT may grant approval on a case-by-case basis for 10 year and set aggregate limit at 3 percent of capital.</p> <p>Section 35 of FIBA prohibits financial institutions from holding shares or securities of other financial institutions undertaking business of the same type to that of the financial institution.</p> <p><u>Fixed assets</u></p> <p>Section 80 (2) of FIBA prohibits financial institutions from purchasing or holding real estate/fixed assets except for:</p> <ul style="list-style-type: none"> <li>• Those used as premises for the business or as places of residence or welfare facility for their officers and employees, as permitted by the BOT.</li> <li>• Those acquired as debt settlement, a guarantee in respect of credit granting or the purchase of an immovable property mortgaged to the financial institution at an auction conducted pursuant to an order of a court or an official receiver.</li> </ul> |
| <b>EC2</b>                      | Laws or regulations provide criteria by which to judge individual proposals  |
| Description and findings re EC2 | The internal manual sets the criteria to judge individual investments. The criteria consider the following factors:  |

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|                                 | <ul style="list-style-type: none"> <li>• The business types of the proposed investment, whether they are financial businesses e.g., leasing, factoring, credit card business or whether they provide support functions to the core business, e.g., legal, MIS, IT Infrastructure.</li> <li>• The commitment and readiness of the bank (funding, personnel, MIS and support functions)</li> <li>• Whether the investment gives the bank controlling power in the acquired company, either directly or indirectly, e.g., holding of shares in an amount more than 50 percent of total shares sold or having controlling power over a majority of the votes in the shareholders meeting.</li> </ul> <p>For investments through VCs, the investee must demonstrate growth potential, and must not be an entity that is related to the financial institution or its parent company (as defined in Section 4 of FIBA). Direct and indirect Investments in a FinTech company must not exceed 3 percent of the financial institution’s total capital, and total investments in FinTech through VCs must not exceed 30 percent of the financial institution’s total capital.</p> |
| <b>EC3</b>                      | <p>Consistent with the licensing requirements, among the objective criteria that the supervisor uses is that any new acquisitions and investments do not expose the bank to undue risks or hinder effective supervision. The supervisor also determines, where appropriate, that these new acquisitions and investments will not hinder effective implementation of corrective measures in the future.<sup>17</sup> The supervisor can prohibit banks from making major acquisitions/investments (including the establishment of cross-border banking operations) in countries with laws or regulations prohibiting information flows deemed necessary for adequate consolidated supervision. The supervisor takes into consideration the effectiveness of supervision in the host country and its own ability to exercise supervision on a consolidated basis.</p>   |
| Description and findings re EC3 | <p>The BOT requires the bank to conduct thorough due diligence prior to making any acquisitions or investments. Such due diligence would include, but is not limited to, an analysis of financial and managerial resources, risk management, business and strategic plan and a gap analysis comparing the BOT’s regulations to those of the host country, especially regulatory gaps in consolidated supervision regimes.</p> <p>In the case where the target company is established cross-border, the BOT requires the bank to demonstrate that the host country’s laws and regulations would not hinder effective supervision and that there is no secrecy law or restriction on access to information that would prohibit the bank from obtaining information required to enforce compliance with the BOT’s reporting requirements under consolidated supervision. The parent’s inability to adequately provide consolidated reports as required by the BOT is a valid ground for the BOT to prohibit such investment.</p>   |

<sup>17</sup> In the case of major acquisitions, this determination may take into account whether the acquisition or investment creates obstacles to the orderly resolution of the bank.

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|                                 | <p>In reviewing the proposal, the BOT ensures that the target acquisition complies with the guidelines set in the BOT Notification No. FPG. 8/2561: Regulations on Structure and Scope of Business of Financial Business Groups, and that the criteria as specified in EC2 are adequately met, risks are properly addressed and that the host supervisor's regime would not inhibit the BOT's implementation of corrective measures or exercise of consolidated supervision and supervisory cooperation with the host supervisor via MOU or supervisory colleges. In jurisdictions where supervision requirements are less strict, the investee is required to apply measures consistent with the BOT's regulations.</p> <p>As a condition for approval, the target is required to submit a letter consenting to be consolidated in the Financial Business Group, and to comply with the BOT's consolidated supervision regulations, as well as consent for the BOT to conduct examinations on the investee.</p> <p>The BOT may reject the proposal if it is determined that the bank is not able to meet all reporting requirements, or that the host country's regulations may undermine the BOT's ability to exercise consolidated supervision.</p> |
| <b>EC4</b>                      | The supervisor determines that the bank has, from the outset, adequate financial, managerial and organizational resources to handle the acquisition/investment.  |
| Description and findings re EC4 | The bank's due diligence report is required to demonstrate that it has adequate financial, managerial and organizational resources for the acquisition/investment according to the BOT's internal manual. The BOT will not grant approval if it considers that bank does not have adequate financial and organizational resources to handle the new business or that it will hinder effective supervision by the BOT.  |
| <b>EC5</b>                      | The supervisor is aware of the risks that nonbanking activities can pose to a banking group and has the means to take action to mitigate those risks. The supervisor considers the ability of the bank to manage these risks prior to permitting investment in nonbanking activities.  |
| Description and findings re EC5 | FBG entities may only undertake financial businesses or supporting businesses, as defined in the BOT Notification No. FPG. 8/2561: Regulations on Structure and Scope of Business of Financial Business Groups. As part of the approval process, the BOT requires a letter signed by the board of directors to certify that the board has considered all relevant risks and those adequate risk management policies, including a business continuity plan, controlling and monitoring systems, have been set. Under ongoing consolidated supervision, the bank is obligated to ensure that companies in the Financial Business Group strictly comply with the BOT's regulations and the Group's policies.  |
| <b>AC1</b>                      | The supervisor reviews major acquisitions or investments by other entities in the banking group to determine that these do not expose the bank to any undue risks or hinder effective supervision. The supervisor also determines, where appropriate, that these new acquisitions and investments will not hinder effective implementation of corrective   |

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|                                  | measures in the future. <sup>18</sup> Where necessary, the supervisor is able to effectively address the risks to the bank arising from such acquisitions or investments.   |
| Description and findings re AC1  | <p>Under Section 34 and Section 57 of FIBA, the BOT has the power to supervise and examine the financial institution, the parent company, subsidiary and affiliate of the financial institution as well as to prescribe other ratios to the Financial Business Group and to stipulate disclosure of information among each other. Changes made to the structure of the FBG, which includes major acquisitions and investments by other entities in the Group, require prior approval from the BOT, whereby the BOT applies the same criteria of approval for acquisition/investment by banks.</p> <p>In the approval process for such acquisition or investment, the BOT assesses the risk that may occur to the banking group.</p> |
| <b>Assessment of Principle 7</b> | Compliant   |
| Comments                         | Cases reviewed denote that most applications are routine as they involve investing in financial business only and most are auxiliary functions such as Fintech subsidiaries. One denial involved an application to establish an FBG, but the applicant was unable to provide sound reasoning for the establishment and proof of sufficient financial resources.   |
| <b>Principle 8</b>               | <b>Supervisory approach.</b> An effective system of banking supervision requires the supervisor to develop and maintain a forward-looking assessment of the risk profile of individual banks and banking groups, proportionate to their systemic importance; identify, assess and address risks emanating from banks and the banking system as a whole; have a framework in place for early intervention; and have plans in place, in partnership with other relevant authorities, to take action to resolve banks in an orderly manner if they become non-viable.  |
| <b>Essential criteria</b>        |   |
| <b>EC1</b>                       | <p>The supervisor uses a methodology for determining and assessing on an ongoing basis the nature, impact and scope of the risks:</p> <ul style="list-style-type: none"> <li>• Which banks or banking groups are exposed to, including risks posed by entities in the wider group.</li> <li>• Which banks or banking groups present to the safety and soundness of the banking system</li> </ul> <p>The methodology addresses, among other things, the business focus, group structure, risk profile, internal control environment and the resolvability of banks, and permits relevant comparisons between banks. The frequency and intensity of supervision of banks and banking groups reflect the outcome of this analysis.</p> |

<sup>18</sup> Please refer to Footnote 33 under Principle 7, Essential Criterion 3

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| Description and findings re EC1 | <p>The BOT supervises using a risk-based approach, in which (i) the impact that banks or banking groups have on the banking system, and (ii) the significant risks to which banks or banking groups are exposed to are monitored and assessed on an ongoing basis.</p> <p>Frequency and intensity of supervision of banks and banking groups will be based on the outcome of this assessment as follows:</p> <p>(i) Impact: the BOT assesses the importance of banks or banking groups to the financial system, particularly through their size, interconnectedness with other players in the system and impact to the economy. In addition, the BOT assesses banks' lending to the various sectors of the economy.</p> <p>(ii) Risk: considering that business models differ between banks and banking groups, the BOT will:</p> <ul style="list-style-type: none"> <li>• First, assesses risks of a bank's significant activities<sup>19</sup> both on a solo and on a consolidated basis in two dimensions: inherent risks (IR) (i.e., strategic risk, credit risk, market risk, liquidity risk and operational risk) and quality of risk management (QRM) both at the operational control level and at the oversight level. For each significant activity, a net risk rating is derived from the IR and QRM ratings.</li> <li>• Second, the overall net risk ratings are determined by aggregating net risk ratings of all significant activities weighted by the impact that each significant activity has on the banks' performance and capital adequacy.</li> <li>• Third, the bank's composite rating (level 1 for strong to 5 for very weak)<sup>20</sup> is derived from the overall net risk ratings and the overall assessment of the banks' capital adequacy, earning ability, and effectiveness of oversight and corporate governance structure, as well as compliance with the laws and regulations. In addition, risk assessment of individual banks is subject to peer comparison and review by a panel of experienced supervisors and a senior executive committee of the BOT.</li> <li>• The BOT submits the report of examination results including the bank's composite rating to the chairman of the Board of Directors and he/she is required to inform such information to other members of the Board. The BOT management will meet with the Board to discuss significant findings if it deems necessary.</li> </ul> <p>Frequency and intensity of supervision of banks or banking groups are based on the impact and risk assessment and the degree of supervisory concerns.</p> <p>At present, the BOT conducts onsite examinations of all deposit-taking institutions (banks, finance companies, credit foncier companies, and SFIs) annually and foreign</p> |
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<sup>19</sup> A significant activity is defined as a line of business, activity, unit or process that, if not prudently managed, could pose significant risks and have a significant impact on financial condition and performance of a bank, such as corporate loans, SME loans, retail loans, assets and liabilities management, trading activities and information technology.

<sup>20</sup> Level 1 for strong, level 2 for satisfactory, level 3 for fair/adequate, level 4 for weak, and level 5 for very weak.

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|                                 | <p>branches/subsidiaries at least once every three years. Allocation of resources (number of supervisors and days) for onsite examination of each financial institution differs depending on its significance to the financial system. For example, more resources are allocated to the onsite examination of larger banks.<sup>21</sup> In addition, the BOT allocates 1–3 supervisors upon the size and complexity of the banks for offsite examination to conduct ongoing supervision.</p> <p>Intensity of supervisory actions<sup>22</sup> reflect the degree of supervisory concerns. For example, financial institutions with some serious supervisory concerns are subject to more closely monitoring by the BOT supervisors through more frequent contacts with the senior management, more frequent visits, and/or special onsite examination. For D-SIBs, the BOT has issued Notification 16/2560, “The Assessment Methodology and Supervisory Measures for Domestic Systemically Important Banks.” The Notification follows the framework established by the October 2012 paper issued by the Basel Committee on Banking Supervision. The BOT requires a higher loss absorvency capital percentage and sets the main indicators for identifying D-SIBs. The BOT meets with the D-SIB’ board of directors on annual basis to discuss examination results. The frequency of visits and meetings are risk-based, and adjusted based on bank response to orders and correction of outstanding issues.</p> <p>The BOT has various tools/measures which could be utilized according to the nature and severity of the problem to contain the problem once detecting the early sign of the problem (Prompt Preventive Action) and to take mandatory actions once the problem becomes more severe (Prompt Corrective Action).</p> |
| <b>EC2</b>                      | <p>The supervisor has processes to understand the risk profile of banks and banking groups and employs a well defined methodology to establish a forward-looking view of the profile. The nature of the supervisory work on each bank is based on the results of this analysis.</p>  |
| Description and findings re EC2 | <p>Under the BOT supervision, both offsite and onsite supervision are conducted throughout the year via a combination of activities, including regular contact with bank management, reviewing reports and statistical returns from the banks, and onsite visits. For each bank, a RM is assigned to continuously monitor the bank and promptly escalate issues or take actions deemed necessary. The Financial Institution System Analysis Division within the Supervision Group monitors the conditions and factors affecting the overall banking system and plays an important role in helping RMs identify issues, concerns or weaknesses</p>  |

<sup>21</sup> 20 supervisors and 40 working days are allocated for onsite examination of a large bank whose total assets is greater than 10 percent of total assets of all Thai commercial banks, 12–14 supervisors and 30 working days for onsite examination of a small to medium-sized bank whose total assets is lower than 10 of total assets of all Thai commercial banks, and 10 supervisors and 10 working days for onsite examination of a foreign bank subsidiary or branch.

<sup>22</sup> Intensity of supervision could range from monitoring and analysis in normal situation, onsite examination, following up on corrective action according to BOT’s recommendations in examination report, required more frequent information, more frequent discussion with bank management, requiring capital increase, increasing the frequency of offsite and onsite examination, expanding examination scope or conducting target examination, observing in the board meeting, restricting scope of business, and enforcing a contingency plan.

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|                                 | <p>of each bank. This ongoing process is aimed to enable supervisors to understand and update the risk profile of banks and banking groups, and to detect problems, promptly take preventive and corrective actions, as well as conducting early intervention to mitigate risks of an individual bank and contagion to the banking system.</p> <p>Under the risk-based framework, supervisors assess risks of SAs both on a solo and consolidated basis and keep monitoring potential risks that could come from non-SA activities. The BOT supervisors also incorporate forward-looking views of the banks' profile, for example EWS tracking results, analysis business directions of Thai commercial banks, by monitoring leading indicators and EWI. EWI includes ratios of individual banks and the overall banking sector, for example financial position, profit and loss, capital (BIS ratio), credit risk, market risk, and liquidity risk). Supervisors also follow up on changes in the banks' business strategies, industry, and environment from public sources, internal bank management reports and frequent contacts with the banks' management.</p> <p>During the first quarter of every year, the BOT senior management and supervisors meet with the banks' senior management to discuss their business strategies and exchange views on trends and changing environment affecting the banking sector. In addition, the BOT supervisors will regularly assess the banks' vulnerability to likely stress events 1–2 years from now via supervisory stress test. Risk assessment of all banks is reviewed at least quarterly, while that of foreign branches/subsidiaries is reviewed at least semiannually. The quarterly risk assessment includes earnings, capital adequacy, governance, all major significant activities and other significant changes such as underwriting standards, launching new products or new core banking activities to the review net risk of each significant activity.</p> <p>If there are issues of supervisory concerns identified from the ongoing risk assessment and monitoring supervisors will include them in the supervisory scope. If the issues are serious and require prompt action, the BOT will communicate and/or require banks to take corrective actions</p> |
| <b>EC3</b>                      | The supervisor assesses banks' and banking groups' compliance with prudential regulations and other legal requirements.  |
| Description and findings re EC3 | <p>As part of the ongoing risk assessment, supervisors assess banks' and banking groups' compliance with prudential regulations and other legal requirements both at the SA and bank-wide level.</p> <p>Supervisors conduct offsite reviews of regulatory reports as well as banks' committee minutes and internal reports from oversight functions, particularly compliance and internal audit functions, to monitor the banks' track record of compliance /non-compliance with relevant laws and regulations, and to assess the quality of risk management and effectiveness of governance structure in addressing compliance risk. The banks' internal audit function is required by the BOT policy statement on internal audit to report to the BOT any deficiency that could have serious adverse impacts on the banks' financial</p>   |

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|                                 | <p>condition and performance, and any non-compliance with the laws and regulations of the banks.</p> <p>Via regular contacts, onsite visits and onsite examinations, supervisors interview the banks' audit committee, executives and staff and review the start-to-end process, from risk identification, assessment, monitoring, control and oversight, to assess effectiveness of compliance oversight functions and processes and to verify the issues identified from offsite review.</p> <p>If there is any major deficiency in the compliance process or structure, supervisors will communicate with the banks and require that they take actions and inform the progress to the BOT. Supervisors will follow up with banks to ensure that timely actions are taken to address such weakness and that control measures are put in place to prevent it from reoccurring. In 2016, the BOT conducted a thematic examination on banks' compliance to raise awareness and enhance compliance practices to the industry standard.</p> <p>As part of offsite supervision, supervisors review information from various sources (such as newspapers, stock exchange, banks' internal/audit reports, and regulatory reports) and update risk assessment of the banks and banking groups on an ongoing basis. The supervisors will also determine issues that have impact on bank's operations and conduct onsite visits if there's a significant issue. This information is gathered with data submitted by banks, current economic information and trend to prepare quarterly offsite analysis report. Ongoing supervision is conducted to monitor progress of remedial action recommended in previous onsite examination.</p> |
| <b>EC4</b>                      | <p>The supervisor takes the macroeconomic environment into account in its risk assessment of banks and banking groups. The supervisor also takes into account cross-sectoral developments, for example in nonbank financial institutions, through frequent contact with their regulators.</p>  |
| Description and findings re EC4 | <p>The BOT assesses risks of banks and banking groups, considering macroeconomic factors as well as cross-sectoral developments provided by internal units within the BOT and through exchanges of information and views with other regulators.</p> <p><u>Within the BOT</u></p> <p>The FSU is responsible for monitoring macroeconomic and financial sector conditions and the linkages within and between financial sector and other sectors, as well as assessing risks to financial stability. FSU may propose measures to mitigate systemic risks if deemed necessary. On a quarterly basis, FSU reports to the Financial Stability Subcommittee, a financial stability deliberative body within the BOT, which comprises the BOT governor as a chairperson and senior executives from various departments, including Financial Institutions Policy Group (FIPG) and Supervision Group. FSU, FIPG and Supervision Group regularly discuss macroeconomic conditions and the impacts to financial system, if there is any concern or significant issue, the supervisor will take that issue to setup the examination scope. FSU gets feedback from supervisors and shares its analysis work and closely collaborates with the FIPG and Supervision Group regarding financial stability issues and</p>   |

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|                                 | <p>concerns. For example, FSU works closely with the Supervision Group to specify macroeconomic stress scenarios for supervisory stress tests. Furthermore, the Financial Institution System Analysis Division within the Supervision Group monitors the conditions and factors affecting the overall financial institution system. Its analysis work, such as the impact assessment of some specific macro events on financial institutions, is shared among the supervisors.</p> <p>In assessing risks of each bank, the BOT supervisors review analysis from FSU and the Financial Institution System Analysis Division, that provides perspective of macroeconomic and financial system conditions and the likely impact on the financial institution system. Occasionally, the BOT will conduct a thematic examination to assess the impact of a macroeconomic condition on financial institutions' SA, such as real estate lending, installment loans, and unsecured lending. Significant issues or feedback received from onsite examination will be shared with FSU for the benefit of its analysis work.</p> <p><u>Coordination with other supervisory authorities</u></p> <p>The BOT closely coordinates with other supervisory authorities, particularly the SEC, the OIC, and the MOF, both at the policy and at working levels to discuss cross-sectoral developments and to assess risks within and across financial sectors, aiming to reduce systemic risk and regulatory arbitrage in the financial system, for examples jointly conducted mystery shopping for banking, securities and insurance products .</p> <p>High-level coordination emphasizes policy-making decisions, which has been achieved through cross-directorships, the FIPC, and the 3-Regulators Steering Committee.</p> <p>Mid-level coordination emphasizes execution and information exchange. The BOT, SEC, and OIC conduct semi-annual 3-Regulators Meetings since 2009. Matters of discussion include financial stability, financial sector development, areas of common regulatory and supervisory interest, and the ASEAN financial integration.</p> |
| <b>EC5</b>                      | <p>The supervisor, in conjunction with other relevant authorities, identifies, monitors and assesses the build-up of risks, trends and concentrations within and across the banking system as a whole. This includes, among other things, banks' problem assets and sources of liquidity (such as domestic and foreign currency funding conditions, and costs). The supervisor incorporates this analysis into its assessment of banks and banking groups and addresses proactively any serious threat to the stability of the banking system. The supervisor communicates any significant trends or emerging risks identified to banks and to other relevant authorities with responsibilities for financial system stability.</p>  |
| Description and findings re EC5 | <p>The BOT, in collaboration with other regulators, performs an ongoing micro and macroprudential surveillance to identify, monitor and assess the build-up of risks, trends, and concentrations within and across the banking system, using various tools and approaches. Such analysis includes risk assessment of banks and banking groups. If there is any serious threat to the financial system, the BOT, in collaboration with relevant supervisory authorities, will proactively address such threat.</p>  |

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|            | <p>The BOT communicates significant trends and emerging risks to relevant authorities and banks.</p> <ul style="list-style-type: none"> <li>At the operational level, FSU, Financial Institution Policy Group and Supervision Group, and other relevant functions within the BOT, in collaboration with other regulatory agencies, conduct integrated micro and macroprudential surveillance and analysis to identify, monitor and assess the build-up of risks, trends, and concentrations within and across the banking system using various tools and approaches. For example, financial information from regulatory reports, financial soundness indicators (along with macroeconomic indicators)<sup>23</sup>, and stress test results are analyzed (covering such areas as asset quality, capital adequacy, profitability and liquidity) to identify potential risks to individual banks and the banking system. In addition, information from financial cycle forecast and close monitoring of Domestic Systemically Important Banks (D-SIBs)<sup>24</sup> will be used to help identify risk build-up in the banking system.</li> </ul> <p>Findings and information from ongoing supervision and frequent contacts with the banking industry will be incorporated in such micro- and macroprudential analysis work in the risk assessment of the banks and banking groups.</p> <ul style="list-style-type: none"> <li>At the policy level, using the surveillance and analysis work of the working level, the BOT regularly discuss financial stability issues and policy recommendations to mitigate risks to the financial system with other supervisory authorities, such as the SEC, the OIC, and the MOF. If there is any identified serious threat to the financial system, the BOT, in collaboration with relevant regulators, will proactively address such threat.</li> </ul> <p>For example, when the real estate markets continued to expand since 2011 and there were some concerns about credit standards of post-finance loan, the BOT implemented a loan-to-value (LTV) ratio for high-rise and low-rise residential properties in 2011 and 2013, respectively. Recently the BOT has implemented credit card and personal loan measures, i.e., tightening credit line limit for lower income groups, to curb high household indebtedness.</p> <p>The BOT also communicates significant trends and emerging risks identified to banks via regular forum, such as CEO meetings, compliance function meetings, audit committee meetings, exit meetings, and written documents. Additionally, the semi-annual press releases of the Joint MPC-FIPC Meeting and the annual Financial Stability Report (FSR) serve as tools to communicate the overall risk assessment and concerns with regards to financial stability to the public.</p> |
| <b>EC6</b> | Drawing on information provided by the bank and other national supervisors, the supervisor, in conjunction with the resolution authority, assesses the bank's resolvability   |

<sup>23</sup> Along with macroeconomic indicators in the key areas, i.e., financial markets, banks, nonbanks, household, corporate, real estate, fiscal and external stability, as well as a sign of search for yield behavior

<sup>24</sup> Domestic Systemically Important Banks (D-SIBs) framework has been implemented since 2017 to identify D-SIBs in the Thai banking system. Those D-SIBs are subject to close monitoring and supervision due to its significance to the system.

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|  | <p>where appropriate, having regard to the bank's risk profile and systemic importance. When bank-specific barriers to orderly resolution are identified, the supervisor requires, where necessary, banks to adopt appropriate measures, such as changes to business strategies, managerial, operational and ownership structures, and internal procedures. Any such measures take into account their effect on the soundness and stability of ongoing business.</p>   |
| <p>Description and findings re EC6</p> | <p>The BOT assesses banks and banking groups' business strategies, managerial, operational and ownership structures, and internal procedures as part of licensing and ongoing supervision as well as assessing bank resolution, taking into consideration the banks' risk profile and systemic importance. When structures or strategies pose risks to the banks, or when bank-specific barriers to orderly resolution are identified, the BOT will require, where necessary, the banks to adopt appropriate measures.</p> <p><u>Assessment during licensing and approval of financial conglomerate and new business</u></p> <p>In assessing qualifications of applicants for banking licenses, the BOT requires the applicants to provide detailed information about their parent companies, group structure, home country supervisory regime, as well as their business strategies, critical functions, managerial, operational and ownership structures, and internal procedures when they begin banking operations. In addition, before engaging in new business and products or making significant changes in managerial, operational and ownership structures, or establishing financial conglomerates, banks shall consult with the BOT, as in most cases the BOT acknowledgement or approval is required. Through this process, the BOT will evaluate whether such new business strategies and structures will create value to the Thai economy, and will not pose significant risks to the financial system stability.</p> <p><u>Assessment as part of ongoing supervision</u></p> <p>On an ongoing basis, the BOT supervisors assess banks and banking groups' business strategies, structures, and key internal procedures. When the banks' structures or strategies are deemed to pose risks to the banks and the banking system, bank-specific barriers to orderly resolution are identified, or key internal procedures are considered inadequate, the BOT supervisors will require, where necessary, the banks to adopt appropriate measures to address the issues.</p> <p><u>Recovery and resolution planning</u></p> <p>The BOT requires banks to submit recovery plans, conduct review of recovery plans at least annually and provide essential information for the development of resolution plans (The BOT Notification FPG No. 16/2561 and Guideline on Recovery Planning). The requirements are implemented in a phased approach, starting from domestic systemically important banks (D-SIBs) in 2018 expected to submit recovery plans by Q2 2019. The BOT will assess the submitted plans and provide feedbacks on the plans, including impediments to their implementation that should be addressed. To ensure that recovery planning requirements are tailored to suit Thailand's context, prior to the issuance of the Notification and</p> |

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|                                 | <p>Guideline on Recovery Planning, the BOT engaged in close coordination with six banks (five of which are D-SIBs) in a pilot program in 2017 to develop and submit draft recovery plans.</p> <p>In addition, as part of recovery planning, banks are required to identify their critical functions, critical shared services including those undertaken by other entities within the group as well as the extent of interdependencies within the group. Feasibility of recovery options must be demonstrated, including options to separate or cease operations of certain parts of the business while maintaining operational continuity of critical services. Such information would facilitate resolvability assessment for development of the resolution plans. Where barriers to orderly resolution are identified, the bank will be informed and encouraged to adopt appropriate measures to address the issues.</p> <p><u>Power to take preventive and corrective actions</u></p> <p>The BOT monitors key indicators and assesses financial institutions financial position closely where there is a sign of weakness. BOT has power to take prompt preventive action through several measures, such as requiring the bank to improve internal control, slow down its business expansion, for instance when the bank lowered underwriting standards to increase housing loan exposures, BOT immediately notified the concern to chairman of the board.</p> <p>Where it is deemed that condition or operation of a bank may cause damage to the public interest, the FIBA empowers the BOT to take corrective actions, which include requiring the bank to rectify its condition or operation, to replace some or all of the bank's board of directors and/or management, and to temporarily suspend the bank's operations partially or fully.</p> |
| <b>EC7</b>                      | <p>The supervisor has a clear framework or process for handling banks in times of stress, such that any decisions to require or undertake recovery or resolution actions are made in a timely manner.</p>   |
| Description and findings re EC7 | <p>The BOT has developed a crisis management framework, including workflows which lay out key steps during times of distress as well as involved parties and a range of supervisory actions for each circumstance, depending on type, stage, and severity of the problem. This is to ensure that necessary decisions or actions are made in a timely and appropriate manner.</p> <p>The key steps include:</p> <ul style="list-style-type: none"> <li>• When a significant weakness or concern is identified, more closely monitoring and intensified supervision is warranted.</li> <li>• When financial condition deteriorates, or capital adequacy ratio reaches the warning yellow zone, the BOT may take or require the bank to take actions to rectify the situations, depending on type, stage, and severity of the problem. For example: <ul style="list-style-type: none"> <li>- Liquidity: the BOT may require the bank to submit a plan to restore its liquidity position. In certain cases, the BOT may provide liquidity support for the distressed bank according to Section 41(1) and 42 of FIBA.</li> <li>- Governance: the BOT may require the bank to strengthen their governance.</li> </ul> </li> </ul>   |

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|                                  | <p>Capital adequacy: the BOT may prohibit the bank from paying dividend until its capital adequacy level is restored.</p> <ul style="list-style-type: none"> <li>• When the situation becomes more serious, such as the capital adequacy ratio is below the required level, and could possibly trigger insolvency of the bank, the BOT will take or require the bank to take corrective actions as prescribed in FIBA sections 95–97.</li> <li>• When the bank becomes insolvent and is considered non-systemic, the BOT may order the bank to close the operation, revoke the license and coordinate with the Deposit Protection Agency (DPA) to pay back depositors.</li> <li>• When the bank becomes insolvent and is considered systemic, which could endanger the overall financial stability, the BOT, in collaboration with the resolution authority and other responsible agencies, will take appropriate actions according to the bank resolution framework.</li> </ul> <p>The BOT plans to require banks in Thailand to submit recovery plans and provide information necessary for the development of resolution plans. Such plans ensure that banks and relevant supervisory authorities are prepared in advance for times of stress and that appropriate actions can be promptly taken if triggers indicated in recovery and resolution plans are breached.</p> |
| <b>EC8</b>                       | Where the supervisor becomes aware of bank-like activities being performed fully or partially outside the regulatory perimeter, the supervisor takes appropriate steps to draw the matter to the attention of the responsible authority. Where the supervisor becomes aware of banks restructuring their activities to avoid the regulatory perimeter, the supervisor takes appropriate steps to address this.   |
| Description and findings re EC8  | <p>The BOT monitors banks and banking groups on an ongoing basis both on a solo and consolidated basis and closely coordinates with other relevant supervisory authorities, as well as the Office of the Electronic Transaction Commission (E-payment regulator) to discuss and collaborate on cross-sectoral issues, including bank-like activities and regulatory arbitrage. For example, the BOT has been working closely with the SEC to set scope of FX activities and relevant regulations for securities firms applying for FX licenses.</p> <p>Normally banks consult with the BOT before they launch new products or new activities. Nevertheless, if the BOT finds that banks restructure their activities to avoid regulations, the BOT will require the banks to stop/suspend those activities until the banks have transparently declared such activities and complied with the necessary regulations. In addition, if the BOT finds that bank-like activities are performed outside of regulatory perimeter (for example, e-money and FX money exchange services), the BOT will take actions to address it or bring such matter to the attention of responsible authorities.</p>   |
| <b>Assessment of Principle 8</b> | Compliant  |
| Comments                         | The BOT has established a supervisory process that supports the risk-based supervisory approach. The supervisory approach process was discussed and reviewed in detail using the risk matrix that rates the banks on their risk profile and forms the basis for developing   |

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|                                 | the supervisory scope for the bank. The examination reports are comprehensive, and recommendations are followed-up with bank management and the Board as warranted. Banking groups and their structure/affiliates are incorporated to identify any risk feedback channels. Further linking of benchmarks, and analysis results to scope of supervisory activities for individual banks would continue development of risk-focused supervision.   |
| <b>Principle 9</b>              | <b>Supervisory techniques and tools.</b> The supervisor uses an appropriate range of techniques and tools to implement the supervisory approach and deploys supervisory resources on a proportionate basis, taking into account the risk profile and systemic importance of banks.   |
| <b>Essential criteria</b>       |  |
| <b>EC1</b>                      | The supervisor employs an appropriate mix of onsite <sup>25</sup> and offsite <sup>26</sup> supervision to evaluate the condition of banks and banking groups, their risk profile, internal control environment and the corrective measures necessary to address supervisory concerns. The specific mix between onsite and offsite supervision may be determined by conditions and circumstances of the country and the bank. The supervisor regularly assesses the quality, effectiveness and integration of its onsite and offsite functions, and amends its approach, as needed.  |
| Description and findings re EC1 | <p>The BOT conducts ongoing supervision comprising a mix of offsite and onsite activities and occasional thematic examinations to evaluate the condition of banks and banking groups, their risk profile and internal control environment, and corrective measures necessary to address supervisory concerns.</p> <p>Offsite supervision is an ongoing monitoring process, in which banks and banking groups' financial conditions and risk indicators, developments and trends in the banks and the banking sector are reviewed and analyzed. Supervisors review information from various sources (such as newspapers, stock exchange, banks' internal/audit reports and regulatory reports) and update risk assessments of the banks and banking groups on a regular basis, at least quarterly. In addition, supervisors are regularly in contact with bank management (via regular meetings) as well as with external auditors and relevant supervisors. If there are any significant concerns/issues identified, the BOT supervisors will discuss with the banks' management and follow up in a timely manner.</p> <p>All banks are subject to the same base level of offsite supervision, but the focus, frequency and intensity of onsite supervision for each bank or banking group is risk-based, reflecting</p> |

<sup>25</sup> Onsite work is used as a tool to provide independent verification that adequate policies, procedures and controls exist at banks, determine that information reported by banks is reliable, obtain additional information on the bank and its related companies needed for the assessment of the condition of the bank, monitor the bank's follow-up on supervisory concerns, etc.

<sup>26</sup> Offsite work is used as a tool to regularly review and analyze the financial condition of banks, follow up on matters requiring further attention, identify and evaluate developing risks and help identify the priorities, scope of further offsite and onsite work, etc.

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|                   | <p>the bank’s significance to the banking system, SA (both on a solo and consolidated basis), and the degree of supervisory concerns as follows:</p> <p>The BOT conducts onsite examinations of all Thai deposit-taking institutions (banks, finance companies, credit foncier companies, and SFIs) annually and foreign branches/subsidiaries at least once every three years. More resources (number of supervisors and days) are allocated for onsite supervision of larger banks.</p> <p>During onsite visit/examination, supervisors verify key issues/concerns identified from offsite review/risk assessment and assess adequacy and effectiveness of the banks’ operational management, risk management, oversight function and compliance for each SA, using a combination of a top-down approach (interviews to assess end-to-end bank processes) and bottom-up approach (transaction testing). The BOT supervisors may conduct an onsite visit/examination of non-bank subsidiaries of the banks, such as leasing company, insurance company, and securities company, if they are significant to the banks.</p> <p>Banks with serious supervisory concerns are subject to close monitoring through more frequent contacts with senior management, more frequent visits, or special onsite examination.</p> <p>Occasionally, the BOT will conduct a thematic examination to assess industry practices on areas, such as internal audit and compliance, or assessing possible impact of a macroeconomic situation on the banks’ SA, such as real estate lending, installment lending, credit card and personal lending.</p> <p>All significant findings and recommendations are communicated to the bank, and the bank is required to promptly address concerns. After communicating examination results to the Board, supervisors will monitor corrective action by contacting the banks’ points of contact. The banks’ Internal audit and compliance functions review accuracy, reliability and timeliness of information before submitting documents on remedial action to BOT. If issues are identified on progress, supervisors will consider onsite visits to verify action taken.</p> <p>The BOT regularly assesses the quality, effectiveness and integration of the onsite and offsite supervision and amends the approach, as needed. Before 2016, offsite and onsite supervision functions were performed under different teams and departments. Since 2016, the BOT has combined onsite and offsite supervision functions for greater integration of the functions. Both functions are conducted by a team under an assigned RM. In addition, to ensure the quality and consistency of supervision and risk assessment across banks, particularly onsite supervision, findings and composite rating assigned to each bank are subject to peer comparison and review by a panel of senior managers and department directors in the Supervision Group (Financial Institutions Examination Report Screening Working Committee) and approved by the BOT’s top executive subcommittee chaired by the Deputy Governor of Financial Institutions Stability (Financial Institutions Examination Development Subcommittee).</p> |
| <p><b>EC2</b></p> | <p>The supervisor has a coherent process for planning and executing onsite and offsite activities. There are policies and processes to ensure that such activities are conducted on a</p>   |

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|                                 | <p>thorough and consistent basis with clear responsibilities, objectives and outputs, and that there is effective coordination and information sharing between the onsite and offsite functions.</p>   |
| Description and findings re EC2 | <p>There is a dedicated department within the Supervision Group ("Planning and Examiners Development Department) responsible for planning annual onsite activities, including thematic examinations. Such annual plan is approved by the Financial Institutions Examination Development Subcommittee. The Planning and Examiners Development Department is also responsible for ensuring that such activities are conducted on a thorough and consistent basis with clear responsibilities, objectives and outputs by developing supervision standards/manuals, regularly updating the supervisors with new knowledge and development in banking supervision, enhancing competency of supervisors via training and knowledge sharing, and arranging processes to ensure the quality and consistency of supervision and risk assessment across banks via a panel of senior directors and directors in the Supervision Group i.e., the Financial Institutions Examination Report Screening Working Committee and the Financial Institutions Examination Development Subcommittee.</p> <p>As offsite and onsite functions are conducted under the same team with a dedicated RM, coordination and information sharing between onsite and offsite functions are very effective. Furthermore, the Financial Institutions System Analysis Division within the Supervision Group, which is assigned to monitor the conditions and factors affecting the overall banking system, plays a key role in helping RMs to identify issues, concerns and weaknesses of each bank.</p> |
| <b>EC3</b>                      | <p>The supervisor uses a variety of information to regularly review and assess the safety and soundness of banks, the evaluation of material risks, and the identification of necessary corrective actions and supervisory actions. This includes information, such as prudential reports, statistical returns, information on a bank's related entities, and publicly available information. The supervisor determines that information provided by banks is reliable<sup>27</sup> and obtains, as necessary, additional information on the banks and their related entities.</p>   |
| Description and findings re EC3 | <p>The BOT employs a variety of information to assess inherent risks and effectiveness of the banks' risk management on an ongoing basis and obtain, as necessary, additional information on the banks and their related entities. All the information submitted by the banks is subject to a validation process as well as review by supervisory staff to ensure its reliability. Since BOT supervision is organized in teams performing both onsite and offsite activities, the analyses results are used for follow-up and determining need and frequency for onsite visits and scope.</p> <p>Supervisors assess inherent risks and effectiveness of the banks' risk management on an ongoing basis using information received from banks and other sources as well as information from onsite examinations. Banks are required to submit information (e.g.,</p>  |

<sup>27</sup> Please refer to Principle 10.

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|                                 | <p>financial statements, off balance sheet items, deposits, loans, NPLs, loan loss provisions, capital and risk-weighted assets, liquidity assets, and market risk report) to the BOT on a regular basis. The frequency of the data submission depends on characteristics of the information. The BOT also requires the banks or companies within the same financial group to provide additional information, as necessary, e.g., internal reports and board/committee minutes on a regular basis, and a survey or questionnaire on an ad-hoc basis.</p> <p>To ensure its validity and integrity, all the information submitted by the banks through Data Management System (DMS) is subject to a three-stage validation process by the Statistics and Information Systems Department within the BOT. Moreover, supervisors review accuracy and completeness of regulatory reports and information submitted by the banks. During onsite examination, supervisors review the banks' information systems and regulatory reporting process to ensure that they are reliable. If the BOT determines that the information provided by the banks is incomplete or ambiguous, the BOT has the power under Section 71 of FIBA to appoint an external auditor or specialist to conduct an independent audit of such banks and report the results thereof to the BOT at the expense of the bank.</p> <p>Banks that fail to comply with Section 71 of FIBA regarding information provision to the BOT are subject to fines under Section 128 of FIBA. The banks' directors or executives are also guilty of offense unless they can prove that they are not involved or have taken all reasonable steps to comply with the law (Section 132 of FIBA).</p> |
| <b>EC4</b>                      | <p>The supervisor uses a variety of tools to regularly review and assess the safety and soundness of banks and the banking system, such as:</p> <ul style="list-style-type: none"> <li>• Analysis of financial statements and accounts.</li> <li>• Business model analysis.</li> <li>• Horizontal peer reviews.</li> <li>• Review of the outcome of stress tests undertaken by the bank.</li> <li>• Analysis of corporate governance, including risk management and internal control systems.</li> </ul> <p>The supervisor communicates its findings to the bank as appropriate and requires the bank to mitigate any particular vulnerabilities that have the potential to affect its safety and soundness. The supervisor uses its analysis to determine follow-up work required, if any.</p>   |
| Description and findings re EC4 | <p>The BOT reviews and assesses safety and soundness of banks and the banking system on an ongoing basis using an extensive set of tools. The findings/concerns and assessment of such review are communicated to the banks in a timely manner, and the banks are required to take prompt actions to address them.</p> <p>Under the risk-based approach, supervisors assess overall inherent risks and risk management of the banks, as well as their corporate governance/compliance, capital, and ability to generate earnings. The assessment reviews the bank business model, focusing on</p>   |

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|            | <p>their SA, and includes extensive analyses of quantitative and qualitative information, such as financial statements as well as key risk indicators, peer comparison, and top 100 large borrowers, as well as information about the bank's corporate governance, risk management, and other control functions observed during regular onsite examinations and from internal reports and minutes. Occasionally, the BOT conducts thematic examinations to assess industry practices, such as internal audit, compliance, or to assess the impact of macroeconomic factors on the banks' SA, such as real estate lending. After concluding an examination, BOT shares results with the banks. BOT also communicates thematic and annual examination results during the annual meeting with the bank and how they will be covered in the supervisory program for the upcoming year.</p> <p>To support supervisory work, the Financial Institution System Analysis Division within the Supervision Group conducts banking sector analyses, such as analysis of the banking sector's key figures, business sector analysis, impact assessment of some specific macro events on banks, as well as analysis of top 100 large group borrowers. Furthermore, the BOT supervisors include stress test results in risk assessments of the banks.</p> <p>As part of the assessment, The BOT supervisors review the banks' ICAAP stress testing approaches and assumptions and evaluate the banks' risk management and capital management policies, as well as their contingency plans for stressed situations. The BOT also periodically conducts thematic banking sector-wide stress test and may also require banks to conduct stress tests under some specific scenarios. Moreover, The BOT requires banks to conduct annual supervisory stress test to monitor impact of major risks to Thai banks and the BOT provides feedback of the supervisory stress test examination result to the individual bank. The results of stress testing will be incorporated in determining composite rating and the BOT may instruct banks to submit capital plan. If it deems necessary, the BOT will instruct the banks to increase their capital.</p> <p>To ensure the quality and consistency of supervision and risk assessment across banks, key findings and composite rating assigned to each bank are subject to peer comparison and review by a panel of senior directors and directors in the Supervision Group (Financial Institutions Examination Report Screening Working Committee) and approved by the BOT's top executive subcommittee (Financial Institutions Examination Development Subcommittee).</p> <p>All significant findings as well as the BOT supervisors' recommendations derived from any of the above analyses are communicated to the banks in an appropriate and a timely manner, and the banks are required to promptly take actions to address such issues or concerns.</p> |
| <b>EC5</b> | <p>The supervisor, in conjunction with other relevant authorities, seeks to identify, assess and mitigate any emerging risks across banks and to the banking system as a whole, potentially including conducting supervisory stress tests (on individual banks or system-wide). The supervisor communicates its findings as appropriate to either banks or the industry and requires banks to take action to mitigate any particular vulnerabilities that have the</p>   |

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|                                 | potential to affect the stability of the banking system, where appropriate. The supervisor uses its analysis to determine follow-up work required, if any.  |
| Description and findings re EC5 | <p>The BOT, in coordination with other relevant authorities (e.g., the SEC and the OIC) works to identify, assess and mitigate any emerging risks across banks and the financial system through ongoing surveillance and using various tools and approaches, including stress tests. The BOT communicates its findings to banks and the industry and as appropriate banks take actions to mitigate vulnerabilities or risks that could potentially affect financial system stability.</p> <p><b>Coordination with relevant authorities</b></p> <p>BOT, in collaboration with other regulatory authorities, conducted integrated macro- and micro-prudential surveillance to identify, assess and mitigate any emerging risks across banks and to the financial system both at the policy and at working levels. At the working level, the FSU, Financial Institutions Policy, supervision groups and other relevant functions in the BOT, in coordination with other authorities regularly monitor and analyses financial institutions and financial system conditions to identify, assess and mitigate any emerging risks across banks and the financial system. The Financial Stability Subcommittee, which comprises the BOT governor as a chairperson and senior executives from various departments, including the Financial Institutions Policy Group and Supervision Group, serves as a management forum within the BOT where functions responsible for macro- and microprudential surveillance and supervision come to share information and analyses to identify and assess potential risks to the financial systems and discuss financial stability issues. At the policy level, semi-annual joint meetings between the MPC and FIPC serve as the main forum for the BOT and relevant bodies, such as SEC, OIC, and FPO of the MOF, to discuss financial stability issues.</p> <p><b>Supervisory Tools and Approaches</b></p> <p>BOT uses various tools and approaches to identify, assess and mitigate potential risks across banks and to the banking system. For example, financial information from regulatory reports and financial soundness indicators (along with macroeconomic indicators<sup>28</sup>) are regularly monitored. Peer group analysis as well as impact assessment of macroeconomic and industry-specific events/conditions are regularly conducted to identify potential risks across banks and to the banking system. In addition, the BOT requires banks to conduct bank-wide stress test on an annual basis to assess potential impact of mild, moderate and severe stress scenarios on the banks' credit risk (and loan loss provision), market risk, liquidity risk and capital in the next 3 years. In 2016, the BOT jointly with the SEC and OIC developed stress scenarios (Risk Assessment Matrix: RAM) and conducted stress tests on scenarios to assess potential risks across financial institutions and to the financial system as a whole. Moreover, the BOT periodically conducts thematic banking sector-wide stress test and require banks to conduct stress tests under some specific scenarios, such as (i) the</p> |

<sup>28</sup> Along with macroeconomic indicators in the key areas, i.e., financial markets, banks, nonbanks, household, corporate, real estate, fiscal and external stability, as well as a sign of search for yield behavior

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|                                 | <p>Hamburger crisis in 2007, (ii) lowering the deposit protection limit in 2011, (iii) the major flood in 2011, and (iv) the QE tapering in 2013.</p> <p><b>Communication with banks and industry</b></p> <p>The BOT communicates its findings to banks and the industry as appropriate via various channels, including regular forum, such as annual meeting with banks' senior management, the semi-annual press releases of the Joint MPC-FIPC Meeting and the FSR published annually to serve as tools to communicate the overall risk assessment and concerns with regards to financial stability to the public.</p> <p><b>Actions taken and follow up work</b></p> <p>Based on such analyses and stress test results, BOT requires banks to mitigate vulnerabilities that can potentially affect the banking system stability. For example, the BOT requested banks that could potentially have insufficient loan loss provisions under certain stress scenarios, to build up additional provisions. In addition, when some issuers of unrated debentures defaulted, and the market started to react, the BOT and SEC coordinated with banks and arrangers of unrated bond issuers, to come up with measures to lessen the adverse impact of the situation and to prevent spillover to solvent unrated bond issuers. The BOT supervisors also incorporate such analyses and stress test results to determine follow up work on banks and the banking group which may have some areas of vulnerabilities.</p> |
| <b>EC6</b>                      | <p>The supervisor evaluates the work of the bank's internal audit function, and determines whether, and to what extent, it may rely on the internal auditors' work to identify areas of potential risk.</p>  |
| Description and findings re EC6 | <p>Supervisors evaluate the work and effectiveness of banks' internal audit function as part of risk assessment at the SA and bank-wide levels.</p> <p>The assessment of internal audit function includes its roles and responsibilities, its independence and authority, adequacy and qualification of its resources, audit methodology and coverage (whether it is risk-based and covers all the significant activities/risks of the banks), quality of its findings and reports, escalation of issues, and follow-up of the findings. If there is any major deficiency found in the internal audit function, supervisors will raise concerns to the banks' management and audit committee and require the banks to take actions to address it.</p> <p>As a general practice, internal audit functions of banks are required to conduct their work with professional proficiency and comply with the BOT policy statement on internal audit. To raise individual bank internal audit to industry standards, BOT conducted thematic examinations in 2016. Gaps that were found during the thematic examinations were communicated to the banks, and banks were required to take appropriate actions to close the gaps.</p>  |
| <b>EC7</b>                      | <p>The supervisor maintains sufficiently frequent contacts as appropriate with the bank's Board, non-executive Board members and senior and middle management (including</p>   |

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|                                 | heads of individual business units and control functions) to develop an understanding of and assess matters such as strategy, group structure, corporate governance, performance, capital adequacy, liquidity, asset quality, risk management systems and internal controls. Where necessary, the supervisor challenges the bank's Board and senior management on the assumptions made in setting strategies and business models.   |
| Description and findings re EC7 | <p>BOT maintains frequent contact with banks' senior management as well as heads of key business units, risk management, and internal audit and compliance to develop understanding of bank risks. Regular meetings with the bank management include:</p> <ul style="list-style-type: none"> <li>• Annual CEO Meeting to communicate supervisory plan and concerns.</li> <li>• Annual bank strategic plan meeting with senior management of each bank to discuss the bank's strategy and business plan as well as exchange views on key factors/drivers affecting the bank's business, such as disruptive technology.</li> <li>• Annual compliance function meeting to enhance understanding between the BOT and banks on the development and challenges in the Thai financial system as well as approaches and key findings of BOT supervision.</li> </ul> <p>The BOT also meets with the Board and non-executive board members as appropriate. The BOT meets with banks' audit committee, the members of which are independent directors, to discuss, key findings and recommendations from the thematic examination on internal audit and compliance practices. The BOT high level management, the Governor, Deputy governor, assistant governor of supervision group and a senior director also meet with the D-SIBs' board of directors on an annual basis to discuss examination results. Significant findings and suggested improvement measures will be raised in such meeting.</p> |
| <b>EC8</b>                      | The supervisor communicates to the bank the findings of its on- and offsite supervisory analyses in a timely manner by means of written reports or through discussions or meetings with the bank's management. The supervisor meets with the bank's senior management and the Board to discuss the results of supervisory examinations and the external audits, as appropriate. The supervisor also meets separately with the bank's independent Board members, as necessary.   |
| Description and findings re EC8 | <p>Supervisors will communicate and discuss with bank management results of its analyses in a timely manner and for significant issues or concerns, the BOT communicates through a formal letter or report and require banks to respond, take actions to address the issues, and report the progress to the BOT.</p> <p>The BOT meets with senior management and the Board to discuss the results of onsite examinations and external audits, as appropriate. After completion of an onsite examination, an exit meeting with management is held to communicate key findings and recommendations and to provide an opportunity for management to respond. Once the examination report is finalized and approved by the relevant panel and committee, the BOT sends the formal letter and examination report to the banks' CEO and requires the Chairman of the Board and all members of the Board to sign the acknowledgement form within 15 days from the date of the board meeting. For D-SIBs, the BOT meets with the</p>  |

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|                                  | <p>board of directors annually. Meetings and exchanges with management occur on an ongoing basis.</p> <p>BOT meets separately with independent board members, as necessary. For example, the BOT met with the banks' audit committee, which all the member are independent directors, to discuss key findings and recommendations from the thematic examination on internal audit and compliance practices.</p>  |
| <b>EC9</b>                       | <p>The supervisor undertakes appropriate and timely follow-up to check that banks have addressed supervisory concerns or implemented requirements communicated to them. This includes early escalation to the appropriate level of the supervisory authority and to the bank's Board if action points are not addressed in an adequate or timely manner.</p>   |
| Description and findings re EC9  | <p>Supervisory concerns identified from the BOT's on- and offsite supervision are communicated to the banks' board and/or senior management in a timely manner. The banks are required to provide details of corrective actions within a specified timeframe and expected to take corrective action promptly. For onsite examination findings, the banks are typically required to report remedial plan progress within 30 days from the issuance date of the BOT letter. The BOT supervisors will follow up on banks' remedial actions until the supervisory concerns are satisfactorily addressed, and the key follow-up issues will be included in the scope of offsite and onsite supervision activities of such banks. For significant internal control weaknesses, the banks may also be required to provide quarterly status updates to the BOT.</p> <p>According to the BOT policy statement on internal audit, banks' internal audit function is responsible for following up on remedial actions of the banks. If remedial actions taken by the banks are not satisfactorily addressed the supervisory concerns, internal auditors must inform the banks' audit committee and the board of directors as well as the BOT.</p> <p>Within the BOT, serious supervisory concerns are escalated by department heads to the assistant governor, the deputy governor, and/or the governor, respectively. In addition, such concerns may be discussed and deliberated in other relevant committee meetings If the issues seem to pose adverse development.</p> |
| <b>EC10</b>                      | <p>The supervisor requires banks to notify it in advance of any substantive changes in their activities, structure and overall condition, or as soon as they become aware of any material adverse developments, including breach of legal or prudential requirements.</p>  |
| Description and findings re EC10 | <p>Under FIBA, banks must notify the BOT in advance and, in some certain cases, shall seek the BOT's approval for significant changes in the banks' activities, structure and overall conditions. The banks must notify the BOT as soon as they become aware of any material adverse developments, including breach of legal or prudential requirements.</p> <p>Significant changes in banks' activities and group structure shall be approved by the BOT. In practice, banks normally consult with the BOT before submitting their plans for BOT approval. For example,</p>   |

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|                                  | <ul style="list-style-type: none"> <li>• Establishment of a financial conglomerate or a subsidiary or a change in financial group structure (Section 54-55 of FIBA and the BOT Notification No. FPG. 5/2560–9/2560).</li> <li>• Any merger and acquisition with other financial institutions, as well as a transfer or accepting a transfer of substantial parts of businesses (Section 43 and 73 of FIBA).</li> <li>• Holding shares of a company above the level specified by the BOT (Section 34 of FIBA).</li> <li>• Outsourcing strategic functions (Section 47 of FIBA and the BOT Notification No. FPG. 8/2557: Guidelines on Outsourcing of Financial Institutions).</li> <li>• Engaging in new businesses (Section 36 of FIBA).</li> <li>• Dissolving or temporarily suspending its business (Section 78 of FIBA).</li> <li>• Capital reduction (Section 80 of FIBA).</li> </ul> <p>Banks are also required to notify the BOT as soon as they become aware of any material adverse developments, including breach of legal or prudential requirements. Under the BOT policy statement on internal audit, banks' internal auditors must report to the BOT as soon as they have found any deficiency or issues that cause or could cause serious damages to the banks' operations and conditions, including breach of legal or prudential requirements. In addition, banks' external auditors must notify the BOT of any breach of legal or prudential requirements, significant weakness of the banks' internal controls and observations or suggestions on the bank's financial conditions, operations and management, within 90 days from the end of accounting period (the BOT's Notification No. FPG. 5/2558: Regulations on the Approval of an Auditor of a Financial Institution). Moreover, if the banks' external auditors have concerns that there is fraudulent or dishonest activity in the bank, the external auditors shall promptly notify and submit the supporting evidence to the BOT (Section 70 of FIBA).</p> |
| <b>EC11</b>                      | The supervisor may make use of independent third parties, such as auditors, provided there is a clear and detailed mandate for the work. However, the supervisor cannot outsource its prudential responsibilities to third parties. When using third parties, the supervisor assesses whether the output can be relied upon to the degree intended and takes into consideration the biases that may influence third parties.   |
| Description and findings re EC11 | BOT does not outsource prudential responsibilities to third parties. According to Section 85 of FIBA, the BOT has the power to appoint third parties as financial institution supervisors, but up until now the BOT has never done so.   |
| <b>EC12</b>                      | The supervisor has an adequate information system which facilitates the processing, monitoring and analysis of prudential information. The system aids the identification of areas requiring follow-up action.   |
| Description and findings re EC12 | The BOT uses a variety of information systems, applications, databases, and tools to support supervisors in the processing, monitoring and analysis of information, as well as tracking of issues and identification of areas requiring follow-up actions.   |

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|                                  | <p>Regular quantitative information from banks is electronically submitted via Data Management System (DMS). The program "Business Objects" is also being employed to facilitate queries, reporting, and analysis of the banks' financial data, such as peer comparison, trend analysis. Moreover, statistical and analysis tools, such as Tableau and SAS, are used to help analyze micro-level / big data and facilitate advanced analyses.</p> <p><b>Supervisory tools</b></p> <p>The customized system called Financial Institutions Monitoring and Analysis System (FIMAS) has been developed to provide the BOT supervisors a comprehensive set of financial and risk data as well as early warning indicators of each individual banks and the overall banking sector (in areas of financial position, profit and loss, capital, credit risk, market risk, liquidity risk, operational risk) and peer analysis template. Moreover, Electronic Working Paper (EWP) system has been developed in-house to support the BOT supervisors throughout the entire ongoing supervision process, i.e., planning supervisory activities, recording key information and key findings and recommendations, monitoring and tracking issues, as well as identifying areas requiring follow-up actions. FI@Click also serves as an MIS for relationship managers and the BOT senior management.</p> |
| <b>Additional criteria</b>       |  |
| <b>AC1</b>                       | The supervisor has a framework for periodic independent review, for example by an internal audit function or third party assessor, of the adequacy and effectiveness of the range of its available supervisory tools and their use, and makes changes as appropriate.  |
| Description and findings re AC1  | Independent internal audit function of the BOT periodically reviews key processes of banking supervision function to assess adequacy and effectiveness of its risk management and control. The Chief Audit Executive, the head of internal audit function, reports to the Audit Committee. The internal audit function deploys a risk assessment approach to determine risk profile, together with an audit area and frequency. Generally, bank regulation and supervision are audited every year in various functions based on their own risk inherited. For instance, banks' onsite and offsite examination in 2015, compliant management in 2016, SFIs supervision, IT supervision, payment system, and school of supervisors in 2017, Fintech, ongoing supervision, and market conduct in 2018.  |
| <b>Assessment of Principle 9</b> | Compliant  |
| Comments                         | Offsite and onsite reviews are performed by the same supervisory teams under a relationship manager and results in ongoing monitoring. A review of recommendations to banks reveals that the supervisory approach is comprehensive, and the supervisory tools yield a wide range of recommendations from governance to financial issues. Onsite inspections continue to evolve away from an audit or compliance and are addressing qualitative factors, such as the adequacy of board policies are receiving increased attention from examiners.   |

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| <b>Principle 10</b>             | <b>Supervisory reporting.</b> The supervisor collects, reviews and analyses prudential reports and statistical returns <sup>29</sup> from banks on both a solo and a consolidated basis, and independently verifies these reports through either onsite examinations or use of external experts.   |
| <b>Essential criteria</b>       |  |
| <b>EC1</b>                      | The supervisor has the power <sup>30</sup> to require banks to submit information, on both a solo and a consolidated basis, on their financial condition, performance, and risks, on demand and at regular intervals. These reports provide information such as on- and off-balance sheet assets and liabilities, profit and loss, capital adequacy, liquidity, large exposures, risk concentrations (including by economic sector, geography and currency), asset quality, loan loss provisioning, related party transactions, interest rate risk, and market risk.   |
| Description and findings re EC1 | <p>The BOT has the power to require banks as well as their parent company, subsidiaries, or other affiliated companies under the financial group to submit reports or information at any interval or from time to time, and in any form as prescribed by the BOT (Section 71 of FIBA and the BOT Notification No. ITG. 11/2559: Submission of Reports to the BOT). In addition, the BOT supervisors have the power to require the banks' directors, employee, auditor, and any person collecting or processing the banks' data to make a statement concerning the banks' business, assets and liabilities, or to deliver copies of, or produce, information, accounts, documents, or other evidence (Section 85 of FIBA).</p> <p>In this respect, the BOT requires banks to submit information about their financial condition, performance, and risks on both a solo and a consolidated basis as follows:</p> <p>(1) Reports and documents including supervisory reports/returns via the BOT's data management system (DMS), minutes of the banks' committee meetings as well as internal management/risk reports, covering such information as:</p> <ul style="list-style-type: none"> <li>• Financial condition and performance (e.g., on- and off-balance sheet items, profit, and loss),</li> <li>• Strategic direction (e.g., business plan) and organizational structure, and</li> <li>• Risks (e.g., capital adequacy, liquidity, risk concentrations in large borrowers, economic sectors, geographical locations and currencies, asset quality, loan loss provisioning, related party transactions, interest rate risk, trading activities and market risk, and operational risk).</li> </ul> <p>Reporting frequency varies (daily, bi-weekly, monthly, quarterly, half-yearly, and annually), depending on nature of the information. For example, FX transactions are reported daily, while the business plan is submitted annually.</p> |

<sup>29</sup> In the context of this Principle, "prudential reports and statistical returns" are distinct from and in addition to required accounting reports. The former are addressed by this Principle, and the latter are addressed in Principle 27.

<sup>30</sup> Please refer to Principle 2.

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|                                 | <p>(2) Report of the events, which may significantly affect the banks' reputation, financial condition, or liquidity, such as cyber-attack, fraud, or serious negligence. The banks are required to report to the BOT promptly upon occurrence or acknowledgement of the events and no later than 24 hours after acknowledgment of the events.</p> <p>(3) Additional information as requested by the BOT.</p>  |
| <b>EC2</b>                      | The supervisor provides reporting instructions that clearly describe the accounting standards to be used in preparing supervisory reports. Such standards are based on accounting principles and rules that are widely accepted internationally.   |
| Description and findings re EC2 | The BOT requires banks to prepare financial statements based on Thai accounting standards and internationally accepted accounting principles or generally accepted accounting principles, as applicable (Section 66 of FIBA and the BOT Notification No. FPG. 20/2558 and the BOT Notification No. FPG. 21/2558).  |
| <b>EC3</b>                      | The supervisor requires banks to have sound governance structures and control processes for methodologies that produce valuations. The measurement of fair values maximizes the use of relevant and reliable inputs and is consistently applied for risk management and reporting purposes. The valuation framework and control procedures are subject to adequate independent validation and verification, either internally or by an external expert. The supervisor assesses whether the valuation used for regulatory purposes is reliable and prudent. Where the supervisor determines that valuations are not sufficiently prudent, the supervisor requires the bank to adjust its reporting for capital adequacy or regulatory reporting purposes.  |
| Description and findings re EC3 | <p>The BOT requires banks to comply with accounting standards, including valuation practices, and have sound governance structure and control process for methodologies that produce valuations. BOT will assess whether valuations used for regulatory purpose are reliable and prudent. Where it is found that valuations are not sufficiently prudent, the BOT will require banks adjust their reporting, especially for capital adequacy or regulatory reporting purposes.</p> <ul style="list-style-type: none"> <li>• Banks are required to prepare financial statements in compliance with the requirements of TASs/TFRSs and rules as prescribed in BOT notifications, including the valuation practices (Section 66 of FIBA).</li> <li>• For valuation of financial instruments (e.g., debt and equity instruments and derivatives), trading and available-for-sale instruments must be measured at fair value in accordance with the accounting standard (the BOT Notification No. FPG. 20/2558: Requirements on Accounting for Financial Institutions). Mark-to-market data must be used from independent and acceptable sources, for instance, Reuter and Bloomberg. If using mark-to-model approach, banks are required to set governance structure and control process for all instruments measured at fair value. Moreover, the banks must have in place sound process for model development. In doing so, the banks must ensure that the model adopted is based on widely accepted principle and the inputs</li> </ul> |

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|                                 | <p>are from reliable source. The model developed shall be validated and approved by an independent unit, and the banks shall periodically verify accuracy of the model at least once a year. Banks should also have a process in place to report to senior management and/or delegated sub-committee weaknesses of the models used by the banks.</p> <ul style="list-style-type: none"> <li>• For valuation of loans and other assets, banks are required to assess the quality of assets based on both quantitative (e.g., number of days past due) and qualitative factors (e.g., business trends) to classify and set provision for performing assets, nonperforming assets, where contingent liabilities are assessed based on incurred loss impairment model of IAS 39 (will be modified to be consistent with IFRS 9) (Section 60 and 61 of FIBA and the BOT Notification No. FPG. 5/2559: Guidelines on Asset Classification and Provisioning of Financial Institutions). Banks are also required to have clearly written policies and practices, including governance structure and control process with regards to asset classification, provisioning and write-offs.</li> </ul> <p>The BOT supervisors will check whether banks have in place adequate fair valuation policies approved by appropriate committee, and sound governance structure and control process for methodologies that produce valuations. BOT supervisors will also review the valuation process (including inputs, assumptions, methodologies, systems, validation/verification process) to ensure that the process is independent, and valuations derived are accurate, timely, and consistently applied in the risk management and reporting process. The BOT requires that banks' auditors report any findings of non-compliance with the regulations and any material deficiencies or weaknesses of the banks' internal control to the BOT. If it is found that valuations are not sufficiently prudent or are not in compliance with valuation practices, the BOT will require banks to adjust.</p> |
| <b>EC4</b>                      | <p>The supervisor collects and analyses information from banks at a frequency commensurate with the nature of the information requested, and the risk profile and systemic importance of the bank.</p>  |
| Description and findings re EC4 | <p>The BOT regularly collects information from banks (both supervisory reports and internal reports and committee minutes of the banks) on a daily, bi-weekly, monthly, quarterly, semi-annual, or annual basis depending on nature of the information. For example, information on assets, liabilities and off-balance sheet items is submitted monthly, while some of market risk and liquidity risk information, such as FX transactions, is submitted daily.</p> <p>Additional reporting requirements are applied for domestic systemically important banks (D-SIBs). For example, starting in 2019, D-SIBs are required to submit information on a solo and consolidated basis monthly (while other banks submit the information on a quarterly basis). Moreover, banks with a high-risk profile or significant supervisory concerns may be required to submit additional information or submit information at greater frequency to facilitate close monitoring. For example, banks with liquidity issues are required to submit liquidity condition information to the BOT twice a day, one in the morning and one in the afternoon.</p>  |

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|                                 | <p>The BOT has utilized both macro- and micro-level data in conducting in-depth analyses to support the ongoing supervision. For example, by linking several sources of micro-level data such as bank loan, bond issuance, external debt, and equity issuance, to better understand funding structure and assess risks of the banks' corporate borrowers and potential impact on the banking sector. Another example includes the use of loan-level data to analyze behavior of the banks' borrowers such as percent utilization of credit lines, and its relationship with the borrowers' likelihood to default and the banks' credit risk.</p>  |
| <b>EC5</b>                      | <p>In order to make meaningful comparisons between banks and banking groups, the supervisor collects data from all banks and all relevant entities covered by consolidated supervision on a comparable basis and related to the same dates (stock data) and periods (flow data).</p>  |
| Description and findings re EC5 | <p>The BOT collects and reviews data from banks on both a solo and a consolidated basis. The data templates are the same, with the same dates and periods. The BOT also specifies common cut-off dates and reporting periods across banks for the quantitative data to be submitted to the BOT. Hence, the data from all banks and all relevant entities covered by consolidated supervision are collected on a comparable basis and allow meaningful comparisons between solo and a consolidated basis as well as across banks and banking groups.</p>   |
| <b>EC6</b>                      | <p>The supervisor has the power to request and receive any relevant information from banks, as well as any entities in the wider group, irrespective of their activities, where the supervisor believes that it is material to the condition of the bank or banking group, or to the assessment of the risks of the bank or banking group or is needed to support resolution planning. This includes internal management information.</p>   |
| Description and findings re EC6 | <p>The BOT has the power to require banks and their parent company, subsidiaries, or other affiliated companies within the financial group to submit reports or information as prescribed by the BOT (Section 71 of FIBA). Moreover, the BOT has the power to appoint supervisors to examine the business, assets, and liabilities of banks and their parent company, subsidiaries, and other affiliated companies in the financial group as well as debtors and related parties of the banks. In doing so, the BOT supervisors have the power to order the banks' director, officer or employee, auditor and any person collecting or processing the banks' data to make a statements about the business, assets and liabilities of the banks, or to deliver copies of, or produce, information, accounts, documents, seals or other evidence to the BOT (Section 85 of FIBA).</p> <p>As part of ongoing supervision, the BOT periodically requests and receives information from banks and banking groups, as well as from entities in the wider group, which are significant to the condition of the banks or banking groups. Such information includes minutes of committee meetings, internal management/risk reports.</p> |

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| <b>EC7</b>                      | The supervisor has the power to access <sup>31</sup> all bank records for the furtherance of supervisory work. The supervisor also has similar access to the bank's Board, management and staff, when required.   |
| Description and findings re EC7 | BOT supervisors have the power to order the banks' director, officer or employee, auditor and any person collecting or processing the banks' data to make a statement about the business, assets and liabilities of the banks, or to deliver copies of, or produce, information, accounts, documents, seals or other evidence to the BOT (Section 85 of FIBA).  |
| <b>EC8</b>                      | The supervisor has a means of enforcing compliance with the requirement that the information be submitted on a timely and accurate basis. The supervisor determines-the appropriate level of the bank's senior management is responsible for the accuracy of supervisory returns, imposes sanctions for misreporting and persistent errors, and requires that inaccurate information be amended.  |
| Description and findings re EC8 | <p>Under FIBA, the BOT has the power to enforce compliance with the requirement that the information be submitted on a timely and accurate basis as follows:</p> <ul style="list-style-type: none"> <li>• Banks are required to submit information as prescribed by the BOT on a timely, complete and accurate basis. If the information submitted is incomplete or ambiguous, or when it deems necessary, the BOT may appoint an external auditor or specialist, at the expense of the banks, to inspect the banks and report the findings to the BOT (Section 71 of FIBA).</li> <li>• Banks that fail or neglect to furnish any information required by the BOT are guilty of an offense and may be fined (Section 128 of FIBA).</li> <li>• Banks' directors, managers, or persons with management power are guilty of an offense and may be fined or imprisoned if they fail to take all reasonable steps to secure the accuracy and correctness of the statements submitted under FIBA or any applicable laws (Section 139 of FIBA).</li> <li>• Any person who makes a false statement to the BOT supervisors, which is likely to cause damage to other persons or to the public, any person who obstructs or fails to comply with the BOT supervisors' orders, and any person who fails to facilitate the BOT supervisors shall be fined or imprisoned (Section 134-136 of FIBA).</li> </ul> <p>The BOT also requires senior management to be responsible for the accuracy of supervisory returns. For example, the BOT requires the managing director and accounting director, or equivalent, to certify and sign on the summary statement of assets and liabilities submitted to the BOT. When there are any misreporting or errors, the BOT requires the banks to amend the information and re-submit the affected returns, and/or take other supervisory actions as appropriate such as issuing formal warning, requiring banks to conduct independent verification of accuracy of the supervisory returns, and imposing fine.</p> |

<sup>31</sup> Please refer to Principle 1, Essential Criterion 5.

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| <b>EC9</b>                       | The supervisor utilizes policies and procedures to determine the validity and integrity of supervisory information. This includes a program for the periodic verification of supervisory returns by means either of the supervisor's own staff or of external experts. <sup>32</sup>  |
| Description and findings re EC9  | <p>The BOT's policies and procedures to determine the validity and integrity of supervisory information are as follows.</p> <p>For data submitted electronically via DMS, the Statistics and Information Systems Department within the BOT performs data validation using automated in-built checks to detect data anomalies. Three tiers of validation are conducted: (i) Basic validation—check data types and possible values as required under each dataset; (ii) Complex validation—reconcile data within dataset; and (iii) Cross validation—reconcile data with other datasets. Dedicated statistical staff also verifies data anomalies with the banks and the BOT supervisors overseeing those banks.</p> <p>Moreover, the BOT supervisors cross-validate information from the supervisory returns with other information sources and conduct sampling test to ensure that the returns submitted are accurate. During onsite examination, the BOT supervisors also assess adequacy and effectiveness of the banks' information and reporting systems in aggregating, processing, and reporting the information on a complete, accurate and timely basis.</p> |
| <b>EC10</b>                      | The supervisor clearly defines and documents the roles and responsibilities of external experts, <sup>33</sup> including the scope of the work, when they are appointed to conduct supervisory tasks. The supervisor assesses the suitability of experts for the designated task(s) and the quality of the work and takes into consideration conflicts of interest that could influence the output/recommendations by external experts. External experts may be utilized for routine validation or to examine specific aspects of banks' operations.  |
| Description and findings re EC10 | The BOT does not outsource prudential responsibilities to third parties. Under Section 85 of FIBA, the BOT has the power to appoint third parties as bank supervisors, but up until now the BOT has never done so.  |
| <b>EC11</b>                      | The supervisor requires that external experts bring to its attention promptly any material shortcomings identified during the course of any work undertaken by them for supervisory purposes.   |
| Description and findings re EC11 | <p>Under FIBA and the BOT regulations, banks' external auditors are required to promptly bring to the BOT's attention any material shortcomings identified during any work undertaken by them. Particularly,</p> <ul style="list-style-type: none"> <li>• Under Section 69 of FIBA, locally-incorporated bank auditors approved by the BOT are required to include significant deficiencies in the financial reporting process which</li> </ul>   |

<sup>32</sup> Maybe external auditors or other qualified external parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions.

<sup>33</sup> Maybe external auditors or other qualified external parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions. External experts may conduct reviews used by the supervisor, yet it is ultimately the supervisor that must be satisfied with the results of the reviews conducted by such external experts.

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|                                   | <p>could affect the overall financial statements, in the auditor's report and report such matters to the BOT.</p> <ul style="list-style-type: none"> <li>• The BOT Notification No. FPG. 5/2558: Regulation on the Approval of an Auditor of a Financial Institution requires the auditors to directly report the BOT the matters of non-compliance with the relevant laws and regulations, significant deficiencies or weaknesses of internal controls, and any findings and recommendations on operating performance and management issues. In practice, specific and significant issues found by auditors, for example, breaches of banking laws or regulations and significant errors are reported to the BOT via telecommunications or emails.</li> <li>• Section 70 of FIBA requires the auditors to promptly notify the BOT and submit relevant documents or evidence, in the cases where the auditors have reasonable ground to suspect that there is a fraudulent act.</li> <li>• Section 71 and 85 of FIBA empower the BOT to require the banks' auditors to testify or provide information, accounting records, documents and other evidences relating to the business of banks within a specified period, where necessary.</li> </ul> <p>In addition, the BOT supervisors regularly meet with external auditors to discuss issues/concerns regarding such banks.</p> |
| <b>EC12</b>                       | The supervisor has a process in place to periodically review the information collected to determine that it satisfies a supervisory need.  |
| Description and findings re EC12  | The BOT has an internal process to review whether information and reports collected from banks satisfy supervisory needs. For example, starting in 2014, banks to submit loan-level Small and Medium Enterprise (SME) data for both supervisory and financial access policy purposes. The BOT reviews the information received via the DMS to update data requirements and improve clarity of definitions/instructions on an annual basis.   |
| <b>Assessment re Principle 10</b> | Compliant  |
| Comments                          | BOT collects financial reports on a regular basis and has authority to collect supplemental information as warranted. Information collected enables BOT to monitor the banking group and to produce detailed risk indicator analyses. A review of reports provided a broad overview of the banking system and detailed loan portfolio breakdowns and trends.   |
| <b>Principle 11</b>               | <b>Corrective and sanctioning powers of supervisors.</b> The supervisor acts at an early stage to address unsafe and unsound practices or activities that could pose risks to banks or to the banking system. The supervisor has at its disposal an adequate range of supervisory tools to bring about timely corrective actions. This includes the ability to revoke the banking license or to recommend its revocation.  |
| <b>Essential criteria</b>         |  |
| <b>EC1</b>                        | The supervisor raises supervisory concerns with the bank's management or, where appropriate, the bank's Board, at an early stage, and requires that these concerns be  |

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|                                 | <p>addressed in a timely manner. Where the supervisor requires the bank to take significant corrective actions, these are addressed in a written document to the bank's Board. The supervisor requires the bank to submit regular written progress reports and checks that corrective actions are completed satisfactorily. The supervisor follows through conclusively and in a timely manner on matters that are identified.</p>  |
| Description and findings re EC1 | <p>If there are any issues/concerns identified, BOT communicates and raises concerns to management and, where appropriate, to the Board at an early stage via appropriate means (e.g., email, phone calls, discussions, meetings, written documents). For foreign bank branches and subsidiaries, the BOT has regularly communicated issues to regional headquarters. Occasionally, the BOT meets and discusses with home regulators before going onsite. In this regard, the banks are required to provide details of remedial actions to address such concerns within a specified timeframe and are expected to take such actions in a timely manner.</p> <p>For significant issues or concerns, the BOT will communicate with the banks' management and the Board via formal letter and/or report, and requires the banks to respond, take corrective actions to address the issues, as well as report the progress to the BOT. BOT sends the formal letter and examination report to the bank's CEO and requires all members of the Board to receive a copy of the letter, as well as sign and return the acknowledgement form to the BOT within 15 days from the date of the Board meeting. The banks are required to report remedial plan progress to the BOT within 30 days from the issuance date of the BOT letter. After that, supervisors will follow up with the banks until concerns are addressed. The scope of offsite and onsite activities will include follow-up of issues. For significant control weaknesses, the banks may be required to provide quarterly status updates to the BOT.</p> |
| <b>EC2</b>                      | <p>The supervisor has available<sup>34</sup> an appropriate range of supervisory tools for use when, in the supervisor's judgment, a bank is not complying with laws, regulations or supervisory actions, is engaged in unsafe or unsound practices or in activities that could pose risks to the bank or the banking system, or when the interests of depositors are otherwise threatened.</p>   |
| Description and findings re EC2 | <p>The BOT has well-developed operational policies and guidance for the application of enforcement to ensure bank implementation of preventive and corrective orders from BOT. The internal operating guidance is outlined in the Guideline for Enforcement of Prompt Preventive Action and Prompt Corrective Action and other internal documents. FIBA establishes the detailed legal framework supporting the BOT enforcement program.</p> <p>The BOT may pursue corrective measures when banks:</p> <ul style="list-style-type: none"> <li>• Fail to comply with FIBA, or notifications issued by BOT, or the conditions prescribed in the license; or</li> </ul>  |

<sup>34</sup> Please refer to Principle 1.

- Demonstrate weaknesses or exposure to excessive risks that may affect the stability of the bank, the financial system, and/or depositors. BOT has various enforcement tools/measures to require preventive/corrective action. These are applied on a graduated basis reflecting risk. BOT classifies enforcement actions as PPA and PCA.

**Prompt Preventive Action (PPA)**

On an ongoing basis, the BOT monitors key indicators and assesses the banks' financial position, performance and various aspects of risks, for instance, capital adequacy, earnings, liquidity, asset quality, as well as the effectiveness of the Board and senior management oversight and operational management. Where there is a sign of weakness, concerning regulatory ratios (capital, liquidity, asset quality) declining below warning triggers, but before breaching regulatory thresholds, the BOT will require the bank to promptly take remedial actions, for instance

- Require the bank to improve its internal controls.
- Improve liquidity management to achieve a more stable liquidity coverage ratio (LCR) and ensure that its LCR is in line with peers.
- Increase the level of specific or general provisions.
- Limit asset growth or business expansion.
- Require a bank to maintain capital higher than the required level and/or to submit a recapitalization plan to BOT.
- Find strategic partners.
- Prohibit the bank from making payment in cash, asset and/or other forms, which are not normal remunerations, to the bank's shareholders or persons with management power, if such action will cause the bank's capital to be lower than the required level (Section 94 of FIBA).

In addition, the BOT will monitor and follow up with the bank. Where it is found that the problem is not resolved in a timely and appropriate manner, the BOT will consider imposing harsher measures, such as withholding approval of new activities and new branches.

Where it is found that a bank, its director, manager or person with power of management violates, or fails to act in accordance with the provisions of FIBA, or the prescriptions or notifications issued, or the conditions prescribed in the license (Section 89 of FIBA), the BOT has the power and tools to:

- Issue a written warning to the bank or persons concerned, requiring them to cease-and-desist (C&D) acting in violation of the law.
- Order a discontinuation of an activity that violates the law.
- Order a removal of any or all directors, managers or persons with power of management.

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|                                 | <p>Where it is found that the condition or operation of a bank may cause damage to the public interest (Section 90 and 92 of FIBA), the BOT has the power and tools to:</p> <ul style="list-style-type: none"> <li>• Order the bank to rectify the condition or operation e.g., prepare a plan to improve financial performance and condition, limit business expansion, sell assets/NPLs, cancel bonus payouts, find strategic partners, merge with other financial institutions, convert debt to equity.</li> <li>• Order the bank to reduce/increase capital.</li> <li>• Order the bank to suspend its business operation entirely or partially.</li> <li>• Order the bank to remove its directors, managers or persons with power of management and appoint other persons to replace the persons so removed as deemed appropriate.</li> <li>• Order the control or closure of business of the financial institution.</li> <li>• Order the control or closure of business and propose to MOF to revoke the license.</li> </ul> <p>If a bank suspends a repayment that it is required to make, the BOT shall appoint a supervisor to investigate the incident. The BOT is also empowered to order the bank to be placed under control, order closure of business, or order the bank to take other actions as deemed appropriate (Section 93 of FIBA).</p> <p><b>Prompt Corrective Action (PCA)</b></p> <p>Where it is found that a bank capital fund is lower than the required level (Section 95-97 of FIBA), the BOT has the power and tools to:</p> <ul style="list-style-type: none"> <li>• Order the bank to submit a plan for rectification of its condition and operation to the BOT. If the bank fails to submit the plan, the plan is not approved, or the bank fails to perform according to the plan, the BOT will assess the impact and consider using other measures (Section 95 of FIBA).</li> <li>• Place the bank under control if the bank's capital fund is lower than 60 percent of the required level (Section 96 of FIBA).</li> <li>• Order closure of business if the bank's capital funds is lower than 35 percent of the required level (Section 97 of FIBA).</li> </ul> |
| <b>EC3</b>                      | <p>The supervisor has the power to act where a bank falls below established regulatory threshold requirements, including prescribed regulatory ratios or measurements. The supervisor also has the power to intervene at an early stage to require a bank to act to prevent it from reaching its regulatory threshold requirements. The supervisor has a range of options to address such scenarios.</p>   |
| Description and findings re EC3 | <p>BOT has the power and tools to act where a bank falls below established regulatory thresholds and to intervene at an early stage to prevent it from breaching its regulatory threshold requirements under PPA and PCA. In addition, the BOT has the power to impose</p>   |

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|                                 | penalties (imprisonment and financial penalties) on the bank and/or the persons concerned.  |
| <b>EC4</b>                      | The supervisor has available a broad range of possible measures to address, at an early stage, such scenarios as described in essential criterion 2 above. These measures include the ability to require a bank to take timely corrective action or to impose sanctions expeditiously. In practice, the range of measures is applied in accordance with the gravity of a situation. The supervisor provides clear prudential objectives or sets out the actions to be taken, which may include restricting the current activities of the bank, imposing more stringent prudential limits and requirements, withholding approval of new activities or acquisitions, restricting or suspending payments to shareholders or share repurchases, restricting asset transfers, barring individuals from the banking sector, replacing or restricting the powers of managers, Board members or controlling owners, facilitating a takeover by or merger with a healthier institution, providing for the interim management of the bank, and revoking or recommending the revocation of the banking license.  |
| Description and findings re EC4 | The BOT has available a broad range of measures, which can be applied to address situations at an early stage and in accordance with the gravity of a situation. Prudential objectives or the actions to be taken are set out in the PPA/PCA manuals and, for PCA, in FIBA, for which the BOT has discretion in adopting those measures.  |
| <b>EC5</b>                      | The supervisor applies sanctions not only to the bank but, when and if necessary, also to management and/or the Board, or individuals therein.  |
| Description and findings re EC5 | <p>The BOT applies sanctions not only to banks, but also to the Board and management as well as any person involved, when they fail to take all reasonable steps to ensure compliance with laws and regulations or do not properly perform their duties for the best interest of the bank.</p> <p>Where a bank or a director or an executive officer of the bank fails to comply with FIBA or regulations, the BOT has the power to issue a written warning to the bank or persons concerned, requiring them to refrain from the act in violation of the law or order a removal of any or all directors, managers or persons with power of management (Section 89 of FIBA) In addition, a director or manager of a bank shall be fined or imprisoned if he/she fails to take all reasonable steps to ensure the bank's compliance with FIBA and regulations or does not properly perform their duties for the best interest of the bank (Section 139-147 of the FIBA). For example, the BOT won a lawsuit against members of senior management of a bank for questionably approving a credit extension to a poorly performing company, that later became nonperforming.</p> <p>In addition, an external auditor, appraiser, or specialist who furnish any false or misleading information or document to the BOT shall be fined or imprisoned (Section 148 of FIBA).</p> <p>Individuals causing, helping or facilitating wrongdoing by the bank's director, executive officer, external auditor, appraiser, or specialist shall be subject to the punishment provided for such offense (Section 149-150 of FIBA).</p> |

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| <b>EC6</b>                      | The supervisor has the power to take corrective actions, including ring-fencing of the bank from the actions of parent companies, subsidiaries, parallel-owned banking structures and other related entities in matters that could impair the safety and soundness of the bank or the banking system.   |
| Description and findings re EC6 | <p>The FIBA and the BOT Act do not stipulate ring-fencing measures of assets of the local branch specifically to secure the interests of creditors in Thailand. To secure their local operations and ensure stability of their business, Section 32 of the FIBA provides a minimum asset maintenance requirement in place for the local branch whose maintained assets are considered as its capital funds. Currently, foreign banks' branches are always required to maintain total capital as a ratio of risk-weighted assets at 8.5 percent.</p> <p>The BOT may order a bank to restrict its transactions with affiliated companies and/or may prohibit the bank from making payments in cash, asset and/or other forms, that are not normal remunerations, to the bank's shareholders or persons with management power, if this action will cause the bank's capital to be lower than the required level (Section 94 of FIBA). The banks cannot reduce capital without permission of the BOT (Section 80(1) of FIBA). For example, foreign banks, after the global financial crisis, were required to conduct liquidity assessments and stress testing. Branches identified as having a low level of liquid assets were required to retain their profits within Thailand.</p> <p>Moreover, where it is found that the condition or operation of a bank may cause damage to the public interest, the BOT can order the bank to rectify the condition or operation, order a prohibition of an activity that violates the law, order the bank to suspend its business operation entirely or partially, or place the bank under control to contain and resolve the problems (Section 90 of FIBA).</p> |
| <b>EC7</b>                      | The supervisor cooperates and collaborates with relevant authorities in deciding when and how to effect the orderly resolution of a problem bank situation (which could include closure, or assisting in restructuring, or merger with a stronger institution).   |
| Description and findings re EC7 | <p>The BOT cooperates with relevant authorities in deciding when and how to provide liquidity support or effect the orderly resolution of a problem bank through the FIPC, whose members include the BOT governor and heads of the SEC, OIC, and the FPO of the MOF. The BOT has power to take actions as follows.</p> <p><b>When a bank faces a serious liquidity problem</b></p> <p>When a bank faces a serious liquidity problem, that may impact safety and soundness of the bank and/or potentially affect economic stability and financial system soundness, the BOT may provide liquidity support for a bank according to Section 41(1) and 42 of the BOT Act (BOT internal frameworks, guidelines and operational procedures for liquidity support provision).</p> <p><b>When a bank is insolvent and considered non-systemic.</b></p> <p>When a non-systemic bank becomes insolvent the BOT may order the bank to (i) rectify its condition or operation; (ii) write-down/increase its capital or both of them; (iii) suspend its</p>  |

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|                            | <p>business operation entirely or partially for a temporary period; (iv) order the bank to remove any or all of its directors, managers and appoint replacements as appropriate; and (v) order an intervention or require the bank to close its operation, propose revoking the license to the MOF and coordinate with the Deposit Protection Agency (DPA) to pay back depositors. (Section 111 of FIBA).</p> <p><b>When a bank is insolvent and considered systemic.</b></p> <p>When a systemic bank becomes or is likely to become insolvent, which could endanger financial stability, the BOT, in collaboration with FIDF and other agencies including the SEC and OIC where relevant, takes appropriate actions, which include assisting in restructuring, asset sale, according to the bank resolution framework to ensure timely and orderly resolution of such distressed bank (Section 43/1 of the BOT Act)</p> <p>As the transitional provisions of the BOT Act that provided for resolution responsibilities of the FIDF lapsed in 2012, the BOT Act was amended in 2018 to put in place a bank resolution framework to deal with distressed banks whose failure may have systemic impact and endanger financial stability. This reform aims to ensure that problem banks would be dealt with in a timely and orderly manner to minimize costs to the public, while maintaining checks-and-balances in the decision-making process and engaging relevant authorities for appropriate support in resolution. In the event of crises, under the amended BOT Act, the BOT upon agreement of the FIPC, proposes resolution schemes to the MOF and the Cabinet for approval. Once the schemes are approved, the FIDF is tasked and empowered to take actions in accordance with the schemes. For effectiveness and flexibility, the FIDF's powers under the amended BOT Act include provision of loans and other forms of financial assistance, share-purchases as well as other actions necessary to carry out the Cabinet-approved schemes.</p> <p>The BOT has also undertaken contingency planning and developed a crisis management handbook, setting out decision-making process and responsibilities of relevant parties to be used as a guide in handling banks in times of stress to facilitate timely and effective response.</p> <p>As mentioned in CP8 EC6, the BOT requires banks in Thailand to submit recovery plans and plans to develop resolution plans. Such plans will ensure that banks and authorities are prepared in advance for times of stress and that appropriate actions are promptly taken if triggered.</p> <p>In case of cross-border banking groups, the BOT coordinates and collaborates with foreign authorities when the banks' operations in Thailand are significant, such as sharing information via various means and forum, developing a group resolution plan.</p> |
| <b>Additional criteria</b> |   |
| <b>AC1</b>                 | Laws or regulations guard against the supervisor unduly delaying appropriate corrective actions.  |

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| Description and findings re AC1   | <p>Chapter 5 of FIBA sets guidelines, procedures and timeframes for the BOT to implement corrective measures in a timely and appropriate manner to prevent the BOT from unduly delaying appropriate corrective actions. For example,</p> <ul style="list-style-type: none"> <li>• Under Section 95 of FIBA, banks whose capital adequacy level is below the minimum regulatory requirement must submit a recapitalization plan within 60 days and the BOT must inform the bank whether the plan is approved within 30 days from the day the BOT has received the plan.</li> <li>• Under Section 110 of FIBA, in case where the BOT orders a bank to be placed under control, the BOT shall give an order whether the report from the bank control committee is approved within 15 days from the day the BOT has received the report.</li> </ul> <p>Moreover, under Section 73 of the BOT Act and Section 157 of the Criminal Code, penalties shall be imposed on any official who dishonestly exercises or omits to exercise his / her duties, causing damage to any other person.</p>  |
| <b>AC2</b>                        | When taking formal corrective action in relation to a bank, the supervisor informs the supervisor of non-bank related financial entities of its actions and, where appropriate, coordinates its actions with them.  |
| Description and findings re AC2   | <p>In supervising banks and banking groups, the BOT coordinates with other relevant supervisory authorities via regular forum, contacts and exchange of information and points of concern. Recently, the BOT jointly conducted thematic examination and coordinated actions with the SEC and OIC to enhance market conduct in the banking system.</p> <p>At the policy level, the BOT coordinates with other supervisory authorities through the Financial Institution Policy Committee (FIPC), which consists of the BOT, the SEC, the OIC and the MOF. Any liquidity assistance to systemically important banks also needs to be approved by the FIPC.</p>  |
| <b>Assessment re principle 11</b> | Largely Compliant   |
| Comments                          | <p>The BOT has well-developed operational policies and guidance for the application of enforcement to ensure bank implementation of preventive and corrective orders from BOT. The internal operating guidance is outlined in the Guideline for Enforcement of Prompt Preventive Action and Prompt Corrective Action and other internal documents. FIBA establishes the detailed legal framework supporting the BOT enforcement program.</p> <p>Chapter 5 of FIBA provides the BOT with a broad range of possible measures to address safety and soundness issues at an early stage. The BOT has implemented an internal operating guideline for the application of the measures outlined in Chapter 5. However, as currently structured under the Guideline for PPA and PCA, implementation of Chapter 5 corrective action by BOT is linked to “Weak” banks thus not initiating until the bank is exhibiting significant weaknesses. Chapter 5 does not set Weak bank classification as a threshold. The Guideline should be amended to expand on the application of corrective measures in Chapter and clarify that Weak bank status is just one of the benchmarks.</p> |

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|                                 | <p>The Guideline also links corrective action to FIBA section 92, and bank conditions that may “cause damage to the public interest”. Section 92, which is in Chapter 5 provides an expansive list of circumstances that may cause damage to public interest and requiring notification to MOF if corrective action applied. Notifying MOF may be more appropriate for actions involving banks with a composite rating of “5” or systemically important banks. In discussing this CP, the BOT representatives confirmed that most of the actions listed under the Guideline could be applied at earlier stages and independently of the process described in the Guideline and FIBA, and without MOF notification.</p> <p>In conducting its supervision and requiring banks to correct deficiencies, the BOT has not had to resort to PPA measures. Banks promptly respond to BOT recommendations (Orders). However, it is recommended that FIBA, the Guideline and actual practices be aligned. Amending the Guideline to reflect ability of the BOT to exercise flexibility in pursuing formal corrective actions at earlier stages of bank condition, increasing implementation triggers and medium-term amending FIBA to narrow causing public damage definition to parallel possible bank resolution cases. Recommendations:</p> <ul style="list-style-type: none"> <li>• Amend Guideline to address application of corrective measures in Chapter 5 in general terms and in specific circumstances such as a Weak bank. Consider using the term PPA as it is used internationally and not in the narrow sense of extreme circumstances.</li> <li>• Discuss and provide a revised Guideline to stakeholders to ensure transparency.</li> <li>• Medium-term, work with MOF to narrow definition of the public damage clause to approximate actions taken in cases of serious deterioration of a bank that may lead to possible resolution and require MOF involvement.</li> <li>• Raise expectation for more formal supervisory action and PPA to banks at the “3” rating level and establish other early financial triggers and qualitative benchmarks for supervisory action.</li> </ul> |
| <b>Principle 12</b>             | <b>Consolidated supervision.</b> An essential element of banking supervision is that the supervisor supervises the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential standards to all aspects of the business conducted by the banking group worldwide. <sup>35</sup>  |
| <b>Essential criteria</b>       |  |
| <b>EC1</b>                      | The supervisor understands the overall structure of the banking group and is familiar with all the material activities (including non-banking activities) conducted by entities in the wider group, both domestic and cross-border. The supervisor understands and assesses how group-wide risks are managed and takes action when risks arising from the banking group and other entities in the wider group, in particular contagion and reputation risks, may jeopardize the safety and soundness of the bank and the banking system.   |
| Description and findings re EC1 | The BOT supervises locally-incorporated banks on both solo and consolidated basis, inclusive of all domestic and cross-border operations and all material activities undertaken  |

<sup>35</sup> Please refer to footnote 19 under Principle 1.

by the parent company and its subsidiaries, such as banking, securities, insurance, asset management, and supporting businesses.

Under consolidated supervision, the BOT reviews the group's structure, governance (including fit & proper assessments of directors and executives), risk management, capital, and scope of business.

(1) The BOT will ensure that establishment of a group and changes in organizational structure, major shareholders, directors, and authorized management obtains prior approval from the BOT, as well as ensure that the banks' scope of business and their financial group include only financial businesses or businesses that provide services that support the operations of the banks.

(2) Supervisors monitor and examine both, significant domestic and cross-border subsidiaries, on an ongoing basis and remain informed to assess the structure and risks of the financial group proficiently. Action will be taken, If the BOT finds any significant issue that may affect safety and soundness of the banks.

#### **Establishment or Significant Change to the Group**

Establishment of the financial group or any changes to the group must obtain prior approval from the BOT. On this, the BOT will consider that the group's operational structure will not hinder supervision by both the BOT and other relevant regulatory authorities, risk management of the financial group, and consumer protection. In granting approval, the BOT will stipulate various conditions for banks to complete to ensure that the banks can manage their financial group properly. This includes submitting information on the group's business structure and scope of business from the start and ongoing monitoring tools and systems.

BOT stipulates the scope of financial institutions' business operations as well as affiliated companies within the financial group to include only financial businesses and other supporting businesses. This will enable appropriate assessment of potential impact on the financial group, whether it is from the financial institutions or affiliates within the group to adequately protect any negative impact on the financial system.

(BOT Notification No. FPG. 5/2560, 8/2561, 9/2561, 8/2560 and 9/2560)

#### **Ongoing supervision**

The BOT supervises the financial group on an ongoing basis and both solo and group wide operations (including cross-border affiliates) by assessing significance of each company to the financial group to determine the appropriate level of supervision by considering both quantitative and qualitative factors which may have significant risk impact on financial position, capital adequacy or reputation of the financial group such as asset size and quality, loans exposure, revenues, market share, risk management, internal control, comments from internal/external auditor or other regulators, etc.

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|                                 | <p>If the business is significant to the group, it will be considered as a SA for which supervisors will:</p> <ul style="list-style-type: none"> <li>• Conduct ongoing/offsite review of the group’s position and each affiliate’s position in the group through the information received from various sources, for example, applications submitted for the BOT’s approval or acknowledgement, regular reports such as financial group’s policy, internal division reports, the Board’s minutes, internal audit reports, examination reports from other supervisory authorities including the host supervisor, news, and regular discussions with the banks’ senior management.</li> <li>• Evaluate, during onsite examination, the effectiveness of the organizational structure, process, and risk monitoring for the entire financial group (for example, interview executives to assess whether they are aware of and monitor risks of the group, walk through the work process/systems used to monitor and control the group’s risks). Onsite examination of the subsidiary that is considered as significant activity to the group will be conducted as well.</li> <li>• Coordinates with other regulatory authorities both domestic (such as the SEC and OIC) and cross-border.</li> </ul> <p>For any significant issue found regarding non-compliance to relevant laws/regulations or deficiency in the process of management and risk monitoring of the group’s business, the BOT will notify the banks or parent company to rectify, hold additional capital, or set necessary conditions.</p> |
| <b>EC2</b>                      | <p>The supervisor imposes prudential standards and collects and analyses financial and other information on a consolidated basis for the banking group, covering areas such as capital adequacy, liquidity, large exposures, exposures to related parties, lending limits and group structure.</p>   |
| Description and findings re EC2 | <p>The BOT imposes prudential standards on a consolidated basis for the banking group and collects and analyses financial and other information of the banking group on an ongoing basis as follows:</p> <p><b>Prudential standards</b></p> <p>The BOT has issued guidelines for supervision of banking groups. The oversight includes both qualitative and quantitative requirements on the structure of the banking group, scope of business entities within the group, capital adequacy requirement, risk management including credit risk management (e.g., investment limit, exposure to related parties such as intra-group transaction, related lending and single lending limit), market risk and operational risk management, as well as group’s reporting and auditing (The BOT Notification No. FPG. 5/2560, 8/2561, 9/2561, 8/2560 and 9/2560).</p>  |

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|                                 | <p><b><u>Data Collection and Analysis</u></b></p> <p>As part of ongoing supervision, BOT collects and analyses both financial and non-financial information on a consolidated basis to assess whether the financial group is managed with proper scope, efficient internal controls and risk management as follows:</p> <ul style="list-style-type: none"> <li>• Information from the applications for establishing the financial group which includes organizational structure of the group, scope of businesses within the group, senior management structure, significant changes to the group structure, expansion in the scope of business operations, as well as establishment of a cross-border subsidiary.</li> <li>• Information from the banking group required to be submitted to the BOT regularly such as the banks' policy, annual business plan, 3-year business plan, meeting minutes, reports submitted to the banks' management, internal audit reports, audit reports of other supervisory authorities, and other financial information submitted through DMS which includes financial statements, capital adequacy, liquidity, large exposures, NPLs, loans outstanding, loan provisions, related parties transactions, and lending limits.</li> <li>• Other information such as external audit reports which the BOT may ask to submit additionally.</li> <li>• Information from visits/onsite examinations of the banks and/or significant subsidiary of the banks.</li> </ul> <p>The BOT reviews and evaluates the information to assess risks, quality of risk management, capital adequacy, and financial soundness of the financial group and its compliance with the relevant laws and regulations.</p> |
| <b>EC3</b>                      | <p>The supervisor reviews whether the oversight of a bank's foreign operations by management (of the parent bank or head office and, where relevant, the holding company) is adequate having regard to their risk profile and systemic importance and there is no hindrance in host countries for the parent bank to have access to all the material information from their foreign branches and subsidiaries. The supervisor also determines that banks' policies and processes require the local management of any cross-border operations to have the necessary expertise to manage those operations in a safe and sound manner, and in compliance with supervisory and regulatory requirements. The home supervisor takes into account the effectiveness of supervision conducted in the host countries in which its banks have material operations.</p>   |
| Description and findings re EC3 | <p>On consolidated supervision of the banks' foreign operations, the BOT requires that any establishment of a cross-border branch or subsidiary requires prior BOT approval to ensure that the banks can oversee their cross-border operations effectively. As mentioned in EC1, the BOT requires that banks understand and recognize risks of the financial group and have a recruiting process to select the appropriate executives. Moreover, as part of an ongoing monitoring process, the BOT evaluates the oversight of banks' foreign operations, adequacy and effectiveness of the banks' policy and procedures, and determines whether</p>  |

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|            | <p>local management can manage foreign operations in a safe and sound manner, taking into consideration the results and observations of the host supervisors in the assessment.</p> <p>In granting approval to establish cross-border operations, the BOT will stipulate various conditions to ensure that the banks can sufficiently access information of the branch or subsidiary in that country, have a process for oversight and monitoring of overseas operations as well as overall risk management, so that the banks' overseas operations do not negative impact on the banks. For example, the banks are required to notify in writing that their subsidiary companies (including those in other country) agree to join the financial group and comply with the consolidated supervision guidelines. The BOT specifies that banks' staff must be appointed to inspect the business and assets of their foreign subsidiary at least once every two years and submit a copy of the internal audit report to the BOT, and the banks must ensure that the BOT is able to conduct onsite examinations at the banks' overseas subsidiary.</p> <p>In addition, the BOT requires that banks recruit qualified persons to manage their foreign affiliates. To ensure safe and sound cross-border operations, the banks must submit examination reports, letters of notifications/recommendations from host supervisors, as well as the plans to improve or address any issue of supervisory concerns.</p> <p>As part of ongoing supervision, the BOT supervisors will evaluate appropriateness of the banks' oversight of their cross-border operations both at the head office and cross-border affiliate level with respect to policy, governance structure, control function, staff, process and system. On this, the BOT assesses:</p> <ul style="list-style-type: none"> <li>• Board structure, senior management, and divisions/staff responsible for periodic oversight/review of overseas operations. Thus far, the parent companies do not face any hindrance in oversight of host country and are able to access all material information from their overseas branches and subsidiaries.</li> <li>• System/process which allows the head offices/parent companies to receive information from the affiliate abroad that is complete, accurate, and timely.</li> <li>• Policy and process to ensure that local management have the knowledge and ability to manage day-to-day operations in a safe and sound manner. The BOT also assesses how the banks give importance to and comply with the BOT guidelines as well as follow recommendations by the internal auditors, the BOT, and host supervisors.</li> </ul> <p>During ongoing monitoring, the BOT takes into consideration the results and observations from the host supervisors in determining the focus supervisory area. If the BOT views that there is significant issue, the BOT will require the banks to take actions as deemed appropriate.</p> |
| <b>EC4</b> | <p>The home supervisor visits the foreign offices periodically, the location and frequency being determined by the risk profile and systemic importance of the foreign operation. The supervisor meets the host supervisors during these visits. The supervisor has a policy for assessing whether it needs to conduct onsite examinations of a bank's foreign operations,</p>   |

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|                                 | or require additional reporting, and has the power and resources to take those steps as and when appropriate.  |
| Description and findings re EC4 | <p>The BOT conducts ongoing supervision of the financial group, including examining the banks' significant affiliates abroad regularly. In supervising the banks' foreign operations, there are meetings with the host supervisors during the visits.</p> <p>The BOT allocates budget and supervisors for conducting onsite examinations of foreign affiliates, depending on the level of risk and significance of operations to the financial group and the bank. Specifically:</p> <ul style="list-style-type: none"> <li>• Onsite examinations will focus on foreign affiliates of banks that are significant to the Thai system.</li> <li>• If overseas operations are deemed SA of the banks, the BOT will perform onsite examinations both on the business units overseeing overseas branch/subsidiary at the head office and randomly visit the overseas branch/subsidiary abroad once a year. The evaluation is based on (i) significance of foreign branch/ subsidiary to the banks (size, strategic importance); (ii) risk profile (complexity, high risk); (iii) issues /concerns.</li> <li>• If overseas operations are deemed not SA of the banks, the BOT will conduct onsite examinations/visits on the business units overseeing overseas branch/subsidiary at the head office and/or visit the overseas branch/subsidiary periodically.</li> </ul> <p>The BOT communicates and exchanges information with host regulators through various channels including supervisory colleges and during onsite visits/examinations, where the BOT will meet the host supervisors to discuss issues of concerns and observations from the examinations. If the host supervisors find any significant issues during ongoing supervision, the BOT will consider recommending that banks address them.</p> |
| <b>EC5</b>                      | The supervisor reviews the main activities of parent companies, and of companies affiliated with the parent companies, that have a material impact on the safety and soundness of the bank and the banking group, and takes appropriate supervisory action.  |
| Description and findings re EC5 | <p>The BOT reviews the main activities of parent companies, subsidiaries, and affiliated companies that may affect the safety &amp; soundness of the banks and the financial group as part of the approval process for establishment of a financial group and for expansion of business scope of the group, as well as ongoing supervision. Appropriate supervisory action will be taken as deemed necessary.</p> <p>The BOT supervises banks on a consolidated basis. Establishment of the financial group must have prior approval from the BOT. The BOT requires the business scope of the group and the companies within the group to be limited to financial or supporting businesses. As part of the approval process, the BOT evaluates the main activities of parent companies, subsidiaries, and affiliates, and their interconnectedness as well as the impact on safety &amp; soundness of the banks and the financial group. Moreover, the BOT requires the parent companies' role in setting business policies, risk management policies, and controls and overseeing the financial group to comply with the banks' internal policies and the BOT regulations. Changes that significantly increase the banks' risk, particularly, those with</p>  |

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|                                 | <p>possible impact on the financial position and reputation of the financial group, the BOT will require that the parent companies report such changes to the BOT.</p> <p>The BOT supervisors review organizational structure and scope of business of the financial group, specifically, significant entities within the group. Moreover, the BOT supervisors regularly monitor and review main activities of major entities in the financial group, as well as assess appropriateness and adequacy of their risk management systems. If supervisors find that risks of the financial group are not properly managed, the BOT may require the group to maintain additional provisions or capital above the minimum requirement, take remedial actions, or refrain from any activities.</p>   |
| <b>EC6</b>                      | <p>The supervisor limits the range of activities the consolidated group may conduct and the locations in which activities can be conducted (including the closing of foreign offices) if it determines that:</p> <ul style="list-style-type: none"> <li>• The safety and soundness of the bank and banking group is compromised because the activities expose the bank or banking group to excessive risk and/or are not properly managed.</li> <li>• The supervision by other supervisors is not adequate relative to the risks the activities present.</li> <li>• The exercise of effective supervision on a consolidated basis is hindered.</li> </ul>   |
| Description and findings re EC6 | <p>The BOT evaluates risks of the financial group and prescribes limits on the range of activities of the consolidated group, if the BOT views that there are risks to safety and soundness of the banks and the financial group or if there is insufficient or ineffective oversight as follows:</p> <ul style="list-style-type: none"> <li>• The BOT requires business scope of the financial group and companies within the group to be limited to financial or supporting businesses.</li> <li>• In granting approval for establishment of the financial group or significant changes in the group's structure or business scope, the BOT will consider suitability of the business scope of the group, risks from activities that may affect safety and soundness of the bank and banking group, as well as effectiveness and sufficiency in oversight of these activities.</li> </ul> <p>As part of ongoing supervision, the BOT will check operations of the financial group whether they are within the scope and conditions allowed and will assess the risks, adequacy, suitability, and effectiveness of the group's risk management by various means including offsite review and onsite visits/examinations. If the BOT finds that the financial group has insufficient risk management or activities that could pose excessive risk to the banks and the financial group, the BOT may instruct the banks or the financial group to maintain additional provision or capital above the required minimum, take remedial actions, or refrain from any activities. Moreover, the BOT has the authority to cease operations of the banks' overseas branch or subsidiary in case of excessive risk.</p> |

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| <b>EC7</b>                      | In addition to supervising on a consolidated basis, the responsible supervisor supervises individual banks in the group. The responsible supervisor supervises each bank on a stand-alone basis and understands its relationship with other members of the group. <sup>36</sup>  |
| Description and findings re EC7 | The BOT regulates and supervises banks both on a stand-alone basis and on a consolidated basis. During ongoing supervision, the BOT monitors and assesses risks of the banks both on a solo basis (each bank on a stand-alone basis) and consolidated basis. Based on the information obtained from the banks both on a solo and a consolidated basis, including intra-group transactions, the BOT supervisors understand the banks' relationship with other members of the group, can assess risks that other members of the group may pose to the banks, and check whether intragroup transactions of the banks follow the regulations. Furthermore, the BOT supervisors review and assess the banks' policy and process concerning intra-group transactions to ensure that the risks and conflict of interests from such transactions are properly managed.   |
| <b>Additional criteria</b>      |  |
| <b>AC1</b>                      | For countries which allow corporate ownership of banks, the supervisor has the power to establish and enforce fit and proper standards for owners and senior management of parent companies.   |
| Description and findings re AC1 | <p>The BOT issues regulations governing shareholders and authorized persons of the banks' parent company by Section 55 of FIBA, for which:</p> <ul style="list-style-type: none"> <li>• A major shareholder or ultimate shareholder of a bank's parent company (holding more than 10 percent of total number of parent company's shares)</li> <li>• A director, a manager, a person with power of management, or an advisor of the bank's parent company</li> </ul> <p>must comply with the qualification requirements and fit and proper criteria as prescribed in the regulations applied to the banks on a solo basis. Moreover, under the BOT Notification No. FPG. 8/2560: Regulations on Risk Supervision of Financial Business Groups, the BOT has the power to enforce fit and proper standards for senior management of companies within the banks' financial group. On this, the BOT shall approve all directors, managers, persons with power of management, or advisors of the banks' parent company which is non-operating holding company and approve a person with the highest power of management of subsidiaries in the banks' solo consolidation group.</p> <p>The BOT assesses the characteristics and effectiveness of the parent company's board and senior management, such as their roles and responsibilities, composition, qualifications, and performance in meetings. If there is any issue/concern, the BOT may require the banks or the financial group to act to address it.</p> |

<sup>36</sup> Please refer to Principle 16, Additional Criterion 2.

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| <b>Assessment of Principle 12</b> | Compliant   |
| Comments                          | The BOT supervises FBG which are headed by banks, and for the three that are headed by holding companies, BOT can request all information required for proper supervision and perform fit-and-proper tests on significant shareholders, directors and management. Changes to the FBG structure must receive BOT approval. Review of reports and discussions with staff revealed full familiarity with ownership, activities, and condition of the groups.   |
| <b>Principle 13</b>               | <b>Home-host relationships.</b> Home and host supervisors of cross-border banking groups share information and cooperate for effective supervision of the group and group entities, and effective handling of crisis situations. Supervisors require the local operations of foreign banks to be conducted to the same standards as those required of domestic banks.   |
| <b>Essential criteria</b>         |   |
| <b>EC1</b>                        | The home supervisor establishes bank-specific supervisory colleges for banking groups with material cross-border operations to enhance its effective oversight, taking into account the risk profile and systemic importance of the banking group and the corresponding needs of its supervisors. In its broadest sense, the host supervisor who has a relevant subsidiary or a significant branch in its jurisdiction and who, therefore, has a shared interest in the effective supervisory oversight of the banking group, is included in the college. The structure of the college reflects the nature of the banking group and the needs of its supervisors.   |
| Description and findings re EC1   | <p>Currently, Thai banks' overseas operations are not yet significant to their overall business. Most of the banks have overseas branches or subsidiaries to provide banking services for their clients. The BOT cooperates with supervisors from various countries and organizes bank-specific supervisory colleges for Thai banks which are systemically important and have material cross-border operations on a regular basis. The BOT invites host supervisors of overseas branches or subsidiaries of Thai banks, to exchange information and engage in discussions, to improve the effectiveness of the banking groups' supervision.</p> <p>In organizing supervisory colleges, the BOT uses the BCBS's good practice principles on supervisory colleges as a benchmark, and periodically reviews the college membership. Key objectives are to help the BOT supervisors to develop better understanding of the banking group's risk profile and provide a forum for home and host supervisors to share their risk assessments and supervisory concerns of local operations of the banking group in their respective jurisdictions. There is also a session for senior management of the banking group to provide an overview of the group's business strategies, risk profile, and risk management.</p> |
| <b>EC2</b>                        | Home and host supervisors share appropriate information on a timely basis in line with their respective roles and responsibilities, both bilaterally and through colleges. This includes information both on the material risks and risk management practices of the  |

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|                                 | banking group <sup>37</sup> and on the supervisors' assessments of the safety and soundness of the relevant entity under their jurisdiction. Informal or formal arrangements (such as memoranda of understanding) are in place to enable the exchange of confidential information.   |
| Description and findings re EC2 | <p>As the home supervisor of Thai banks and host supervisor of foreign banks' branches and subsidiaries in Thailand, the BOT shares appropriate information including financial information, material risks, risk management practices, supervisory assessments, points relevant to the banks and their management, and key observations through the following channels:</p> <ul style="list-style-type: none"> <li>• Information exchanges between home and host supervisors during ongoing supervision through written mails, emails, phone calls and meetings during onsite visits/examinations of the banks' overseas operations. This covers both information that is exchanged on a regular basis, such as examination results, supervisory concerns and assessments, and information that is exchanged on request.</li> <li>• Bilateral meetings between executive officers from the BOT and those from foreign supervisory authorities. As part of ongoing supervision, the BOT organizes bilateral meetings with various authorities such as the Financial Supervisory Commission Taiwan and Monetary Authority of Singapore. These meetings include discussions on the banking groups' operations and financial stability.</li> <li>• Supervisory colleges hosted by the BOT as the home supervisor and attended by the BOT as the host supervisor, where supervisors discuss specific topics of common interest, such as market conduct, financial stability and transparency enhancement in the financial system, in addition to sharing information and views on the banking groups' operations under their respective jurisdictions.</li> </ul> <p>Moreover, to facilitate information sharing and strengthen bilateral collaboration, the BOT has signed Memoranda of Understanding (MOU) on Banking Supervision with several supervisors such as Japan, China, Hong Kong, Vietnam, Singapore, Indonesia, and Cambodia. These MOUs have been reviewed and updated for comprehensiveness and suitability, with the latest revision including crisis management and resolution. The BOT is currently negotiating a new MOU with Laos.</p> |
| <b>EC3</b>                      | Home and host supervisors coordinate and plan supervisory activities or undertake collaborative work if common areas of interest are identified in order to improve the effectiveness and efficiency of supervision of cross-border banking groups.  |
| Description and findings re EC3 | The BOT, as home and host supervisor, coordinates supervisory activities with other supervisors to effectively and efficiently supervise cross-border banking groups.  |

<sup>37</sup> See Illustrative example of information exchange in colleges of the October 2010 BCBS Good practice principles on supervisory colleges for further information on the extent of information sharing expected.

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|                                 | <p>As the home supervisor, when planning to conduct onsite visits/ examinations of Thai banks' overseas operations, the BOT will issue a letter to the host supervisor, outlining the objectives and agenda of the visit. The BOT supervisors will meet with the host supervisor during the visit to notify the examination scope and exchange information on the financial positions and performance of the banks' overseas operations, as well as the supervisory assessment and key points of concern. The BOT will use this information in examining whether and to what degree the banks have acted on key observations made by the host supervisor. Moreover, the BOT will issue a formal letter to keep the host supervisor updated on important examination results.</p> <p>As the host supervisor, the BOT receives a letter from the home supervisor outlining the objectives and schedule examinations of foreign banks' branches or subsidiaries in Thailand. The home supervisor will also meet with the BOT during the visit to exchange information on financial positions and performance of the respective foreign banks' branches or subsidiaries in Thailand, as well as supervisory assessments and key points of concern. Referring to CP3 EC2, the BOT has actively participated in supervisory colleges organized by home supervisors, as well as hosted supervisory colleges and referring to CP13 EC4 and EC6, the BOT regularly conducts supervisory colleges with the host supervisors and the BOT also joins supervisory colleges abroad to exchange information on the financial institution's risk profile and supervisory concerns and views on financial stability.</p> |
| <b>EC4</b>                      | The home supervisor develops an agreed communication strategy with the relevant host supervisors. The scope and nature of the strategy reflects the risk profile and systemic importance of the cross-border operations of the bank or banking group. Home and host supervisors also agree on the communication of views and outcomes of joint activities and college meetings to banks, where appropriate, to ensure consistency of messages on group-wide issues.   |
| Description and findings re EC4 | As the home supervisor, the BOT has established a range of communication channels and maintained regular dialogue with relevant host supervisors through emails, phone calls, written mails, bilateral meetings, and supervisory colleges, taking into consideration the risk profile and systemic importance of cross-border operations of the banks or banking groups. The BOT works with the host supervisors to identify the issues to be included in the agenda for discussion among supervisors or with the bank.   |
| <b>EC5</b>                      | Where appropriate, due to the bank's risk profile and systemic importance, the home supervisor, working with its national resolution authorities, develops a framework for cross-border crisis cooperation and coordination among the relevant home and host authorities. The relevant authorities share information on crisis preparations from an early stage in a way that does not materially compromise the prospect of a successful resolution and subject to the application of rules on confidentiality.  |
| Description and findings re EC5 | The BOT, as the home and host supervisor of banks and banking groups, coordinates and cooperates with relevant home and host authorities with regards to cross-border crisis management and resolution. This includes exchanging information subject to the principles  |

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|                                 | <p>of confidentiality and developing crisis preparation and resolution plans for banks with significant cross-border operations.</p> <p>For the exchange of information, the BOT has concluded bilateral cross-border supervisory coordination arrangements with other supervisory authorities. Additionally, the BOT has signed MOUs with other supervisory authorities from various countries to facilitate the sharing of information and strengthen bilateral collaboration. The MOUs which were recently signed or updated cover information exchanges and collaborations on crisis preparation, management and resolution.</p> <p>Furthermore, for foreign banks / banking groups with significant operations in Thailand, the BOT, as the host supervisor, has signed Cross-border Cooperation Agreements with relevant home and host supervisory and resolution authorities of a Global-Systemically Important Financial Institution due to the potential systemic relevance of its operations in Thailand. Such arrangements provide a basis for coordination in crisis preparations and facilitate communication during business as usual and in times of crises, while recognizing the need for protection of confidentiality of relevant information.</p> <p>For Thai banks with overseas branches or subsidiaries (all of which are not yet of material significance), the BOT regularly organizes supervisory colleges with the host supervisors to exchange information and supervisory concerns, if any.</p> |
| <b>EC6</b>                      | <p>Where appropriate, due to the bank's risk profile and systemic importance, the home supervisor, working with its national resolution authorities and relevant host authorities, develops a group resolution plan. The relevant authorities share any information necessary for the development and maintenance of a credible resolution plan. Supervisors also alert and consult relevant authorities and supervisors (both home and host) promptly when taking any recovery and resolution measures.</p>   |
| Description and findings re EC6 | <p>The BOT has required locally-incorporated banks to submit recovery plans on a group-wide basis and provide information necessary for the development of resolution plans. While recently signed MOUs have been updated to cover information exchange and collaboration on crisis preparation, management and resolution, cross border cooperation on recovery and resolution plans is still in its infancy.</p> <p>As the host supervisor, the BOT shares information necessary for the development and maintenance of a credible group resolution plan. The BOT has concluded a Cross-border Cooperation Agreement (COAG) and attends supervisory colleges and Crisis Management Group (CMG) meetings with relevant home and host supervisory and resolution authorities of a Global-Systemically Important Financial Institution due to the potential systemic relevance of its operations in Thailand. Through supervisory colleges and CMG, the BOT is informed of the group's recovery plan and resolution plan.</p>   |
| <b>EC7</b>                      | <p>The host supervisor's national laws or regulations require that the cross-border operations of foreign banks are subject to prudential, inspection and regulatory reporting requirements similar to those for domestic banks.</p>   |

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| Description and findings re EC7 | The definition of “financial institution” in FIBA covers banks incorporated in Thailand, subsidiaries of foreign banks, and foreign bank branches. Under FIBA, branches and subsidiaries of foreign banks in Thailand are subject to the same prudential, inspection and regulatory reporting requirements like those for domestic banks.   |
| <b>EC8</b>                      | The home supervisor is given onsite access to local offices and subsidiaries of a banking group in order to facilitate their assessment of the group’s safety and soundness and compliance with customer due diligence requirements. The home supervisor informs host supervisors of intended visits to local offices and subsidiaries of banking groups.   |
| Description and findings re EC8 | <p>As mentioned in EC3, the BOT, as the home supervisor, seeks consent or informs the host supervisors before visiting overseas branches and subsidiaries of Thai banks or banking groups, depending on the host supervisors’ requirements. Normally, the BOT will send a formal letter to the host supervisors to inform the objectives and schedule of onsite visits/examinations. The BOT will also meet with the host supervisors during the visit to notify them the scope of examination and exchange information on financial positions and performance of Thai banks’ overseas operations, supervisory assessment and key points of concern.</p> <p>The BOT, as the host supervisor, allows the home supervisors to access branches or subsidiaries of foreign banks and banking groups in Thailand. Normally, before visiting, the home supervisors will issue a letter to the BOT, outlining the objectives and schedule of the examination of the foreign banks’ branches or subsidiaries in Thailand. The home supervisors will also meet with the BOT during the visit to exchange information on financial positions and performance of foreign banks’ branches and subsidiaries in Thailand, supervisory assessment and key points of concern.</p> |
| <b>EC9</b>                      | The host supervisor supervises booking offices in a manner consistent with internationally agreed standards. The supervisor does not permit shell banks or the continued operation of shell banks.  |
| Description and findings re EC9 | <p>The BOT does not allow shell banks or booking offices in Thailand.</p> <p>The BOT has a strict bank licensing regime. In reviewing new banking license applications, the BOT assesses the applicant’s business plan to check whether the applicant will conduct real banking business as well as contribute to the Thai economic and financial system. The BOT will ensure that the new banks are subject to effective oversight by their head office or parent bank and relevant home supervisors and their local operations are managed safely and soundly. The BOT stipulates that banks seek approval with regards to appointing directors, managers, authorized persons or advisors in accordance with the BOT Notification No. FPG. 11/2561: Criteria for the Approval of the Appointment of the Financial Institution’s Directors, Managers, Persons with Management Power or Advisors.</p>   |
| <b>EC10</b>                     | A supervisor that takes consequential action on the basis of information received from another supervisor consults with that supervisor, to the extent possible, before taking such action.   |

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| Description and findings re EC10                  | <p>As mentioned in EC2, the BOT reviews information received from home and host supervisors through various channels and forums to monitor and assess financial positions, performance and overall risk of the banking groups and local operations of foreign banks in Thailand. Additionally, the BOT monitors and assesses whether and to what degree the banks place importance and make improvements according concerns and observations of respective supervisory authorities. If the concerns and observation remain, the BOT will consider conducting further examinations and order the banks to take further remedial action.</p> <p>If a consequential action based on information received from another supervisor is needed, the BOT will consult with that supervisor to the extent possible prior to taking such action. So far, the banks have placed great importance and made improvements according to the observations made by the supervisory authorities. Consequential actions are therefore not needed.</p> |
| <b>Assessment of Principle 13</b>                 | Compliant  |
| Comments  | <p>The assessors reviewed the agenda of the supervisory colleges organized by the BOT and attended by the BOT. As a host supervisor, the BOT has attended four supervisory colleges in 2017 and two in 2018.</p> <p>As a home supervisor, the BOT has organized one supervisory college in 2018 and two in 2016. In view of the insignificance of the foreign operations, this is considered adequate.</p> <p>Also, the assessors discussed the effectiveness and intensity of the supervision of cross border operations with the relevant supervisors and they concluded that these are working effectively. No shortcomings were identified in the current practices.</p>   |
| <b>B. Prudential Regulations and Requirements</b> |  |
| <b>Principle 14</b>                               | <b>Corporate governance.</b> The supervisor determines that banks and banking groups have robust corporate governance policies and processes covering, for example, strategic direction, group and organizational structure, control environment, responsibilities of the banks' Boards and senior management, <sup>38</sup> and compensation. These policies and processes are commensurate with the risk profile and systemic importance of the bank.  |
| <b>Essential criteria</b>                         |  |
| <b>EC1</b>  | Laws, regulations or the supervisor establish the responsibilities of a bank's Board and senior management with respect to corporate governance to ensure there is effective control over the bank's entire business. The supervisor provides guidance to banks and banking groups on expectations for sound corporate governance.   |
| Description and findings re EC1                   | Section 24, 25 and 55 of FIBA gives the BOT the power to require a financial institution, a holding company as the parent company, and subsidiaries in the solo consolidation to   |

<sup>38</sup> Please refer to footnote 27 under Principle 5.

obtain prior approval from the BOT before appointing a director, manager, person with power of management or advisor of a financial institution or a holding company and a person with the highest power of management of subsidiaries in the solo consolidation. Section 41 Clause 3 (3) of FIBA prescribes that where it is necessary for the stability of a financial institution and for examination by the financial institution examiner, the BOT has the power to impose requirements on the financial institution in the area of management and administration. Section 84 of FIBA requires financial institutions to set up various committees, and prescribe the composition, qualifications and powers and duties of such committees.

In this respect, the BOT has issued regulations and guidelines to enhance sound corporate governance of financial institutions as follows:

- BOT Notification No. FPG.11/2561: Regulation on Approving the Appointment of Directors, Managers, Persons with Power of Management or Advisors of Financial Institution.
- BOT Notification No. FPG.10/2561: Corporate Governance of Financial Institutions.
- BOT Notification No. FPG.8/2561: Regulations on Structure and Scope of Business of Financial Business Groups.
- BOT Notification No. FPG.8/2560: Regulations on Risk Supervision of Financial Business Groups.
- Financial Institutions Director Handbook.

Financial institutions, which are listed companies, also need to comply with the Notification of the Capital Market Supervisory Board Tor Chor 39/2559: Application for and Approval of Offer for Sale of Newly Issued Shares and should adhere to the Corporate Governance Code for Listed Companies 2017.

Under the BOT Notification on Corporate Governance of Financial Institutions, the financial institution's Board is responsible for establishing governance policies that are commensurate to the financial institution's business profile, its systemic importance and organization structure along with other essential mechanisms that facilitate a well-controlled environment.

The Board should (Section 5.3 of the BOT Notification on Corporate Governance of Financial Institutions):

- Approve business strategies and risk management policies including setting the risk appetite. The Board shall be responsible for the risk governance framework including establishing risk culture and making sure that it was communicated to staff at every level and that the compensation scheme reflects financial institution's risk policies so that the decision made at any level would align with the financial institution's risk culture.
- Ensure the organization's structure promotes checks and balances as well as an effective control environment. In this regard, the three lines of defense must be in place. The Board must appoint the Risk Oversight Committee as well as Audit

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|                                 | <p>Committee to assist in the oversight of the management. It should appoint a Nomination Committee, Remuneration Committee, and other committees as deemed necessary to assist the Board in carrying out its duties.</p> <ul style="list-style-type: none"> <li>• Oversee the management’s implementation, risk culture and ethics and ensure that management has the appropriate skills and experiences. Fit and proper requirements need to be complied with and adequate succession plans for senior management is in place.</li> <li>• The Board and/or delegated board-level committees establish guidelines to evaluate the senior management’s performance and determine their compensation, based on their roles and responsibilities as well as their contributions to the long-term goal of business sustainability.</li> </ul>  |
| <b>EC2</b>                      | <p>The supervisor regularly assesses a bank’s corporate governance policies and practices, and their implementation, and determines that the bank has robust corporate governance policies and processes commensurate with its risk profile and systemic importance. The supervisor requires banks and banking groups to correct deficiencies in a timely manner.</p>   |
| Description and findings re EC2 | <p>Corporate governance is a key factor in determining financial institutions’ composite rating and a key condition in granting an operating license to the financial institutions.</p> <ul style="list-style-type: none"> <li>• The financial institution must have a written corporate governance policy that considers the benefit of all stakeholders appropriately, follows the principles of fairness and integrity, covers specific operations of the financial institution and matches with the financial institution’s business profile, complexity and systemic importance;</li> <li>• The Board and senior management have managed the financial institution in accordance with the corporate governance policy. This assessment is conducted through reviewing various aspects of the Board and senior management by reviewing the minutes so that the attendance rates and participation in questioning, commenting and advising can be assessed. Additionally, for D-SIBs, the BOT supervisors will meet with the Board on a regular basis. The BOT supervisors will also check whether the directors and managers perform duties based on knowledge, competence and integrity and shall not involve themselves in any decision where they may have a conflict of interest. For financial institutions that are listed on the SET, the BOT supervisors will also consider the directors or committee members’ self-assessment in accordance with the SET guidelines.</li> <li>• The structure and operating procedures have a clear prescription of the authorities and duties and responsibilities of the first line, second line and third line units to ensure independent operations, effective checks and balance, as well as efficient operating procedures. This assessment is done through reviewing the organizational structures, reporting lines, and power and responsibilities of important units to check whether a clear prescription of authorities and a clear distinction of duties of the first line, second line and third line units have been set. Additionally, the BOT supervisors review the Board committees’ meeting minutes and other internal reports to evaluate performance of the first line, second line and third line units in monitoring and</li> </ul> |

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|                                 | <p>reporting important matters to the Board and senior management in an effective, timely and complete manner. Furthermore, the BOT supervisors conduct end-to-end process walk throughs and interview relevant persons to evaluate the effectiveness of the operating procedures and the performance of the first line, second line and third line units for the best interests of the financial institution and its shareholders.</p> <p>If the BOT supervisors find a financial institution's operations are not in accordance with the governance principles and policies, the BOT will require the financial institution to rectify the situation.</p> <p>Recently, the BOT has implemented the behavior &amp; culture (B&amp;C) assessment forms to help assess governance and risk culture of four large financial institutions in the pilot project. On this, the BOT sent the assessment forms to the Board and senior management to respond and conducted interviews to assess the directors and senior management's awareness of governance and risk culture.</p>  |
| <b>EC3</b>                      | <p>The supervisor determines that governance structures and processes for nominating and appointing Board members are appropriate for the bank and across the banking group. Board membership includes experienced non-executive members, where appropriate. Commensurate with the risk profile and systemic importance, Board structures include audit, risk oversight and remuneration committees with experienced non-executive members.</p>   |
| Description and findings re EC3 | <p>The BOT requires that the governance structures, e.g., composition of the Board and board-level committees and the processes for nominating and appointing the Board members are appropriate for the financial institution and financial business groups, particularly (BOT Notification No. FPG. 10/2561: Corporate Governance of Financial Institutions, BOT Notification No. FPG. 8/2560: Regulations on Risk Supervision of Financial Business Groups and Notification of Capital Market Supervisory Board No. Tor Chor 39/2559: Application for and Approval of Offer for Sale of Newly Issued Shares).</p> <ul style="list-style-type: none"> <li>• At least one third of the members of the Board shall be independent directors and the chairperson shall be an independent or non-executive director to ensure effective checks and balances;</li> <li>• Board members shall collectively bring their skills and experience in providing objectives and thoughtful insights and guidance to the financial institution. In addition, the revised Notification requires that least one member of the Board shall have either educational or professional background in Information Technology (IT);</li> <li>• The Board shall set up the following board-level committees.</li> <li>• Audit Committee which comprises at least 3 members, all of them shall be independent directors. The chairperson shall not be the chairperson of the Board, the Risk Oversight Committee, Remuneration Committee and Nomination Committee;</li> <li>• Risk Oversight Committee (ROC) which comprises at least 3 members, who shall be the directors, senior management or advisors of the financial institution acting as directors. In addition, the revised Notification requires that at least half of the members shall be independent directors, non-executive directors or advisors of the financial institution</li> </ul> |

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|            | <p>acting as directors, and the chairperson shall be an independent or non-executive director. Note that for a small, non-complex financial institution may assign other oversight-level committees assume ROC's roles and responsibilities if deemed as effective as ROC and appropriate for its size as well as business and risk profile. The financial institutions need to comply with these requirements by or before May 2019.</p> <ul style="list-style-type: none"> <li>• The Board should set up a Remuneration Committee and a Nomination Committee which comprises at least 3 members, all of them shall be non-executive directors. The chairperson of the committees should be an independent director.</li> <li>• The Board and/or the Nomination Committee shall be responsible for formulating policies, guidelines, and processes for selecting candidates to be directors and persons with management power. Moreover, the Nomination Committee is responsible for developing the Board's skill matrix as well as selecting and nominating qualified candidates for the Board's consideration and approval.</li> </ul> <p>As part of ongoing supervision, the BOT supervisors assess whether:</p> <ul style="list-style-type: none"> <li>• The structure and composition of the Board follows the principles of good governance and the BOT Notification; the Board contains a sufficient proportion of independent directors and has a suitable mix of skills.</li> <li>• The financial institution has established subcommittees such as Audit, Risk Oversight, Nomination and Remuneration Committees, in accordance with the BOT Notification and guidelines and aligned with the financial institution's risk profile and systemic importance. The BOT supervisors will compare the financial institution's committees with those from its peers with similar sizes and complexity;</li> <li>• Nomination processes and operations are in accordance with the financial institution's own policies, from setting selection criteria, nomination and request for appointment of a financial institution or financial business group's directors and senior management. The BOT supervisors assess these aspects through reviewing the Nomination Committee's meeting minutes, selection and minimum qualifications criteria, frequency of meetings, topics of discussion and role of each director in the meeting, as well as interviews with relevant staffs.</li> </ul> <p>If there are any observations, the BOT will require the financial institution to make relevant adjustments.</p> |
| <b>EC4</b> | Board members are suitably qualified, effective and exercise their "duty of care" and "duty of loyalty." <sup>39</sup>  |

<sup>39</sup> The OECD (OECD glossary of corporate governance-related terms in "Experiences from the Regional Corporate Governance Roundtables", 2003, [www.oecd.org/dataoecd/19/26/23742340.pdf](http://www.oecd.org/dataoecd/19/26/23742340.pdf).) defines "duty of care" as "The duty of a board member to act on an informed and prudent basis in decisions with respect to the company. Often interpreted as requiring the board member to approach the affairs of the company in the same way that a 'prudent man' would approach their own affairs. Liability under the duty of care is frequently mitigated by the business judgment rule." The OECD defines "duty of loyalty" as "The duty of the board member to act in the interest of the

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| Description and findings re EC 4 | <p>The BOT requires that the Board members and senior management of a financial institution (FI), the parent company of the FI's financial business group and its subsidiaries possess suitable qualifications and capabilities and must not have any of the prohibited characteristics stipulated under Sections 24 (1)–(9) of FIBA and the BOT notifications in three main aspects: honesty, integrity and reputation; competence, capability and experience; and financial soundness. Appointment and re-appointment of directors, managers, persons with power of management or advisors must be approved by the BOT and thus subject to the BOT screening process to ensure that persons with criminal records and inappropriate qualifications will not be appointed as a director, manager, person with power of management and advisor of the financial institution. Financial institutions should ensure that their Board members continue to further enhance their knowledge and skills, e.g., via appropriate training, to effectively perform their oversight duties, and that the Board members' (i) self-evaluation and (ii) cross-evaluations or third-party evaluation are conducted at least on an annual basis.</p> <p>The Board members shall perform their duties with due care (duty of care) and integrity and honesty (duty of loyalty), as well as in accordance with the laws, regulations and approved policies, in the best interest of the institution. The Board members shall also make an informed and rational decision, as well as devote their time and effort to carry out their duties and responsibilities by questioning and participating in the meetings. The Board members are required to attend the Board's meeting at least 75 percent of the annual board meetings, unless there are valid and sound reasons not to attend.</p> <p>In this respect, the BOT supervisors assess whether the qualifications of the directors, senior management and persons with power of management are in accordance with laws and regulations. The assessment is conducted through reviewing appointment consideration documents, biographies and documents relevant to the deliberation process, such as proof of educational qualifications, guarantees of status as a performing borrower from financial institutions or credit companies, and through checking the director information forms and work experience of the directors, senior management, and persons with power of management for suitability.</p> <p>After the directors, senior management and persons with power of management have been appointed, the BOT will assess their performance and suitability from internal and external sources through:</p> <ul style="list-style-type: none"> <li>• Monitoring and evaluating the qualifications of the director, senior management and person with power of management by reviewing updated list and biographies of the director, manager and equivalent, advisor, and person with ultimate decision-making authority in the financial business group on a solo consolidated basis;</li> </ul> |

company and shareholders. The duty of loyalty should prevent individual board members from acting in their own interest, or the interest of another individual or group, at the expense of the company and all shareholders."

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|                                 | <ul style="list-style-type: none"> <li>• Assessing whether the financial institution’s board of directors has directed the management to efficiently and effectively operate the financial institution according to the approved policies, has suggested comments and solutions to problems arising from such policies, while preserving the best interests of the financial institution and its shareholders, with meeting frequency that is appropriate for the organization’s complexity. This assessment is conducted through reviewing the Board and other committees’ meeting minutes and the directors’ self-assessment as well as interviewing relevant persons.</li> <li>• Analyzing and monitoring performance of the financial institution and financial business group’s directors and senior management from reviewing meeting minutes, the financial institution’s own assessment results, overall governance and the directors’ attendance records.</li> </ul> <p>Furthermore, the BOT supervisors use the Behavior and Culture Assessment Forms submitted by the banks’ Board and senior management (which include information about what the Board and senior management view as their strengths and areas for improvement as well as the lessons learned from their past mistakes) as an additional tool to help assess effectiveness of the Board.</p> |
| <b>EC5</b>                      | <p>The supervisor determines that the bank’s Board approves and oversees implementation of the bank’s strategic direction, risk appetite<sup>40</sup> and strategy, and related policies, establishes and communicates corporate culture and values (e.g., through a code of conduct), and establishes conflicts of interest policies and a strong control environment.</p>   |
| Description and findings re EC5 | <p>The BOT requires financial institution’s Board to have roles, duties, and responsibilities to (The BOT Notification No. FPG. 10/2561: Corporate Governance of Financial Institutions):</p> <ul style="list-style-type: none"> <li>• Set overall direction and strategic objectives of the financial institution, consider and approve policies and directions of the financial institution’s operation proposed by the management, and ensure that they are efficiently and effectively implemented.</li> <li>• Approve the financial institution’s risk governance framework, including risk management policies and strategies as well as risk appetite, which are commensurate with its risk profile, business model, and systemic importance.</li> <li>• Approve good corporate governance policy and ensuring the financial institution has conflict of interest policy, internal code of ethics, and code of conduct, as well as effective whistle blowing policy and procedure.</li> </ul>  |

<sup>40</sup> “Risk appetite” reflects the level of aggregate risk that the bank’s Board is willing to assume and manage in the pursuit of the bank’s business objectives. Risk appetite may include both quantitative and qualitative elements, as appropriate, and encompass a range of measures. For the purposes of this document, the terms “risk appetite” and “risk tolerance” are treated synonymously.

- Ensure that sound risk culture and values is established, maintained and consistently communicated throughout the organization.
- Ensure that the financial institution has proper governance structure to support strong control environment and effective check and balance mechanism.

As part of ongoing supervision, the BOT supervisors assess whether:

- The financial institution's Board has a role in determining the strategic directions and approving the strategic plan, risk appetite and important policies with annual reviews. Moreover, the Board has a plan, operating procedure, KPIs and resources allocation that are in accordance with the overall strategic plan, risk appetite and policies and has communicated the approved strategic plan, risk appetite and important policies to each line of business and business units. This assessment is conducted through reviewing the Board's meeting minutes and interviewing relevant persons.
- Financial institution monitors and reports the operating results to the Board and senior management, where the Board and senior management ensure that the operations are in accordance with the defined strategic plan, risk appetite and important policies. Moreover, the Board meets and revises the financial institution's objectives, strategy and risk factors when there is significant change in the business environment. The BOT supervisors conduct the assessment through reviewing the internal reports presented to the Board and senior management and the Board's meeting minutes and interviewing relevant persons. Examples of reviews include determining whether there was an analysis of operating results compared with the predefined targets and whether the risk is within the predefined limit.

The Board places importance on good governance and strong control environment, especially on the matters of conflict of interest through the followings:

- Establishment of policies on prevention of conflicts of interest and on transactions with persons with related interests, in accordance with the regulations set by the BOT, SEC and SET.
- Directors with possible related interests abstain from decision-making for an approval process to be independent and terms and conditions are not more favorable than arm's length transactions.

The BOT supervisors review the Board's meeting minutes and other relevant documents as well as interview relevant persons to assess whether related party transactions are dealt with in accordance to the bank's internal policies and regulations and whether the bank's code of ethics and conducts are communicated and implemented throughout the entire organization.

If there are any concerns regarding the bank's governance, the BOT supervisors will raise the concerns to the bank's senior management and, where necessary, to the Board/audit committee and will require appropriate remedial actions.

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| <b>EC6</b>                      | The supervisor determines that the bank's Board, except where required otherwise by laws or regulations, has established fit and proper standards in selecting senior management, maintains plans for succession, and actively and critically oversees senior management's execution of Board strategies, including monitoring senior management's performance against standards established for them.  |
| Description and findings re EC6 | <p>The BOT requires that the Board and/or the Nomination Committee is responsible for formulating policies, guidelines, and processes for selecting candidates to be board members and senior management (Please refer to EC3), who must possess suitable qualifications and capabilities and must not have any of the prohibited characteristics (Please refer to EC4). The Board is also responsible for overseeing the management to put the approved policies into practice, establish appropriate procedure to risk culture and ethics, ensuring that persons responsible for management have appropriate skills, experiences and knowledge to do so, as well as satisfying fit and proper requirements and making sure that adequate succession plan for senior management is in place to promote smooth transition. The Board and/or delegated board-level committees is responsible for establishing guidelines to evaluate the senior management's performance and determining their compensation, based on their roles and responsibilities as well as their contributions to the long-term goal of business sustainability (Please refer to EC1).</p> <p>As part of ongoing supervision, the BOT supervisors assess whether:</p> <ul style="list-style-type: none"> <li>• The Nomination Committee has established effective process/procedure, selection criteria, and standards regarding qualifications and competence of the senior management of the financial institution, and the financial business group and the nomination process is in accordance with the financial institution's policy. The BOT supervisors conduct such assessment by reviewing the Nomination Committee's meeting minutes and interviewing relevant persons.</li> <li>• The financial institution has formulated a succession plan for key/critical positions up to the CEO level. Particularly the financial institution has identified key/critical positions and set guidelines for selecting and developing successors.</li> <li>• The Board and/or the Nomination Committee monitor the senior management's executions to ensure they are in line with approved strategies and policies and evaluate the senior management's performance against the predefined objectives/KPIs. The BOT supervisors conduct the assessment by reviewing meeting minutes of the Board and Nomination Committee and internal reports of the operating results/performance to the Board and by interviewing relevant persons.</li> </ul> |
| <b>EC7</b>                      | The supervisor determines that the bank's Board actively oversees the design and operation of the bank's and banking group's compensation system, and that it has appropriate incentives, which are aligned with prudent risk taking. The compensation system, and related performance standards, are consistent with long-term objectives and financial soundness of the bank and is rectified if there are deficiencies.  |

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| Description and findings re EC7 | <p>The BOT requires that financial institution’s Board (and/or the board-level Remuneration Committee) establishes clearly defined policies and guidelines for determining compensation of the director and senior management, taking into consideration their roles and responsibilities, how well risks are managed, as well as their contributions to the financial soundness of financial institution in the long-run.</p> <p>The Board shall oversee the financial institution to have appropriate compensation policies to attract and retain qualified persons and motivate them to perform their duties with integrity. In particular, the compensation system shall not be mainly based on short-term profits, i.e., not giving director, senior management, and staff the wrong incentives to excessively take risks for short-term profits/performance at the expense of long-term stability.</p> <p>The revised BOT Notifications No. FPG 10/2561: Corporate Governance of Financial Institutions and The BOT Notifications No. FPG 8/2560: Regulations on Risk Supervision of Financial Business Groups determine that the financial institution may use compensation tools/ schemes, such as deferred variable pay, malus and equity-linked deferred bonus, to ensure that the compensation structure reflects the roles and responsibilities of each function, long-term risk profile and future outcomes. The financial institution shall also monitor and assess the effectiveness of its compensation structure to ensure that the compensation scheme supports financial institution’s operation under the sound risk governance framework.</p> <p>As part of ongoing supervision, the BOT supervisors assess:</p> <ul style="list-style-type: none"> <li>• Effectiveness and appropriateness of the Board’s roles in approving and establishing a compensation policy for the directors, senior management and the staff of the financial institution and the entire financial business group. Such policy must be unambiguous and transparent, and:       <ol style="list-style-type: none"> <li>(1) be in line with the business and risk strategy, risk tolerance, objectives, values and long-term interests of the financial institution and each individual department;</li> <li>(2) not create incentives for excessive risk-taking behaviors and reflect the risk profile and risk outcomes; and</li> <li>(3) be sensitive to the time horizon of the risks exposed, e.g., aligning variable parts of compensation with the term risks or using malus if such performance creates excessive risk for the financial institution.</li> </ol> </li> </ul> <p>The assessment is conducted through reviewing the compensation policy and meeting minutes of the Board and Remuneration Committee.</p> <ul style="list-style-type: none"> <li>• Factors and their weights in determining the KPIs of the senior management, department heads and key persons. The BOT supervisors also examine the guidelines for evaluating the senior management of the financial institution and all significant companies in the financial business group. The guidelines should be clear and suitable for the senior management’s responsibilities, place great importance on relevant risk</li> </ul> |
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|                                 | <p>factors, and correspond with the financial institution's long-term strategy, in order to prevent wrongful incentives for the senior management and key persons to focus on short-term profits and overlook the risks. The BOT supervisors conduct the assessment through reviewing evaluation documents, KPIs and financial institution's annual reports which publish compensations to the Board and senior management.</p>   |
| <b>EC8</b>                      | <p>The supervisor determines that the bank's Board and senior management know and understand the bank's and banking group's operational structure and its risks, including those arising from the use of structures that impede transparency (e.g., special-purpose or related structures). The supervisor determines that risks are effectively managed and mitigated, where appropriate.</p>  |
| Description and findings re EC8 | <p>The BOT requires that the financial business group establishes risk management policies for the group and intra-group transaction policies. Such policies and any changes in the group's operational structure must be approved by the Board of the parent company in order to ensure that the Board of the parent company understands risks of the financial business group and risks that may arise from intra-group transactions. The BOT also requires that banks' Board oversees the banks to have comprehensive risk management policies, which are approved and regularly reviewed by the Board, as well as oversees the senior management to ensure that risks are effectively managed to be within the risk tolerance level. The banks' Board must understand the risks that the banks are exposed to as well as the tools that the banks use to manage risks to ensure that the bank's risk management systems are efficient and effective (The BOT Notification No. FPG 8/2560: Regulations on Risk Supervision of Financial Business Groups and BOT Notification No. FPG 10/2561: Corporate Governance of Financial Institutions).</p> <p>As part of ongoing supervision, the BOT supervisors assess whether the Board and senior management of financial institution understand the financial institution and the financial business group's structure and associated risks, including those from intra-group transactions. Specifically, the BOT supervisors will examine the information related to approving the structure, meeting minutes and other documents received by the Board and other relevant committees in the financial institution and the financial business group such as Risk Management Committee. The BOT supervisors will check whether the Board and other relevant committees have received sufficient information which is timely and beneficial to decision-making, whether there have been any follow up questions or helpful comments, and whether the Board and senior management have implemented measures to eliminate or mitigate significant risks.</p> |
| <b>EC9</b>                      | <p>The supervisor has the power to require changes in the composition of the bank's Board if it believes that any individuals are not fulfilling their duties related to the satisfaction of these criteria.</p>  |
| Description and findings re EC9 | <p>In cases where a financial institution, its director and senior management violate or fail to comply with the provisions of FIBA or prescriptions or notifications issued by virtue of FIBA, including the BOT notifications regarding corporate governance, or the conditions</p>   |

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|                                   | <p>prescribed in the license, the BOT has the power to order the financial institution to remove any or all of the directors and senior management from their offices (Section 89 of FIBA).</p> <p>As part of ongoing supervision, the BOT supervisors will assess the composition of the financial institution's Board and their performance. If there are any points of concern on their duty performance or the composition is found to be inappropriate such as in terms of the number of independent directors or diversity of the directors' expertise and experience, the BOT will ask the financial institution to make adjustments to the Board's composition in order for the Board to oversee the financial institution for the best interests of the shareholders.</p>  |
| <b>Additional criteria</b>        |   |
| <b>AC1</b>                        | Laws, regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material and bona fide information that may negatively affect the fitness and propriety of a bank's Board member or a member of the senior management.   |
| Description and findings re AC1   | The BOT requires the financial institution to notify the BOT as soon as it is aware of any reliable information that may negatively affect suitability and propriety of the director, manager, and person with the power of the management. This requirement is listed in the circular letter to all financial institutions.  |
| <b>Assessment of Principle 14</b> | Compliant   |
| Comments                          | <p>The assessors reviewed several inspection reports, corrective orders, recommendations , and supporting supervisory documents and determined that the BOT comprehensively assesses if financial institutions have robust corporate governance policies and processes that are commensurate with the risk profile and systemic importance of the financial institution.</p> <p>The corpus of regulations, guidelines, and the supervisory manual in corporate governance is comprehensive, enforceable, and in line with international good practice.</p> <p>At the assessment date, the BOT regulation with regard to corporate governance of financial institutions have already been enhanced at solo basis by the newly issued regulation which came into effect since June 2018. For FBG, the enhancement to the governance requirement will be in effect from May 2019 onward. In the meantime, the governance of FBG follows the existing BOT notification no. FPG 8/2560 on supervision of corporate governance of FBG which covers almost all aspects of effective governance. The enhancement to the corporate governance regulation aims to strengthen management systems, transparency, and market discipline by reinforcing the BOT's expectation of (i) responsibility of the parent company board on oversight of subsidiaries, and (ii) composition of the parent company's board and subcommittees. The new notification will enhance corporate governance of financial institutions on a consolidated basis with the objective to strengthen oversight of the group's governance framework, the Board's annual</p> |

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|                     | <p>performance assessment, remuneration structure, management of conflict of interests, and effective control, oversight and audit mechanisms. Moreover, the regulation introduces a performance assessment.</p> <p>Also, the following requirements of the BOT Notification No.FPG. 10/2561: Corporate Governance of Financial Institutions are still subject to transitional and grandfathering measures are not yet enforced at the assessment date.</p> <ul style="list-style-type: none"> <li>• The 9-year renewal requirement of independent directors will become effective on May 1, 2022;</li> <li>• Independent directors who have been appointed before Clause 5.2.3. came in to force are grandfathered until May 1, 2022. Seventy four percent of directors of locally incorporated banks are already in compliance with this requirement. Clause 5.2.3. covers the 9-year director renewal period. It also covers the 2-year waiting period for taking up a position as independent director after being discharged from a non-independent director, manager, person with power of management, advisor, or staff position from the relevant financial institution. Finally, Clause 5.2.4 (2). limits the number of appointments as director of companies listed on the domestic and overseas stock exchanges to 5 for directors, managers, persons with power of management and advisors. All directors are already in compliance with this requirement.</li> <li>• The requirement for a risk oversight committee in accordance with Clause 5.4.2. comes into effect on May 1, 2019. In the meantime, the Risk Management Committee set up according to the previous notification shall be in charge for the duties of ROC. As of the assessment date, 5 out of 15 domestic banks have already set up a risk oversight committee. Two banks will establish one by December 2018 and the remaining 8 banks will be in full compliance by May 2019.</li> </ul> <p>The 2-year waiting period after being discharged of their functions for non-independent directors, managers, persons with power of management, advisors or staff members of financial institutions before they can be appointed as independent directors is at the shorter end of the spectrum.</p> <p>The pilot on behavior &amp; culture (B&amp;C) assessment in four large financial institutions is at the cutting edge of good practice. To continue to raise awareness of governance and risk culture, the assessors recommend the BOT incorporates regular meetings with independent directors as part of its supervisory process.</p> |
| <b>Principle 15</b> | <b>Risk management process.</b> The supervisor determines that banks <sup>41</sup> have a comprehensive risk management process (including effective Board and senior management oversight) to   |

<sup>41</sup> For the purposes of assessing risk management by banks in the context of Principles 15 to 25, a bank's risk management framework should take an integrated "bank-wide" perspective of the bank's risk exposure, encompassing the bank's individual business lines and business units. Where a bank is a member of a group of companies, the risk management framework should in addition cover the risk exposure across and within the "banking group" (see footnote 19 under Principle 1) and should also take account of risks posed to the bank or members of the banking group through other entities in the wider group.

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|                                 | identify, measure, evaluate, monitor, report and control or mitigate <sup>42</sup> all material risks on a timely basis and to assess the adequacy of their capital and liquidity in relation to their risk profile and market and macroeconomic conditions. This extends to development and review of contingency arrangements (including robust and credible recovery plans where warranted) that consider the specific circumstances of the bank. The risk management process is commensurate with the risk profile and systemic importance of the bank. <sup>43</sup>   |
| <b>Essential criteria</b>       |   |
| <b>EC1</b>                      | <p>The supervisor determines that banks have appropriate risk management strategies that have been approved by the banks' Boards and that the Boards set a suitable risk appetite to define the level of risk the banks are willing to assume or tolerate. The supervisor also determines that the Board ensures that:</p> <ul style="list-style-type: none"> <li>(a) A sound risk management culture is established throughout the bank.</li> <li>(b) Policies and processes are developed for risk-taking, that are consistent with the risk management strategy and the established risk appetite.</li> <li>(c) Uncertainties attached to risk measurement are recognized.</li> <li>(d) Appropriate limits are established that are consistent with the bank's risk appetite, risk profile and capital strength, and that are understood by, and regularly communicated to, relevant staff.</li> <li>(e) Senior management takes the steps necessary to monitor and control all material risks consistent with the approved strategies and risk appetite.</li> </ul> |
| Description and findings re EC1 | <p>The BOT requires that the financial institution's Board establishes or approves the financial institution's effective risk governance framework which covers risk appetite, risk management policies and strategies, as well as risk culture. In this regard, the BOT expects the financial institution's Board to:</p> <ul style="list-style-type: none"> <li>(a) Encourage sound risk culture and ensure that it is communicated throughout the entire financial institution so that all relevant parties understand risk related matters and their respective roles.</li> <li>(b) Ensure that risk-taking policies and processes are consistent with its comprehensive risk management policy and strategy as well as its established risk appetite.</li> <li>(c) Recognize and understand limitations and uncertainties of output from the models used by the financial institution as well as its inherent risks.</li> </ul>  |

<sup>42</sup> To some extent the precise requirements may vary from risk type to risk type (Principles 15 to 25) as reflected by the underlying reference documents.

<sup>43</sup> It should be noted that while, in this and other Principles, the supervisor is required to determine that banks' risk management policies and processes are being adhered to, the responsibility for ensuring adherence remains with a bank's Board and senior management.

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| <p>(d) Ensure that risk limits are in line with risk appetite, risk profile, capital and liquidity strength of the financial institution.</p> <p>(e) Ensure that risk management framework is properly implemented and controlled by senior management in order to make sure that risks are within the approved risk appetite and limits.</p> <p>Recently, the BOT has revised its Notification on Corporate Governance of Financial Institutions to enhance the Board' responsibilities particularly with regard to risk governance framework to ensure that the financial institutions have comprehensive risk management system and sound risk culture.</p> <p>(BOT Notification No. FPG. 10/2561: Corporate Governance of Financial Institutions)</p> <p>The BOT supervisors assess adequacy, appropriateness, and effectiveness of the financial institutions' risk management policies, strategies, processes, and controls in the following aspects:</p> <ul style="list-style-type: none"> <li>• Risk management policies (including risk appetite) and strategies should be comprehensive (i.e., cover all significant risks of the banks including reputational risk) and appropriate for the financial institutions' systemic importance (e.g., size), complexity and nature of business activities, risk profile and business directions, as well as support sound risk culture.</li> <li>• Risk management policies (including risk appetite) and strategies are in written form and approved by financial institutions' Board. In addition, the financial institutions' Board regularly reviews risk management policies (including risk appetite) and strategies, at least once a year or when there is a significant change, to ensure that they are appropriate and consistent with risk profile and business direction of the financial institutions by taking into account changing environments such as change in market and macroeconomic conditions that might have an impact on the financial institutions.</li> <li>• Risk management processes and control (including risk limits) are in line with the financial institutions' policies (including risk appetite) and strategies, and appropriate for the financial institutions' capital strength.</li> <li>• Risk management policies, strategies, processes, and controls are communicated and well understood by all relevant parties.</li> <li>• The financial institutions' Board and senior management are responsible for monitoring to ensure that the operations are in compliance with risk management policies, strategies, processes, and controls, and the financial institutions have governance structure/reporting lines, which support effective risk management processes. There is a clear segregation of duties between risk taking units and risk management/control units in accordance with the principle of check and balance.</li> </ul> <p>The BOT supervisors review documents and reports submitted by financial institutions, such as policies, strategies, risk management process and control, annual ICAAP report, organization chart including man power and qualification of staff responsible for risk</p> |
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|                                 | <p>management and controls, minutes of the financial institutions' Board and relevant committee (RMC) meetings, internal report/ information packages submitted to the financial institutions' Board and relevant committee as well as senior management, internal audit report concerning risk management function.</p> <p>Moreover, when conducting onsite examination, the BOT supervisors have a comprehensive process including reviewing various documents and reports submitted by financial institutions, performing a walk-through test and transaction testing as well as interviewing relevant staffs to evaluate the effectiveness of the policies, strategies, risk management and control process. If there is any concern, the BOT supervisors will instruct the financial institutions to make correction.</p> <p>Recently, the BOT has implemented the behavior &amp; culture (B&amp;C) assessment forms to help assess governance and risk culture of four large financial institutions in the pilot project. On this, the BOT sent the assessment forms to the Board and senior management to respond and conducted interviews in order to assess the directors and senior management's awareness of governance and risk culture, and assess whether they consider these issues as important.</p> |
| <b>EC2</b>                      | <p>The supervisor requires banks to have comprehensive risk management policies and processes to identify, measure, evaluate, monitor, report and control or mitigate all material risks. The supervisor determines that these processes are adequate:</p> <ul style="list-style-type: none"> <li>• To provide a comprehensive "bank-wide" view of risk across all material risk types.</li> <li>• For the risk profile and systemic importance of the bank.</li> <li>• To assess risks arising from the macroeconomic environment affecting the markets in which the bank operates and to incorporate such assessments into the bank's risk management process.</li> </ul>  |
| Description and findings re EC2 | <p>The BOT requires financial institutions to have comprehensive risk management policies and processes to identify, measure, evaluate, monitor, report and control or mitigate all material risk types. These processes shall be in line with its risk profile and systemic importance and consider risks that arising from macroeconomic environment. (BOT Notification No. FPG. 10/2561: Corporate Governance of Financial Institutions)</p> <p>The BOT supervisors determine and assesses that these policies and processes are adequate, for example, whether they:</p> <ul style="list-style-type: none"> <li>• Cover all material risk types of all business units (e.g., credit risk, liquidity risk, market risk, operational risk, reputational risk, strategic risk, IT risk).</li> <li>• Are in accordance with the financial institutions' strategies and risk appetite.</li> <li>• Are appropriate for the financial institutions' systemic importance (e.g., size), complexity and nature of business activities, and risk profile, as well as support sound risk culture.</li> </ul>   |

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|                                 | <ul style="list-style-type: none"> <li>• Are appropriate and consistent with risk profile and changing business direction of the financial institutions by considering changing environments such as changes in market and macroeconomic conditions that might have an impact on the financial institutions.</li> </ul> <p>As mentioned in EC1, The BOT supervisors conduct onsite examination to evaluate the effectiveness of the policies, strategies, risk management and control process. If there is any concern, BOT supervisors will instruct the financial institution to make correction.</p>   |
| <b>EC3</b>                      | <p>The supervisor determines that risk management strategies, policies, processes and limits are:</p> <ul style="list-style-type: none"> <li>• Properly documented.</li> <li>• Regularly reviewed and appropriately adjusted to reflect changing risk appetites, risk profiles and market, and macroeconomic conditions.</li> <li>• Communicated within the bank.</li> </ul> <p>The supervisor determines that exceptions to established policies, processes and limits receive the prompt attention of, and authorization by, the appropriate level of management and the bank's Board where necessary.</p>  |
| Description and findings re EC3 | <p>As mentioned in EC1, the BOT requires that financial institution's risk management strategies, policies, processes and limits are properly documented, communicated throughout the organization, reviewed and adjusted in response to the changes of risk appetite, risk profiles, capital and liquidity strength, and macroeconomic conditions at least once a year or when significant changes occur. Moreover, the Board shall regularly monitor and receive accurate and timely information regarding financial institution's risk level, efficiency of risk management, risk culture implementation progress as well as important factors and material issues of the financial institution by relevant committees and senior management (BOT Notification No. FPG. 10/2561: Corporate Governance of Financial Institutions).</p> <p>On an ongoing basis, the BOT supervisors assess whether:</p> <ul style="list-style-type: none"> <li>• Risk management strategies, policies, processes and limits are properly documented and regularly reviewed and adjusted in response to significant changes of risk appetite, risk profiles, capital and liquidity strength, and macroeconomic conditions by reviewing documents relating to policies, strategies, processes and risk management limits, minutes of banks' Board and relevant committee (e.g., RMC) meetings concerning approval or changes in policies, strategies, processes and limits, along with analysis on macroeconomic conditions, risk profile and capital and liquidity strength by using data and internal reports submitted by financial institution.</li> <li>• Risk management strategies, policies, processes and limits are communicated throughout the organization by reviewing documents / evidence of communications to relevant staffs through various channels, such as intranet or training session, and interviewing relevant staffs.</li> </ul> |

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|                                 | <ul style="list-style-type: none"> <li>• Exceptions to strategies, policies, processes, or limits are promptly escalated and approved by appropriate level of management or the Board by reviewing related documents, such as policies and processes regarding exceptions/limit breaches, exception/internal reports to the Board and senior management, minutes of financial institutions' Board and relevant committee (e.g., RMC) meetings.</li> </ul> <p>As mentioned in EC1, the BOT supervisors conduct onsite examination to evaluate the effectiveness of risk management policies, processes and exception reporting process. If there is any concern, BOT supervisors will instruct the financial institution to make correction.</p>   |
| <b>EC4</b>                      | <p>The supervisor determines that the bank's Board and senior management obtain sufficient information on, and understand, the nature and level of risk being taken by the bank and how this risk relates to adequate levels of capital and liquidity. The supervisor also determines that the Board and senior management regularly review and understand the implications and limitations (including the risk measurement uncertainties) of the risk management information that they receive.</p>  |
| Description and findings re EC4 | <p>The BOT requires that the financial institution's Board obtains sufficient information from senior management in order to effectively perform its duties, that the Board oversees the financial institutions to have effective information systems for the aggregation and reporting of risk management information including its risk profile (nature and level of risks) in relation to capital and liquidity levels in an accurate, complete and timely manner, and that the Board and senior management regularly review and understand the implications and limitations of, and can effectively use such information to ensure that risks of the financial institution are properly managed and are within the acceptable level (BOT Notification No. FPG. 10/2561: Corporate Governance of Financial Institutions).</p> <p>In this respect, the BOT supervisors assess that:</p> <ul style="list-style-type: none"> <li>• The banks present risk management information to their Board and senior management promptly, with adequate coverage which reflects the financial institutions' risk profile (both the nature and the level of risks), how the risks relate to adequate levels of capital and liquidity, significant changes in the financial institutions' activities and the effects on the risk profile, as well as reporting frequency. Policy and procedure in monitoring and controlling exception transactions and risk exposures against threshold/limit must be in place. Breaches on soft/hard thresholds/limits or exceptions must be escalated to senior management and/or relevant committee or the Board where necessary for the banks to take appropriate actions in a timely manner. The BOT supervisors review the financial institutions' internal reports that are submitted to the Board and senior management, minutes and documents supporting risk management agenda of the Board meeting or other relevant committee meetings, including relevant policies and processes. In addition, the BOT supervisors conduct onsite examination to evaluate the effectiveness of the process, management information systems and reporting. If there is any concern, BOT supervisors will instruct the financial institution to make correction.</li> </ul> |

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|                                 | <ul style="list-style-type: none"> <li>The Board and senior management understand the implication and the limitations of risk management information (e.g., uncertainties and key assumptions of risk measurement), take part and perform their duties by expressing opinions or recommendations and instruct the banks to take appropriate remedial actions if there are concerns and they follow up the progress. The BOT supervisors conduct the assessment by reviewing minutes of the Board meetings or other committee meetings and interviewing relevant persons. If there is any concern, the BOT supervisors will instruct the financial institution to make corrections.</li> </ul>   |
| <b>EC5</b>                      | <p>The supervisor determines that banks have an appropriate internal process for assessing their overall capital and liquidity adequacy in relation to their risk appetite and risk profile. The supervisor reviews and evaluates banks' internal capital and liquidity adequacy assessments and strategies.</p>  |
| Description and findings re EC5 | <p>The BOT requires financial institutions to have an internal capital and liquidity adequacy assessment processes (BOT Notification No. SVG. 5/2552 Re: Guideline on Supervisory Review of Capital Adequacy (Pillar 2) and BOT Policy Guidelines on Liquidity Risk Management for Financial Institutions) and the financial institution's Board to oversee such processes and ensure that the financial institutions have adequate levels of capital and liquidity (the BOT Notification No. FPG. 10/2561: Corporate Governance of Financial Institutions).</p> <p>In this respect, the BOT supervisors assess whether banks have adequate and effective policies, strategies and processes for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining adequate capital levels, capturing all material risks faced by the financial institutions by reviewing the financial institutions' risk management and capital adequacy assessment documents, e.g., the financial institutions' ICAAP reports submitted to the BOT on an annual basis (which contain information about the financial institutions' risk assessment, capital assessment, and stress test results proposed to the financial institutions' Board, as well as capital plan), internal risk management reports, minutes and documents supporting risk management agenda of the Board meetings and other relevant committee meeting. The BOT supervisors also interview relevant persons and perform a walk-through test.</p> <p>Furthermore, the BOT supervisors check whether the financial institutions have adequate and effective policies, strategies, and processes for identifying, measuring, monitoring, managing and controlling liquidity risk under both normal and stressed circumstances, conduct and integrate stress test results into their liquidity risk management, development of contingency plan, and maintenance of adequate liquidity cushion by reviewing the financial institutions' liquidity risk management and liquidity adequacy assessment documents such as policies and procedures on liquidity risk management including liquidity stress test processes and test results, liquidity contingency plan and result of the plan testing, internal liquidity risk management reports, minutes and documents supporting liquidity risk management agenda of the Board meetings and other relevant committee meetings such as ALCO.</p> |

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|                                 | <p>In addition, the BOT supervisors conduct onsite examinations to evaluate the effectiveness of the internal capital and liquidity process. If there is any concern, BOT supervisors will instruct the financial institution to make corrections. In case where the financial institutions' capital or liquidity position is inadequate, the BOT will further examine to determine if the financial institution has comprehensive and effective contingency plans in place and instruct the financial institutions to make improvements when necessary.</p>  |
| <b>EC6</b>                      | <p>Where banks use models to measure components of risk, the supervisor determines that:</p> <ul style="list-style-type: none"> <li>• Banks comply with supervisory standards on their use.</li> <li>• The banks' Boards and senior management understand the limitations and uncertainties relating to the output of the models and the risk inherent in their use.</li> <li>• Banks perform regular and independent validation and testing of the models.</li> </ul> <p>The supervisor assesses whether the model outputs appear reasonable as a reflection of the risks assumed.</p>   |
| Description and findings re EC6 | <p>The BOT requires that the models that financial institutions use to measure risks comply with the BOT minimum requirements, e.g., are widely used and accepted, able to capture and reflect risk in an accurate, reasonable, and reliable manner. In the aspects of inputs, processes and outputs, the financial institution's Board and senior management are aware of and understand the limitations and constraints of the models, as well as uncertainties and risks relating to the outputs, and the financial institution performs regular and independent validation and testing of the models (BOT Notification No. FPG. 10/2561: Corporate Governance of Financial Institutions and Best Practice for Risk Management Process: Risk Model Validation).</p> <p>In this respect, the BOT supervisors assess that</p> <ul style="list-style-type: none"> <li>• The unit responsible for reviewing, validating, and testing models is independent from the unit responsible for developing models. The validation and testing of the models ensures that the models can accurately, reasonably and reliably measure risks, in line with supervisory standards and international good practice: <ol style="list-style-type: none"> <li>(1) Input data: both internal and external data used in the models,</li> <li>(2) Process: risk model theories, assumptions, factors, computer programs, and mathematical formulas used in the models, and</li> <li>(3) Output, e.g., comparing outputs from the models with the actual outcome (back testing).</li> </ol> </li> <li>• The financial institutions' Board and senior management are aware of, and understand the limitations and constraints of the models, as well as the uncertainties and risks relating to outputs from these models, as well as raise concerns or express opinions.</li> </ul> <p>The BOT supervisors conduct the assessment by reviewing related documents, e.g., policies, processes, methodologies about model development, review, and validation/testing,</p> |

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|                                 | <p>organization chart of relevant units, reports and presentations on actual model results, model review, and validation/testing as well as requests for model modifications, minutes of the Board meetings and other relevant committee meetings and interviewing relevant persons. In addition, the BOT supervisors conduct onsite examination to evaluate the effectiveness of the process.</p> <p>Moreover, the BOT supervisors, together with the BOT model specialist team, assess the accuracy, reliability, validity, and regulatory compliance of financial institutions' risk models and risk parameters used for: (i) regulatory capital calculation, e.g., internal rating based (IRB) approach for credit risk and internal model for market risk (such as Value at Risk); (ii) calculation of provisioning level for current loan (CL)/ possible impaired loan (PIL), e.g., internal model to estimate PD, LGD, or EL; (iii) stress testing; (iv) other internal models for assessing risk components, such as credit rating, credit scoring models.</p> <p>If there is any concern, the BOT supervisors will instruct the financial institutions to take corrective action.</p>   |
| <b>EC7</b>                      | <p>The supervisor determines that banks have information systems that are adequate (both under normal circumstances and in periods of stress) for measuring, assessing and reporting on the size, composition and quality of exposures on a bank-wide basis across all risk types, products and counterparties. The supervisor also determines that these reports reflect the bank's risk profile and capital and liquidity needs and are provided on a timely basis to the bank's Board and senior management in a form suitable for their use.</p>   |
| Description and findings re EC7 | <p>The BOT requires that financial institutions establish adequate, efficient and effective information system for managing and reporting of risk exposures to support comprehensive and effective risk management of the financial institution. These reports shall cover all material risk types and reflect the financial institution's strategy, risk profile, its systemic importance as well as capital and liquidity need, and shall be provided to financial institution's Board, relevant sub-committees, senior management, and relevant parties in an appropriate and timely manner (BOT Notification No. FPG. 10/2561: Corporate Governance of Financial Institutions, BOT Notification No. SVG. 5/2552: Guideline on Supervisory Review of Capital Adequacy (Pillar 2) and BOT Policy Guidelines on Liquidity Risk Management for Financial Institutions).</p> <p>In this respect, the BOT supervisors assess that:</p> <ul style="list-style-type: none"> <li>• The financial institutions' information system for measuring, assessing, aggregating and reporting of risk exposures in the following aspects:</li> </ul> <p>(1) Accuracy: correctness of information or data under normal and stress conditions.</p> <p>(2) Completeness: the information reflects size, composition and quality of exposures on a financial institution-wide basis across all products, all locations, all types of material risks, and all counterparties both under normal circumstances and in periods of stress.</p> <p>(3) Timeliness: information is up to date and available at an appropriate frequency.</p> |

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|                                 | <ul style="list-style-type: none"> <li>• The financial institution reports risk management information to the Board, Risk Management Committee and senior management on a timely basis with adequate coverage which reflects the financial institutions' overall risk profile, all types of material risks, including risks arising from new products, existing product modifications, new initiatives, and significant changes in the financial institution's activities, and capital and liquidity need. The frequency is also evaluated.</li> <li>• The BOT supervisors conduct the assessment by reviewing the financial institutions' internal reports submitted to the Board, Risk Management Committee and senior management, minutes and documents supporting risk management agenda of the Board meetings and other relevant committee meeting. In addition, the BOT supervisors conduct onsite examination to assess the effectiveness of processes, management information systems and reporting. If there is any concern, the BOT supervisors will instruct the financial institution to make correction.</li> </ul>  |
| <b>EC8</b>                      | <p>The supervisor determines that banks have adequate policies and processes to ensure that the banks' Boards and senior management understand the risks inherent in new products,<sup>44</sup> material modifications to existing products, and major management initiatives (such as changes in systems, processes, business model and major acquisitions). The supervisor determines that the Boards and senior management are able to monitor and manage these risks on an ongoing basis. The supervisor also determines that the bank's policies and processes require the undertaking of any major activities of this nature to be approved by their Board or a specific committee of the Board.</p>  |
| Description and findings re EC8 | <p>The BOT requires that the Board understand inherent risks of new product development/new transactions, material modifications to existing products and major management initiatives such as changes in systems and major mergers &amp; acquisitions, and that the policies regarding such activities are approved by the Board. The Board and senior management must be able to monitor and ensure that such risks are effectively managed on an ongoing basis (the BOT Notification No. FPG. 10/2561 Corporate Governance of Financial Institutions).</p> <p>The BOT supervisors assess adequacy and effectiveness of the banks' policies or procedures about new product development/new transactions, material modifications to existing products and major management initiatives to ensure that:</p> <ul style="list-style-type: none"> <li>• Prior to approval of new product development/new transactions, material modifications to existing products and major management initiatives by the Board or specific committee, all relevant risks should be considered. Financial institutions should explicitly appoint a committee responsible for /new transactions, material modifications to existing products and major management initiatives. This committee should consist of all related departments.</li> </ul> |

<sup>44</sup> New products include those developed by the bank or by a third party and purchased or distributed by the bank.

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|                                 | <ul style="list-style-type: none"> <li>• The financial institutions have a system to monitor and manage risks that covers the risks arising from new product development/new transactions, material modifications to existing products and major management initiatives.</li> <li>• The financial institutions appropriately prepare the new product program.</li> <li>• The financial institutions' end-to-end process of various operations relating to new product development/new transactions, material modifications to existing products and major management initiatives, should follow the financial institutions' policies and procedures.</li> </ul> <p>The BOT supervisors review related documents, such as policies and procedures for new product development/new transactions, material modifications to existing products and major management initiatives, and relevant information/reports such as transaction, request, and internal reports that show new products/types of transactions, material modifications and major initiatives. In addition, the BOT supervisors assess whether the financial institutions' Board approves and regularly reviews such policies and procedures.</p> <p>The BOT supervisors also conduct onsite examination to assess whether the operations are in line with the financial institutions' policies and procedures and evaluate if the financial institutions' Board and senior management understand and perform their duties by continuously monitoring and managing the risks arising from new products, material modifications to existing products, and major management initiatives. If there is any concern, the BOT supervisors will instruct the financial institution to make correction.</p> |
| <b>EC9</b>                      | <p>The supervisor determines that banks have risk management functions covering all material risks with sufficient resources, independence, authority and access to the banks' Boards to perform their duties effectively. The supervisor determines that their duties are clearly segregated from risk-taking functions in the bank and that they report on risk exposures directly to the Board and senior management. The supervisor also determines that the risk management function is subject to regular review by the internal audit function.</p>  |
| Description and findings re EC9 | <p>The BOT requires that financial institutions have control functions including risk management function that are effective and independent from the risk-taking functions. Control functions shall have sufficient resources, authority and stature, competent and experienced personal, to support effective check and balance mechanism within the financial institution. The head of risk management function should have a reporting line to the Board or board-level committees apart from reporting to the CEO. The financial institution's risk management system and risk management function are subject to regular review by the internal audit function. (the BOT Notification No. FPG. 10/2561: Corporate Governance of Financial Institutions and BOT Policy Statement on Internal Audit)</p> <p>On this, the BOT supervisors assess that the financial institutions' risk management function:</p> <ul style="list-style-type: none"> <li>• Has authority, clear roles and responsibilities covering all material risks, clear segregation of duties from risk-taking units, and access/reporting line to the Board or board-level committees, has sufficient resources (quantity and quality of staff, budget,</li> </ul>  |

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|                                  | <p>tools, systems) by reviewing the relevant documents, e.g., documented risk management policies, processes, systems and methodologies, organization chart, roles and responsibilities of risk management function, manpower vs actual number of staff, job description and qualification of risk management staff, contents/ timeliness/ frequency/ recipients of risk management reports.</p> <ul style="list-style-type: none"> <li>• Is subject to regular independent and effective review by internal audit function by reviewing the financial institutions' internal audit plan (whether it regularly covers risk management function) and internal audit report that assesses risk management function (whether there are any significant issues, and the internal audit function has performed comprehensive, independent, and effective review).</li> </ul> <p>In addition, the BOT supervisors conduct onsite examination to evaluate effectiveness of policies, processes, systems and responsibilities of risk management function. If there is any concern, the BOT supervisors will instruct the financial institution to make correction.</p> <p>Furthermore, the BOT assesses to ensure that composition and qualification of the financial institutions' risk management committee (RMC) are appropriate and in compliance with the BOT regulations and that RMC performs an effective role in helping the CEO overseeing risk management of the financial institutions by reviewing the RMC Charter, qualification of RMC members, minutes of the Board, risk oversight committee, and RMC meetings, and risk management information reviewed by the RMC as well as interviewing relevant senior management and staff.</p> |
| <b>EC10</b>                      | <p>The supervisor requires larger and more complex banks to have a dedicated risk management unit overseen by a Chief Risk Officer (CRO) or equivalent function. If the CRO of a bank is removed from his/her position for any reason, this should be done with the prior approval of the Board and generally should be disclosed publicly. The bank should also discuss the reasons for such removal with its supervisor.</p>  |
| Description and findings re EC10 | <p>The BOT requires financial institutions to appoint Chief Risk Officer (CRO) with sufficient stature and seniority within the organization to oversee the financial institution's risk management functions. Moreover, the appointment, change, and removal of the CRO shall be approved by the financial institution's Board and the financial institution shall inform the BOT of these changes. In addition, the financial institution shall publicly disclose its organization chart which includes head of risk management function (the BOT Notification No. FPG. 10/2561 Corporate Governance of Financial Institutions).</p> <p>The BOT supervisors assess that:</p> <ul style="list-style-type: none"> <li>• The financial institutions' CROs possess suitable qualifications, knowledge, capability and experience, and holds senior a position/rank in the organization (with sufficient stature) to facilitate effective duties by reviewing qualification of CROs, organization chart, and authority of CROs.</li> <li>• The financial institution's CRO is overseeing risk management functions, supporting the Board, the board committees, and senior management. He/She is performing checks and balances with the heads of business units and ensuring the risks to which</li> </ul>  |

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|                                  | <p>the financial institution is exposed, are managed safely and soundly. The BOT supervisors review documents such as internal risk management reports and other documents that CROs/risk management functions present to the Board, board committees and senior management, minutes of the Board and board committee meetings, to assess whether the CRO present, raise findings, provide useful risk management advice and recommendations.</p> <ul style="list-style-type: none"> <li>• The appointment, change and resignation of the CRO is approved by Board and the BOT is informed of any changes.</li> </ul>  |
| <b>EC11</b>                      | The supervisor issues standards related to, in particular, credit risk, market risk, liquidity risk, interest rate risk in the banking book and operational risk.  |
| Description and findings re EC11 | <p>The BOT has issued regulations and guidelines for major risk types as follows:</p> <p><b>Credit risk</b></p> <ul style="list-style-type: none"> <li>• The BOT Policy Statement on Credit Transaction and Credit Risk Examination Procedures Manual. Financial institutions must have the credit risk management policy and process approved by the financial institutions' Board and have appropriate risk management systems to identify, assess, monitor, control and mitigate credit risk, with clear segregation of duties in the process of credit or loan granting to avoid conflict of interest. Moreover, the Board and senior management must understand credit risk inherent in new product to be able to manage associates risks properly.</li> </ul> <p><b>Market risk</b></p> <ul style="list-style-type: none"> <li>• The BOT Notification No. FPG. 16/2558: Regulation on Risk Management for Derivative Transactions—the Board and senior management must ensure that financial institutions have effective risk management for derivative transactions, that is appropriate to and consistent with characteristic, volume and complexity of derivative transactions engaged by the financial institutions</li> <li>• The BOT Notification No. FPG. 94/2551: Regulations on Supervision of Market Risk and Capital Requirements for Market Risk of Financial Institutions—the Board must understand types of market risk that financial institutions are exposed to, ensure that the financial institutions' market risk management system covers all types of transactions, and delegate responsible sub-committees or senior management to set adequate procedures, which are effectively implemented.</li> </ul> <p><b>Liquidity risk</b></p> <ul style="list-style-type: none"> <li>• The BOT Policy Guidelines on Liquidity Risk Management for Financial Institutions– the Board must establish a robust liquidity risk management framework that ensures the financial institutions maintains sufficient liquidity, including a cushion of unencumbered, high quality liquid assets, to withstand a range of stress events, including those involving loss or impairment of both unsecured and secured funding sources.</li> </ul> |

- The BOT Notification No. FPG. 9/2558: Liquidity Coverage Ratio (LCR) requirement—financial institutions must have adequate liquidity to support short-term severe liquidity stress scenarios by requiring financial institutions to maintain unencumbered High-Quality Liquid Assets (HQLA) to cover total net cash outflows over the next 30 calendar days under severe liquidity stressed scenarios.
- The BOT notification No. FPG. 1 /2561: Regulations on the Net Stable Funding Ratio (NSFR)—The NSFR aims to supervise the medium to long term liquidity risk in addition to the LCR which focuses on the short-term liquidity risk. It measures the liquidity adequacy over the time horizon of one year, aiming to ensure that the commercial banks maintain their stable sources of funds to match and sufficiently support their assets holding, as such assets may be rolled over or may not be liquidated in a short period of time without a significant change in value.

#### **Interest rate risk in the banking book**

- The BOT Notification No. FPG. 42/2551: Supervision Guideline on Interest Rate Risk for Banking Book of the Financial Institutions – financial institutions must establish systems, which are able to measure all material sources of interest rate risk and the effects of interest rate changes on earnings and/or economic value of the financial institutions that are suitable and consistent with the scope, volume and complexity of the financial institutions' activities.

#### **Operational risk**

- The BOT Policy Statement on Operational Risk Management—the Board is responsible for setting an appropriate policy framework, a strategy, a definition of operational risk, a risk limit as well as an action plan, and communicating to all staffs and relevant business units in order to acknowledge and raise awareness on the importance and responsibilities regarding control of the financial institutions' operational risk. Moreover, the Board must establish an operational risk management (ORM) unit which reports directly to the Risk Management Committee.

#### **IT risk**

- IT Best Practices, Phase 1: Deposit, withdraw and transfer—financial institutions must assess, and control risks related to the process of and IT system supporting deposits, withdrawals and transfers.
- IT Best Practices, Phase 2: E-Banking and E-Payment has the same purpose as Phase 1 with a wider range of business process of electronics banking and payment.
- The BOT Notification Re: Regulation on Supervision of Information Technology Risk of Financial Institutions—emphasizing appropriateness of qualifications and duties of the Board as well as policy formulation, organization structure, working system, process and personnel management related to IT risk management, which must be in line with the principles of confidentiality and integrity of the systems and information as well as consumer access and protection.

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| <b>EC12</b>                      | <p>The supervisor requires banks to have appropriate contingency arrangements, as an integral part of their risk management process, to address risks that may materialize and actions to be taken in stress conditions (including those that will pose a serious risk to their viability). If warranted by its risk profile and systemic importance, the contingency arrangements include robust and credible recovery plans that take into account the specific circumstances of the bank. The supervisor, working with resolution authorities as appropriate, assesses the adequacy of banks' contingency arrangements in the light of their risk profile and systemic importance (including reviewing any recovery plans) and their likely feasibility during periods of stress. The supervisor seeks improvements if deficiencies are identified.</p>   |
| Description and findings re EC12 | <p>The BOT requires financial institutions to have clearly written and practical contingency plans, which specify the strategies and actions in times of stress, particularly with regard to capital (capital plan &amp; contingency plan, in case of unexpected events and inability to increase capital as planned), liquidity (contingency funding plan: CFP), business operations (business continuity plan: BCP) (the BOT Notification No. FPG. 10/2561: Corporate Governance of Financial Institutions, the BOT Notification No. SVG. 5/2552: Guideline on Supervisory Review of Capital Adequacy (Pillar 2) and the BOT Policy Guidelines on Liquidity Risk Management for Financial Institutions).</p> <p>In addition, the BOT requires financial institutions to submit recovery plans (BOT Notification No. FPG. 16/2561: Recovery Planning Requirement for Commercial Banks and related Recovery Planning Guideline) and provide essential information for the development of resolution plans to the BOT. As part of recovery plans, financial institutions are required to identify their critical functions, critical shared services as well as the extent of interdependencies within the group. Feasibility of recovery options must be demonstrated, including options to separate or cease operations of certain parts of the business while maintaining operational continuity of critical services. Such information would facilitate resolvability assessments undertaken as part of development of the financial institutions' resolution plans.</p> <p>The BOT supervisors assess whether financial institutions establish guidelines, including responsible functions, with clear and sufficient details as well as appropriate and feasible duration of operations in their contingency plans (e.g., BCP, capital plan and CFP) and whether the plans:</p> <ul style="list-style-type: none"> <li>• Comply with the minimum standards set by the BOT.</li> <li>• Cover significant activities/core functions of the financial institutions.</li> <li>• Have trigger level that is clearly and appropriately defined.</li> <li>• Are under regular review, at least once a year.</li> </ul> <p>The BCP and CFP must be tested to assess the effectiveness of the plans at least once a year. The BOT supervisors review the results of the tests and check if the testing process is in accordance with the financial institutions' plan.</p> |

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|                                  | <p>In addition, the BOT supervisors, in conjunction with the Special Resolution Unit (SRU) and in collaboration with other relevant authorities, assess the adequacy of the financial institutions' recovery plans, taking into consideration the financial institutions' risk profile and systemic importance in the following aspects:</p> <ul style="list-style-type: none"> <li>• The financial institutions identify all their core business lines, key legal entities, critical functions, critical shared services as well as the extent of interdependencies within the group.</li> <li>• The financial institutions determine indicators covering BCP, capital, liquidity, profit, and assets quality.</li> <li>• The trigger level is not less than the BOT minimum requirement and is consistent with the financial institutions' risk appetite.</li> <li>• Clear guidelines are set as to what needs to be done when each indicator reaches the trigger level.</li> <li>• Completeness of recovery option setting and possibility of each option.</li> </ul> <p>If the BOT supervisors find that the financial institutions' BCP, capital plan, CFP or RP are inappropriate, such as it is not clear who are the involved /responsible parties, the BOT supervisors will instruct the financial institutions to improve their plans or make corrections.</p>                   |
| <b>EC13</b>                      | <p>The supervisor requires banks to have forward-looking stress testing programs, commensurate with their risk profile and systemic importance, as an integral part of their risk management process. The supervisor regularly assesses a bank's stress testing program and determines that it captures material sources of risk and adopts plausible adverse scenarios. The supervisor also determines that the bank integrates the results into its decision-making, risk management processes (including contingency arrangements) and the assessment of its capital and liquidity levels. Where appropriate, the scope of the supervisor's assessment includes the extent to which the stress testing program:</p> <ul style="list-style-type: none"> <li>• Promotes risk identification and control, on a bank-wide basis.</li> <li>• Adopts suitably severe assumptions and seeks to address feedback effects and system-wide interaction between risks.</li> <li>• Benefits from the active involvement of the Board and senior management.</li> <li>• Is appropriately documented and regularly maintained and updated.</li> </ul> <p>The supervisor requires corrective action if material deficiencies are identified in a bank's stress testing program or if the results of stress tests are not adequately taken into consideration in the bank's decision-making process</p> |
| Description and findings re EC13 | <p>The BOT requires financial institutions to have forward-looking stress testing policies and programs, commensurate with their risk profile and systemic importance, and incorporate them into the financial institutions' decision-making, risk management processes and assessment of the capital and liquidity levels. The Board must approve the stress testing policies and, together with the financial institutions' senior management, oversee risk management of the financial institutions to ensure that risks are properly managed and</p>   |

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|                                  | <p>within risk tolerance levels and that the financial institutions have adequate capital and liquidity to absorb those risks both in normal circumstances and in times of stress (the BOT Notification No. SVG. 5/2552: Guideline on Supervisory Review of Capital Adequacy (Pillar 2) and the BOT Policy Guidelines on Liquidity Risk Management for Financial Institutions).</p> <p>In this respect, the BOT supervisors check and assess that:</p> <ul style="list-style-type: none"> <li>• The financial institution’s stress testing policies and programs are commensurate with the financial institutions’ risk profile and systemic importance, capturing all material sources of risk on a financial institution-wide basis, and are incorporated in the financial institutions’ risk identification, management, and controls as well as the assessment of provisioning, capital and liquidity.</li> <li>• The financial institution’s stress testing policies are approved by the Board and the policies and programs are in written form and regularly updated.</li> <li>• The assumptions used in stress testing are plausible and suitably severe, covering most likely, moderate, and severe scenarios.</li> <li>• Stress test results are incorporated in the financial institutions’ decision-making, risk management, and contingency planning, and are reported to and reviewed by the Board and senior management.</li> <li>• The Board and senior management are involved in stress testing process.</li> </ul> <p>The BOT supervisors review related documents/reports/ information such as stress testing policies and procedures, including the contingency plan, ICAAP report submitted to the BOT every year, internal reports on stress testing, minutes of the Board and committee’s meetings and interview relevant persons. If the BOT supervisors find that a financial institution’s stress testing program has any deficiencies or the stress test results are not adequately taken into consideration in the financial institution’s decision-making process or the stress test results are inappropriate and may result in insufficient reserves/capital inadequacy, the BOT supervisors will discuss with the financial institutions and require the financial institutions to make corrections or have backup measures/plans.</p> <p>In addition, the BOT requires banks to conduct annual supervisory stress tests to monitor the impact of major risks to Thai banks. The BOT also provides feedback on the stress test results of the overall Thai banking system to Thai banks.</p> |
| <b>EC14</b>                      | The supervisor assesses whether banks appropriately account for risks (including liquidity impacts) in their internal pricing, performance measurement and new product approval process for all significant business activities.  |
| Description and findings re EC14 | The BOT requires financial institutions to have a sound risk culture and effective risk governance framework, which accounts for risk in their internal pricing, performance measurement, and new product approval processes (the BOT Notification No. FPG. 10/2561Corporate Governance of Financial Institutions and the BOT Policy Guidelines on Liquidity Risk Management for Financial Institutions).   |

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|                                   | <p>The BOT supervisors assess whether financial institutions appropriately incorporate risks in their internal pricing, performance measurement, and new product approval process for all significant business activities by reviewing the financial institutions' internal pricing approaches/models (e.g., fund transfer pricing (FTP) and risk-adjusted return on capital (RAROC)), key performance indicators (KPIs) of the financial institutions' senior management, and new product development process (as mentioned in EC8). The BOT supervisors also interview relevant persons to assess whether such procedures account for significant risk factors and have been effectively applied to all significant business activities.</p>  |
| <b>Additional criteria</b>        |   |
| <b>AC1</b>                        | <p>The supervisor requires banks to have appropriate policies and processes for assessing other material risks not directly addressed in the subsequent Principles, such as reputational and strategic risks.</p>   |
| Description and findings re AC1   | <p>The BOT requires financial institutions to have a sound risk culture and an effective risk governance framework, which considers risks into their internal pricing, performance measurement, and new product approval process (the BOT Notification No. FPG. 10/2561 Corporate Governance of Financial Institutions and the BOT Policy Guidelines on Liquidity Risk Management for Financial Institutions).</p> <p>The BOT supervisors assess whether financial institutions incorporate risks in their internal pricing, performance measurement, and new product approval process for all significant business activities by reviewing the financial institutions' internal pricing approaches/models (e.g., fund transfer pricing (FTP) and risk-adjusted return on capital (RAROC)), key performance indicators (KPIs) of the financial institutions' senior management, and new product development process (as mentioned in EC8). The BOT supervisors also interview relevant persons to assess whether such procedures appropriately account for significant risk factors and have been effectively applied to all significant business activities.</p> |
| <b>Assessment of Principle 15</b> | Compliant   |
| Comments                          | <p>The assessors reviewed examination reports, risk assessments, and supporting supervisory documents in risk management. They found that the BOT supervisors assess the financial institutions' policies, procedures, and practices in sufficient depth and scope across the risk categories.</p> <p>The assessors recommend that the BOT better articulate its supervisory expectations by publishing best practice guides, for example after thematic reviews or when a range of practice is observed on topics, for example risk management and governance. This will also contribute to the international standing of the BOT as a world class prudential supervisor.</p>  |

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| <b>Principle 16</b>             | <b>Capital adequacy.</b> <sup>45</sup> The supervisor sets prudent and appropriate capital adequacy requirements for banks that reflect the risks undertaken by, and presented by, a bank in the context of the markets and macroeconomic conditions in which it operates. The supervisor defines the components of capital, bearing in mind their ability to absorb losses. At least for internationally active banks, capital requirements are not less than the applicable Basel standards.   |
| <b>Essential criteria</b>       |  |
| <b>EC 1</b>                     | Laws, regulations or the supervisor require banks to calculate and consistently observe prescribed capital requirements, including thresholds by reference to which a bank might be subject to supervisory action. Laws, regulations or the supervisor define the qualifying components of capital, ensuring that emphasis is given to those elements of capital permanently available to absorb losses on a going concern basis.  |
| Description and findings re EC1 | <p>Section 29 - 32 of FIBA empowers the BOT to require banks (both locally incorporated banks and foreign bank branches) to maintain capital. In addition, the BOT has the power under Section 94-97 of FIBA to order banks to submit a recapitalization plan, intervene and/or suspend operations of a bank if the bank fails to comply with the minimum capital requirement or its capital adequacy ratio falls below a pre-set level.</p> <p>In line with Basel III, the BOT requires locally incorporated banks to maintain Common Equity Tier 1 (CET1) of at least 4.5 percent, Tier 1 capital of at least 6 percent and total capital of at least 8.5 percent of risk-weighted assets at the end of the day both on a solo and consolidated basis (The BOT Notification No. FPG. 12/2555: Regulations on Supervision of Capital for Commercial Banks and the BOT Notification No. FPG. 9/2561: Regulations on Capital Supervision for Financial Business Groups).</p> <p>Foreign banks' branches are required to have funds from parent companies maintained in the form of qualified assets of which the amounts, types, procedures and conditions are prescribed by the BOT Notification No. FPG. 8/2558: Regulations on Components of Capital for Foreign Bank Branches. These assets are considered as capital of foreign banks' branches to secure their local operations and ensure stability of their business. Currently, foreign banks' branches are always required to maintain total capital as a ratio of risk-weighted assets at 8.5 percent. (The BOT Notification No. FPG. 12/2555)</p> <p>Under the BOT Notification No. FPG. 7/2558: Regulations on Components of Capital for Locally Incorporated Banks, the BOT prescribes capital components in line with Basel III to ensure the banks' capacity to absorb loss both on an ongoing and gone concerns. Capital comprises common equity tier 1 (CET1), Additional tier 1 (AT1), and Tier 2.</p> |

<sup>45</sup> The Core Principles do not require a jurisdiction to comply with the capital adequacy regimes of Basel I, Basel II and/or Basel III. The Committee does not consider implementation of the Basel-based framework a prerequisite for compliance with the Core Principles, and compliance with one of the regimes is only required of those jurisdictions that have declared that they have voluntarily implemented it.

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|                                 | <p>CET1 primarily comprises common shares and retained earnings. Equity instruments to be included in CET1 must meet a set of criteria including a perpetual nature, meaning the instruments cannot be repaid outside of liquidation (except in the case of buy-back of shares which requires prior approval from the BOT so as to ensure that the banks remain well-capitalized after buy back and have sufficient amount of capital suitable for their risk exposure and business). In any case, banks must not specify the conditions that create an expectation that the instruments will be bought back, redeemed or cancelled.</p> <p>Principal of AT1 instruments is also required to be perpetual and there are no step-ups or other incentives to redeem. To ensure that capital instruments meet all criteria specified in the BOT regulations and can absorb losses on a going-concern basis, inclusion of eligible financial instruments as capital and redemption of capital instrument require prior approval by the BOT.</p> <p>The BOT regularly monitors the adequacy of capital using the data reported monthly from banks through the Data Management System (DMS), focusing on components of capital, risk weighted assets and capital ratios. Those data are utilized as one of the benchmarking tools to compare loss absorbance capacity of selected bank and its peers at least on a quarterly basis. Moreover, the BOT has developed EWI to identify plausible triggers of risk accumulation which could potentially impact banks' capital adequacy.</p> <p>The BOT has implemented prudential filters to address the changes in fair value measurement of derivatives transactions used for hedging cash flow risk, for accumulated gains or losses occurred from any changes in the banks' own credit worthiness and for accumulated gains or losses from the alternative approach in accounting of the fair value option.</p> <p>The Thai banking system is very well capitalized; the most recent total capital ratio for D-SIBs stood at 17.57 percent, for non-D-SIBs it is was 19.64 percent and for foreign bank branches it reached 20.57 percent</p> <p>During onsite examination, the BOT supervisors will review and verify the capital calculation and assess capital planning processes and strategies both in the short-run and long-run.</p> |
| <b>EC2</b>                      | At least for internationally active banks, <sup>46</sup> the definition of capital, the risk coverage, the method of calculation and thresholds for the prescribed requirements are not lower than those established in the applicable Basel standards.   |
| Description and findings re EC2 | All locally incorporated banks (including retail bank, foreign bank's subsidiary) are subject to capital requirement of 8.5 percent (higher than the Basel standards), Tier 1 ratio of 6 percent, Common Equity Tier 1 of 4.5 percent (same as the Basel Standards) and the Basel III buffer requirements. The BOT Notification No. FPG. 12/2555: Regulations on  |

<sup>46</sup> The Basel Capital Accord was designed to apply to internationally active banks, which must calculate and apply capital adequacy ratios on a consolidated basis, including subsidiaries undertaking banking and financial business. Jurisdictions adopting the Basel II and Basel III capital adequacy frameworks would apply such ratios on a fully consolidated basis to all internationally active banks and their holding companies; in addition, supervisors must test that banks are adequately capitalized on a stand-alone basis.

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| <p>Supervision of Capital for Commercial Banks requires banks to hold two types of capital buffer, namely (i) Conservation buffer; for banks to build up capital buffer outside period of stress which can be drawn down when the banks encounter losses or when an economic crisis occurs. Currently, banks are required to hold a conservation buffer of 2.5 percent; (ii) Countercyclical buffer; for banks to hold capital considering the macrofinancial environment. The countercyclical buffer will be put in place to prevent risk build-up during the time of excessive growth and will be released to accommodate economic activities during economic downturn. Currently, there is no indication of excessive credit growth, therefore, banks are not required to hold countercyclical buffer for now. The BOT may require banks to hold countercyclical buffer in the future as deemed necessary.</p> <p>The BOT Notification No. FPG. 7/2558 stipulates the definition of capital (in line with the Basel III standard) for locally incorporated banks.</p> <p>With respect to risk coverage, the capital requirement under Pillar 1 covers credit risk, market risk and operational risk from all on- and off-balance sheet items. The method of calculating risk-weighted asset for credit risk, market risk and operational risk are prescribed in the BOT Notification No. FPG.15/2555 (credit risk-SA), BOT Notification No. FPG.16/2555 (credit risk-IRB), BOT Notification No. FPG.17/2555 (counterparty credit risk for derivative transactions), BOT Notification No. FPG.18/2555 (the Calculation of Credit Risk-weighted Assets for Failed Trades and Non-Delivery versus Payment (Non-DvP) Transactions), BOT Notification No. FPG. 94/2551 (market risk) and BOT Notification No. FPG.95/2551 (operational risk-BIA and SA) and BOT Notification No. FPG.55/2555 (operational risk- Advanced Measurement Approach (AMA)).</p> <p>Calculation of credit risk and operational risk are consistent with the current Basel standards, while the market risk framework is currently based on Basel II standard as none of locally incorporated banks use internal models to calculate capital for market risk exposure and they are not engaged in credit correlation trading or securitization which are the areas of focus of Basel II.5. The new market risk framework under Basel III will be implemented in 2022.</p> <p>The capital charge for Credit Valuation Adjustment risk and capital requirement for exposures to CCP will in effect in 2021 and the new standardized approach to calculate counterparty credit risk exposure (SA-CCR) will be implemented in 2024. Currently, the calculation of counterparty credit risk exposure is in accordance with the BOT Notification No. FPG. 17/2555: Regulations on the Calculation of Counterparty Credit Risk-Weighted Assets for Derivative Transactions, which requires banks to use the current exposure method (CEM) under Basel II. The BOT views that the approach effectively and adequately reflects counterparty credit risk given the current level and complexity of derivative activities of banks in Thailand. Besides, banks are required to comply with the risk management requirements to be able to undertake derivatives business. Specifically, banks can engage in derivatives within the scope specified in the BOT Notification No. FPG.12/2558 (Regulations on derivative transactions), BOT Notification No. FPG. 13/2558 (market derivatives), BOT Notification No. FPG. 14/2558 (credit derivatives), and BOT</p> |
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|                                 | Notification No. FPG. 15/2558 (structured products), whereby stringent risk management (BOT Notification No. FPG. 16/2558: Regulations on Risk Management for Derivative Transactions) and client suitability analysis (BOT Notification No. FPG. 17/2558: Minimum Requirements on Treatment of Clients for Engaging in Derivative Transactions) are required.  |
| <b>EC3</b>                      | The supervisor has the power to impose a specific capital charge and/or limits on all material risk exposures, if warranted, including in respect of risks that the supervisor considers not to have been adequately transferred or mitigated through transactions (e.g., securitization transactions) <sup>47</sup> entered into by the bank. Both on-balance sheet and off-balance sheet risks are included in the calculation of prescribed capital requirements.  |
| Description and findings re EC3 | <p>Section 30 of FIBA gives the BOT power to require banks to maintain additional capital apart from minimum capital ratios set out under Pillar 1 as deemed necessary to absorb potential losses incurred under normal and extreme circumstances. To ensure that banks have a robust risk management system, banks are required to establish Internal Capital Adequacy Assessment Process (ICAAP) to cover all significant risks arising from their business both on- and off-balance sheet, including not only risks set out under Pillar 1 but also Pillar 2 risks such as concentration risk, interest rate risk in banking book, liquidity risk, and strategic risk as described in the BOT Notification No. SVG 5/2552: Guideline on Supervisory Review of Capital Adequacy (Pillar 2).</p> <p>As part of the Pillar 2 framework, all banks are required to submit their annual ICAAP report no later than Q1 of each year. The BOT then reviews and evaluates each bank's ICAAP against its nature, size and complexity of the business. Any issues arising from the review and evaluation will be raised and discussed with the bank executives or with the bank's Board as the case may be. The BOT will make comments and suggestion on capital planning assumptions and thresholds that the bank needs to act in accordance with its capital plan. If a bank's ICAAP does not meet the BOT requirements, for example the severity of stress scenarios or capital plan is not in line with the business plan, a corrective order will be issued and followed up as part of ongoing supervision.</p> <p>During the onsite examination and assessment of risk management process and ICAAP, if it appears that a bank has inappropriate risk management, it does not have an appropriate process to assess capital adequacy in relation to their risk profile, or it maintains a capital amount that is inadequate to cover its risk level, the BOT can take corrective measures immediately. The corrective measures include requiring the bank (i) to mitigate risk exposure, (ii) to maintain capital higher than minimum capital requirements; and/or (iii) to submit a recapitalization plan to the BOT.</p> <p>In addition to capital requirement, the BOT may impose a limit on material risk exposures. For instance, the BOT currently imposes net FX Position both on individual currency and on aggregate basis as stipulated by the BOT Notification No. FPG. 74/2551: Regulations on</p> |

<sup>47</sup> Reference documents: Enhancements to the Basel II framework, July 2009 and: International convergence of capital measurement and capital standards: a revised framework, comprehensive version, June 2006.

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|                                 | Foreign Exchange Positions for Commercial Banks exclude Retail Banks. There is only one retail bank in Thailand.  |
| <b>EC4</b>                      | The prescribed capital requirements reflect the risk profile and systemic importance of banks <sup>48</sup> in the context of the markets and macroeconomic conditions in which they operate and constrain the build-up of leverage in banks and the banking sector. Laws and regulations in a particular jurisdiction may set higher overall capital adequacy standards than the applicable Basel requirements.  |
| Description and findings re EC4 | <p>Domestic systemically important banks (D-SIBs) are required to hold higher loss absorbency (HLA) of 1 percent and subject to additional prudential requirements to reduce their probability of failure. This new requirement is subject to a 2-year phase-in arrangement, starting at 0.5 percent in 2019 and 1 percent in 2020. Presently, all D-SIBs are robust, maintaining capital ratios significantly above the level prescribed by BOT. The BOT will review and announce the D-SIBs list annually (BOT Notification No. FPG. 16/2560: The Assessment Methodology and Supervisory Measures for Domestic Systemically Important Banks (D-SIBs). Five D-SIBs have been identified.</p> <p>In addition, BOT monitors the build-up of leverage in the banking sector through the movement of leverage ratio quarterly. The BOT has monitored leverage ratio of banks since 2014 and they are all well above the minimum threshold of 3 percent. The leverage of the Thai banking sector stood well above the minimum threshold at the end of 2017.</p> |
| <b>EC5</b>                      | <p>The use of banks' internal assessments of risk as inputs to the calculation of regulatory capital is approved by the supervisor. If the supervisor approves such use:</p> <ul style="list-style-type: none"> <li>• Such assessments adhere to rigorous qualifying standards.</li> <li>• Any cessation of such use, or any material modification of the bank's processes and models for producing such internal assessments, are subject to the approval of the supervisor.</li> <li>• The supervisor has the capacity to evaluate a bank's internal assessment process in order to determine that the relevant qualifying standards are met and that the bank's internal assessments can be relied upon as a reasonable reflection of the risks undertaken.</li> <li>• The supervisor has the power to impose conditions on its approvals if the supervisor considers it prudent to do so.</li> </ul>  |

<sup>48</sup> In assessing the adequacy of a bank's capital levels in light of its risk profile, the supervisor critically focuses, among other things, on (a) the potential loss absorbency of the instruments included in the bank's capital base, (b) the appropriateness of risk weights as a proxy for the risk profile of its exposures, (c) the adequacy of provisions and reserves to cover loss expected on its exposures and (d) the quality of its risk management and controls. Consequently, capital requirements may vary from bank to bank to ensure that each bank is operating with the appropriate level of capital to support the risks it is running and the risks it poses.

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|                                 | <ul style="list-style-type: none"> <li>If a bank does not continue to meet the qualifying standards or the conditions imposed by the supervisor on an ongoing basis, the supervisor has the power to revoke its approval.</li> </ul>  |
| Description and findings re EC5 | <p>The use of internal risk assessments to calculate regulatory capital requires prior approval from the BOT. The BOT has a Risk Assessment and Modelling Department with 11 staff who have specialized skills in risk modelling are responsible for assessing the banks' internal risk models in line with the Basel standards as specified in relevant BOT's notifications (BOT Notification No. FPG. 16/2555 and BOT Notification No. FPG. 94/2551). Currently, there are three locally-incorporated banks adopting the Internal rating-based (IRB) approach and three foreign bank branches using the internal model approach for market risk. Details on internal model assessment as follows:</p> <p>(1) The BOT Notification No. FPG. 16/2555: Regulation on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under Internal Ratings-Based Approach (IRB) requires that banks obtain prior approval from the BOT for the use of own internal tools in estimating credit losses (internal-ratings based (IRB) approach) to calculate credit risk-weighted assets. As part of the application process, banks must demonstrate to the BOT that they have in place an IRB rollout plan, an integrated system to calculate capital, a reliable model development and validation policy and adequately skilled staff. The BOT review will focus on reliable source of data, model design and development, independent model validation process and model performance.</p> <p>The BOT Notification No. FPG. 94/2551: Regulations on Market Risk and Capital Requirements for Market Risk of Financial Institutions requires that banks obtain prior approval from the BOT for the use an internal model to calculate regulatory capital for market risk. To use the internal model for market risk in the regulatory capital calculation, banks must demonstrate that they have an effective market risk management system and skilled resources to monitor and review market risk. Banks shall monitor their procedure of internal risk management system and use the internal model for a long enough period so that the BOT can take such information into consideration for granting an approval. Particularly, the BOT will review consistency and reliability of data used to run the internal model, verify accuracy and timeliness of volatility and correlation data, assess appropriateness of model assumptions and methodologies, and validate accuracy of risk measurement model through back testing.</p> <p>(2) Banks that wish to revise or modify their internal rating system or model used for estimating risk components must consult with the BOT on a case-by-case basis. Depending on the nature and scale of modification, the BOT may conduct onsite validation before approving the modification.</p> <p>Model verification is performed according to the manual to help maintain assessment quality. The inspection report will be sent to various departments including Regulatory Policy Department, Financial Institution Applications Department and Onsite Examination Department in obtain opinion and check &amp; balance.</p> |

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|                                 | <p>The BOT gives high priority to the minimum requirements of using an internal model for capital purposes, particularly model accuracy and data sufficiency where conservatism must be applied. If the BOT finds that banks do not follow the BOT standards, minimum requirements or conditions stated in the approval letters, the BOT has the power to revoke the approval for banks to the use internal model to calculate regulatory capital. This has occurred only one single time in the past.</p>   |
| <b>EC6</b>                      | <p>The supervisor has the power to require banks to adopt a forward-looking approach to capital management (including the conduct of appropriate stress testing).<sup>49</sup> The supervisor has the power to require banks:</p> <ul style="list-style-type: none"> <li>• To set capital levels and manage available capital in anticipation of possible events or changes in market conditions that could have an adverse effect.</li> <li>• To have in place feasible contingency arrangements to maintain or strengthen capital positions in times of stress, as appropriate in the light of the risk profile and systemic importance of the bank.</li> </ul>  |
| Description and findings re EC6 | <p>According to the BOT Notification No. SVG. 5/2552: Supervisory Guideline on Capital Fund under Pillar 2, banks are required to implement Internal Capital Adequacy Assessment Process (ICAAP) that covers all significant risks and to maintain capital adequacy to guard against such risks by considering bank's present and future business environment. Banks are to perform the ICAAP assessment at least annually, both under normal and crisis conditions, as well as conduct stress tests and use the test results as an input in the assessment of capital adequacy and development of suitable capital planning. Scenarios used in a stress test should be forward-looking and subject to a regular review to ensure that they are consistent with changing environments or risk factors.</p> <p>Apart from internal stress testing, locally-incorporated banks are required to perform supervisory stress testing (macro variables and scenarios set by the BOT) once a year as a complementary stress test. The supervisory stress testing will cover at the minimum credit risk, market risk and liquidity risk. The banks must submit the stress test results, which are approved by the banks' Board, to the BOT.</p> <p>On capital planning, banks are required to develop a capital plan under normal circumstances which includes the plan for the next three years in accordance with its future business plan and risk tolerance approved by the Board. The capital plan must take into consideration significant impacts from stress testing and the banks must specify a capital increase scheme to support the plan and prepare a contingency plan to deal with unexpected events which could render the banks' ability to exercise the capital increase plan.</p> <p>The BOT supervisors have a mandate to review capital components and criteria in accordance with the Pillar 1 minimum capital requirement and evaluate an assessment of</p> |

<sup>49</sup> "Stress testing" comprises a range of activities from simple sensitivity analysis to more complex scenario analyses and reverses stress testing.

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|                                 | <p>the ICAAP and stress test. To ensure effectiveness and continuous development of banks' ICAAP, the BOT supervisors will discuss with the banks' management the assumptions, tools, methodologies of the ICAAP process as well as the resulting capital plan and risk management. If the banks' ICAAP is deemed inappropriate or the capital fund is insufficient to accommodate the risks, the BOT can either instruct the banks to improve their risk management commensurate to the level of risk within a reasonable timeframe, or to require the banks to maintain capital above the minimum requirement</p>   |
| <b>AC1</b>                      | <p>For non-internationally active banks, capital requirements, including the definition of capital, the risk coverage, the method of calculation, the scope of application and the capital required, are broadly consistent with the principles of the applicable Basel standards relevant to internationally active banks.</p>   |
| Description and findings re AC1 | <p>As mentioned in EC2, currently, the BOT applies the capital adequacy framework consistent with Basel standards to all locally-incorporated banks. It also identifies and agrees on an internal trigger point that when it is breached, the bank needs to inform the BOT.</p>   |
| <b>AC2</b>                      | <p>The supervisor requires adequate distribution of capital within different entities of a banking group according to the allocation of risks.<sup>50</sup></p>   |
| Description and findings re AC2 | <p>Section 57 of FIBA authorizes the BOT to supervise and examine financial institutions, their parent company, subsidiaries and affiliates as if they are the same legal person in accordance with the rules and regulations prescribed in the BOT notifications unless the law regulating the business of these companies already prescribes specific rules and regulations. Moreover, the BOT has the power to prescribe the ratio of capital funds or equity of a financial business group in proportion to its assets, liabilities, contingent liabilities or variables and any other risks, or to prescribe other ratios for financial business group of financial institutions.</p> <p>The BOT Notification No. FPG. 9/2561 requires that the banking groups (both solo consolidation and full consolidation) have sufficient capital consistent with the exposures of the group companies. Insurance companies which are not included in consolidated financial statements are subject to threshold deduction and the supervision of the OIC.</p> <p>Currently, the BOT does not specify a capital ratio for each affiliate within the banking group. However, entities with significant exposures are those under supervision of the BOT or other Thai regulators i.e., the SEC and the OIC. The SEC and OIC require the entities under their supervision to maintain capital based on risk exposures. Affiliate entities that engage in credit-granting business or similar-to-credit-granting business are under the BOT solo consolidation supervision, where they are required to comply with asset classification and provisioning, credit risk management of loan portfolios, etc. This would ensure that the banking group has adequate capital for the risk exposures and that the</p> |

<sup>50</sup> Please refer to Principle 12, Essential Criterion 7.

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|                                   | capital is appropriately allocated across the entities within the banking group and aligned with risk exposure within the group.  |
| <b>Assessment of Principle 16</b> | Compliant   |
| Comments                          | <p>The assessors reviewed the BOT regulations for compliance with the Basel standards. The assessors also reviewed an ICAAP and the BOT assessment of the ICAAP and concluded that the BOT's assessment and analysis was thorough and consistent. The assessors discussed the approval, application, and BOT review processes for advanced IRB and other modeling approaches with the Head of the modelling unit and reviewed supporting documents.</p> <p>The BOT sets prudent and appropriate capital adequacy requirements for banks that reflects the risks undertaken by banks in the market in which it operated. The components of capital absorb losses and the capital requirements are not less than the Basel standards.</p> <p>The assessors recommend th the BOT build a more integrated approach towards Pillar 2, starting by tdeveloping a methodology to set individual bank capital ratios as part of its risk based supervisory framework.</p> |
| <b>Principle 17</b>               | <b>Credit risk.</b> <sup>51</sup> The supervisor determines that banks have an adequate credit risk management process that takes into account their risk appetite, risk profile and market and macroeconomic conditions. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate credit risk <sup>52</sup> (including counterparty credit risk) <sup>53</sup> on a timely basis. The full credit lifecycle is covered including credit underwriting, credit evaluation, and the ongoing management of the bank's loan and investment portfolios.  |
| <b>Essential criteria</b>         |   |
| <b>EC1</b>                        | Laws, regulations or the supervisor require banks to have appropriate credit risk management processes that provide a comprehensive bank-wide view of credit risk exposures. The supervisor determines that the processes are consistent with the risk appetite, risk profile, systemic importance, and capital strength of the bank, take into account market and macroeconomic conditions and result in prudent standards of credit underwriting, evaluation, administration and monitoring.  |
| Description and findings re EC1   | According to the BOT Notification No. FPG. 10/2561: Corporate Governance of Financial Institutions issued under section 41 and 84 of FIBA, financial institution's Boards shall approve effective risk governance framework including risk appetite, risk management  |

<sup>51</sup> Principle 17 covers the evaluation of assets in greater detail; Principle 18 covers the management of problem assets.

<sup>52</sup> Credit risk may result from the following: on-balance sheet and off-balance sheet exposures, including loans and advances, investments, inter-bank lending, derivative transactions, securities financing transactions and trading activities.

<sup>53</sup> Counterparty credit risk includes credit risk exposures arising from OTC derivative and other financial instruments.

policy and strategy, and ensuring that comprehensive risk management process and system are in place to provide a comprehensive bank wide view of all material risks including credit risk.

In addition, under the BOT Policy Statement on Credit Transaction, BOT Policy Statement on Credit Reviews and Supervisory Manual on Credit Risk, banks are expected to:

- Develop a comprehensive bank-wide and appropriate credit risk environment; that is, banks should develop a strategy, policy and process for credit risk and credit risk management, commensurate with the banks' overall risk profile, scale and sophistication of credit transactions, capital adequacy, and anticipated external changes such as changes in market and macroeconomic conditions. Such strategy and policy should address exposure types, economic sectors, geographical locations, currencies, and maturities that banks are willing to grant credit exposures and should be approved and periodically (at least annually) reviewed by banks' Board. The banks' Board should oversee management to ensure that credit risk is properly managed and monitored and the policies and processes are effectively implemented and regularly reviewed in line with banks' overall strategic directions identified by the Board.
- Operate under prudent credit risk management process.
- Banks should develop well-defined credit granting criteria (including level of authorization) and establish credit limits at both the overall level and individual borrowers & counterparties, covering both on-and off-balance sheets. Processes for approving new credits and amendment (including restructuring), should be established and clearly defined.
- Banks should develop and implement processes and systems (including information system and analytical techniques) for ongoing administration of their credit portfolios, for measuring credit risk inherent in both on- and off-balance sheets and for monitoring (including reporting) status the condition of credits & potential problem credits as well as overall composition and quality of their credit portfolio.
- Banks should have in place a system of independent & ongoing credit reviews, where the results of such reviews should be communicated directly to the banks' Board and senior management. In addition, banks should develop and enforce internal controls and other practices such as segregation of duties and three lines of defense principles to ensure that credit exposures are consistent with the banks' strategy, policy, and limits and should have vigorous processes for early identification and management on deteriorating & problem credits. This will reinforce sound and prudent credit culture.

As part of ongoing supervision, the BOT supervisors check whether banks' credit risk management policies and procedures, the Board and senior management oversight as well as internal control systems are commensurate with the banks' risk appetite, risk profile, size, complexity of the transactions, their systemic importance, and capital level, considering macroeconomic conditions. In addition, the BOT supervisors will assess and review the banks' credit policy and process from end to end, starting from loan origination and application, loan approval, terms and conditions, collateral valuation, loan administration,

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|                                 | <p>credit review and monitoring to determine whether such process is stringent and consistent with the approved policies, appropriate standards, and the BOT guidelines and regulations.</p> <p>The BOT supervisors monitor credit risk/credit risk management of banks on an ongoing basis using data from bank submission. During onsite examination, the BOT supervisor will conduct transaction testing, interview with management, and a walkthrough of credit approval and credit risk management process. In case where the BOT observes any deficiencies, an order for corrective action may be issued.</p>  |
| <b>EC2</b>                      | <p>The supervisor determines that a bank's Board approves, and regularly reviews, the credit risk management strategy and significant policies and processes for assuming,<sup>54</sup> identifying, measuring, evaluating, monitoring, reporting, and controlling or mitigating credit risk (including counterparty credit risk and associated potential future exposure) and that these are consistent with the risk appetite set by the Board. The supervisor also determines that senior management implements the credit risk strategy approved by the Board and develops the aforementioned policies and processes.</p>  |
| Description and findings re EC2 | <p>Under the ongoing supervision framework, the BOT supervisors check whether banks' Board approves and regularly reviews the banks' credit risk management strategy and significant policies and processes to be in line with risk appetite set by the Board. In addition, the BOT supervisors will evaluate the role of senior management in adopting strategy as approved by the Board and developing policies and processes to support such strategy.</p> <p>In this regard, the BOT supervisors review the banks' documents on credit risk management strategies, policies and processes, minutes of the Board and relevant committees, as well as conduct an interview with bank management to assess whether the credit risk management strategies, policies and processes cover assessment, measurement, monitoring, control, and mitigation of risks for all products and transactions that carry credit risk and are consistent with banks' size and complexity and the risk appetite approved by the Board. In addition, the BOT supervisors will also assess the Board and relevant committee members understanding of the banks' credit risk and evaluate if they carry out their roles and responsibilities of credit risk oversight with integrity and independence.</p> <p>The BOT supervisor determines if senior management carrying out their roles in (i) establishing and proposing credit risk management processes in line with strategies and policies approved by the Board, (ii) effectively implementing and communicating those credit strategies, policies, and processes throughout organizations, (iii) overseeing the day to day operations to comply with banks' own strategy, policies, and processes and the BOT guidelines and regulations as mentioned in EC1. The assessment involves reviewing meeting minutes of the Board and relevant committees and supporting documents/guidelines of employees' communication, sample of credit files, internal</p> |

<sup>54</sup> "Assuming" includes the assumption of all types of risk that give rise to credit risk, including credit risk or counterparty risk associated with various financial instruments.

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|                                 | reports, and credit process to ensure that each stage of the process is carried out as stated (e.g., credit approval, issuance of credit rating, loan disbursement, loan review, monitoring and controlling of limits).   |
| <b>EC3</b>                      | <p>The supervisor requires, and regularly determines, that such policies and processes establish an appropriate and properly controlled credit risk environment, including:</p> <ul style="list-style-type: none"> <li>• A well-documented and effectively implemented strategy and sound policies and processes for assuming credit risk, without undue reliance on external credit assessments.</li> <li>• Well-defined criteria and policies and processes for approving new exposures (including prudent underwriting standards) as well as for renewing and refinancing existing exposures, and identifying the appropriate approval authority for the size and complexity of the exposures.</li> <li>• Effective credit administration policies and processes, including continued analysis of a borrower's ability and willingness to repay under the terms of the debt (including review of the performance of underlying assets in the case of securitization exposures); monitoring of documentation, legal covenants, contractual requirements, collateral and other forms of credit risk mitigation; and an appropriate asset grading or classification system.</li> <li>• Effective information systems for accurate and timely identification, aggregation and reporting of credit risk exposures to the bank's Board and senior management on an ongoing basis.</li> <li>• Prudent and appropriate credit limits, consistent with the bank's risk appetite, risk profile and capital strength, which are understood by, and regularly communicated to, relevant staff.</li> <li>• Exception tracking and reporting processes that ensure prompt action at the appropriate level of the bank's senior management or Board where necessary.</li> <li>• Effective controls (including in respect of the quality, reliability and relevancy of data and in respect of validation procedures) around the use of models to identify and measure credit risk and set limits.</li> </ul> |
| Description and findings re EC3 | <p>As mentioned in EC1, banks should have adequate and comprehensive policies and processes related to credit exposures that are effectively communicated and implemented throughout the banking organization to promote prudent credit culture and properly controlled credit risk environment.</p> <p>Under ongoing supervision framework, the BOT supervisors assess the adequacy, coverage, suitability and effectiveness of banks' credit risk management policies and processes in promoting prudent credit culture and properly controlled credit risk environment by reviewing the documents submitted by the banks, conducting a walk-through review of the end-to-end processes, testing a sample of transactions and credit files, and interviewing related parties during onsite examination to assess whether the prescribed policies and</p>  |

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|  | <p>procedures appropriately address the banks' risks, size, and complexity and are followed in day-to-day operations under effective internal controls.</p> <ul style="list-style-type: none"> <li>• Overall sound credit risk management strategies, policies, and processes: The BOT supervisors will assess whether the banks' strategy, policies, and processes are properly documented, approved and regularly reviewed by the Board and appropriately address risks, size, and complexity of the banks and effectively implemented. The assessment includes review of sample transactions and credit files (transaction testing), walk-through process and interview with relevant staff.</li> <li>• Credit granting/evaluation process: The BOT supervisors will assess robustness of the banks' processes/guidelines for credit risk assessment, credit approval, credit review and other transactions that bear credit risk. The processes, guidelines, and tools must be suitable and risk-based with an aim to assess customers' ability to pay, not relying on external credit rating. The BOT supervisors also assess whether banks review purpose of the loan against type, duration and size of the requested loan and have put in place a reliable and appropriate risk mitigation including collateral valuation process. Apart from reviewing supporting documents, interviewing those involved, and walking-through the process, the BOT supervisors will conduct transaction testing of credit files in order to reassure that banks analyze customer's financial status and ability to repay, perform collateral valuation in line with the stated policies, processes and guidelines.</li> <li>• Credit approval process/authority: The BOT determines whether FI's loan approval process and authorization are clearly stated and well-documented and appropriate with the size and complexity of the FI's transaction. Such process and authorization must be approved by the Board of Directors or delegated board committees. In addition, BOT also determines whether FI has taken any action or put in place control mechanisms to ensure the adherence to such process and authorization. The assessment includes interviewing relevant persons, reviewing the minutes of the committee involving in the credit approval process, reviewing exception report, and conducting a transaction testing. If it is found that the credit approval authorization is not appropriately delegated or not observed, BOT will issue a corrective order.</li> <li>• Credit monitoring and administration: The BOT supervisors will determine whether banks have in place effective policies, processes, and systems to regularly monitor, analyze and review a borrower's ability and willingness to repay, such as monitoring financial status and updating collaterals values. If the quality of debtors shows sign of deterioration, the banks' processes and systems should be able to identify such debtors in a timely manner as well as be able to evaluate the potential loss and prepare to set aside provisioning as required by the BOT regulations. In addition, the BOT supervisors will check whether banks have established policies, procedures, and systems for credit administration that are suitable, robust and effective in relevant to the banks' size and complexity. Such policies, procedures and systems shall include, for example, loan disbursement, pre disbursement (including checking loan agreement's terms and condition and legal documents), collateral, repayment track records, and</li> </ul> |
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|                                 | <p>classification of the loan. Apart from reviewing the document, interviewing parties involved, and walking through the process, the BOT supervisors also conduct a transaction testing, covering loan disbursement, repayment track record, and loan classification, to assess adherence to the loan approval policy and process.</p> <ul style="list-style-type: none"> <li>• Information system: the BOT supervisors will evaluate whether banks have in place effective information systems for timely identification, aggregation and reporting of all credit risk exposures (both on- and off-balance sheets) to the banks' Board and senior management. The internal reports submitted to the Board and senior management should be informative and support decision making, such as single borrower, groups of connected borrowers, industry sectors, and countries, with appropriate reporting frequency. Such information system and process should be able to aggregate and report credit risk exposure accurately, completely, and in a timely manner.</li> <li>• Credit limits: the BOT supervisors will determine whether banks' credit limits are appropriate, consistent with the banks' risk appetite, risk profile and capital strength, and are regularly communicated and well understood by relevant staffs. In order to determine appropriateness of the approved credit limits and rationale for adjusting credit limit and to ensure staff understanding, the BOT supervisors review the policy and relevant documents including communication documents as well as conduct staff interview.</li> <li>• Exception tracking and escalation process: the BOT supervisors will evaluate whether banks have policy and process to track any exceptions and escalate to senior management and/or the Board according to the authorization hierarchy for timely actions. The BOT supervisors will review documents and procedures, exception reports, and minutes of relevant committees, including transactions / files testing to check whether banks have escalation processes as prescribed.</li> <li>• Uses of models: the BOT supervisors will determines whether banks have good governance and effective control in place to develop and apply models in credit risk management, such as credit scoring model and IRB model, by reviewing assumptions, use of input/factors, regular model validation, segregation of duties between model development and validation, and presenting to senior management and the Board accordingly.</li> </ul> |
| <b>EC4</b>                      | The supervisor determines that banks have policies and processes to monitor the total indebtedness of entities to which they extend credit and any risk factors that may result in default including significant unhedged foreign exchange risk.  |
| Description and findings re EC4 | <p>The BOT supervisors determine whether banks have policies and processes, as well as effective information systems to aggregate and generate reports for timely and accurate monitoring of total exposures with borrowers/counterparties and their connected persons, including both on- and off-balance sheet for all branches/subsidiaries, by reviewing internal reports, interviewing relevant staffs, and walking through systems and processes.</p> <p>In addition, the BOT supervisors will determine whether banks have regular tracking procedures of risk factors that may affect the borrowers and review the borrowers' financial</p>   |

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|                                 | <p>status and ability to repay such as customer visits and credit reviews. In the credit review, banks should include an update of financial position including total indebtedness and other indicators/factors that may affect the borrowers' ability to repay, such as industrial status or economic situations, contingent liability with other financial institutions, movement of financial statements, debt default data from the National Credit Bureau (NCB), exchange rate risk, and transfer risk of borrowers with different sources of income and debt from other currencies or countries, etc. The BOT supervisors will conduct transaction testing of sample credit files, interviewing relevant persons, and reviewing internal reports to ensure that banks have regular financial status and debt repayment review process, where the data used for the assessment must be updated and cover debt repayment factors.</p> <p>In case of any supervisory concern, the BOT will order a corrective order.</p>  |
| <b>EC5</b>                      | The supervisor requires that banks make credit decisions free of conflicts of interest and on an arm's length basis.   |
| Description and findings re EC5 | <p>Under FIBA, banks are not allowed to grant credits to their directors or senior management except welfare lending (Section 48). Also, banks may grant credits including investing and undertaking contingent liabilities to a major shareholder or to business with related interest up to 5 percent of any type of its capital funds or 25 percent of the total liabilities, whichever is the lesser (Section 49). Any credit exposures to the persons must be done on an arm's length basis and be approved by the Board, where the director with conflict of interest must not cast his/her vote.</p> <p>On this, the BOT supervisors will check whether that banks have put in place policies and credit approval process for related entities in compliance with the law and the BOT regulations, as well as conduct a transaction testing on related entities. In practice, the BOT supervisors will observe that the person with conflict of interest will notify the board and shall not be presented at the meeting for that agenda (please refer to CP20 for more details).</p> |
| <b>EC6</b>                      | The supervisor requires that the credit policy prescribes that major credit risk exposures exceeding a certain amount or percentage of the bank's capital are to be decided by the bank's Board or senior management. The same applies to credit risk exposures that are especially risky or otherwise not in line with the mainstream of the bank's activities.   |
| Description and findings re EC6 | <p>The BOT supervisors will determine whether banks have delegated and state clearly in the credit policy the loan and other credit risk related approval authorization that are suitable to the banks' size, complexity and risk appetite. Large exposure of credit risk or exceptionally high-risk transaction (i.e., to specific countries/industries) or not in line with the banks' mainstream activities, must be approved by the Board, designated committee or senior management (please refer to EC3 for more detail).</p> <p>The BOT supervisors will also check whether banks have taken any action or put in place an oversight process to ensure adherence to such process and authorization. The assessment</p>  |

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|                                 | includes interviewing relevant persons, reviewing meeting minutes of the committees involving in the credit approval process, reviewing exception report, and conducting a transaction testing. If it is found that the credit approval authorization is not appropriately delegated or not observed, the BOT will issue a corrective order.  |
| <b>EC7</b>                      | The supervisor has full access to information in the credit and investment portfolios and to the bank officers involved in assuming, managing, controlling and reporting on credit risk.  |
| Description and findings re EC7 | <p>The BOT has full access to information in the credit and investment portfolios and to the bank officers involved in assuming, managing, controlling and reporting credit risk via regular supervisory reporting, additional information request, and onsite examination (Section 71 and 85 of FIBA).</p> <p>On a regular basis, the BOT requires banks to submit report or information on their credit and investment portfolios, both on- and off-balance sheet items through Data Management System (DMS). Such information includes portfolio overview, individual transaction, classification, and provisioning. During onsite examination, the BOT may ask banks to submit additional information such as internal management reports and conduct a transaction testing of sampled credit files together with documents supporting loan approval process. Moreover, the BOT has the authority to request banks and related parties to provide additional information to the BOT at any time.</p>  |
| <b>EC8</b>                      | The supervisor requires banks to include their credit risk exposures into their stress testing programs for risk management purposes.   |
| Description and findings re EC8 | <p>Banks are required to periodically conduct stress tests under self-developed scenarios to assess the impact of such stress events on the banks' key risk exposures (including credit risk exposures) and adequacy of the banks' provision and capital at least on an annual basis. The outcome of the stress testing should be used for banks' own risk management (BOT Notification No. SVG. 5/2552).</p> <p>The BOT supervisors will assess banks' stress test to ensure that:</p> <ul style="list-style-type: none"> <li>• The Board and senior management are involved in developing stress testing policy, implementation, reporting of result, and contingency plan.</li> <li>• Scenarios and assumptions used to conduct stress tests are reasonable and suitable for the banks' business characteristics, risk, volume, complexity, and economic situations.</li> <li>• Credit risk exposure for stress testing covers various types of significant credit risks, such as loan, investment and off-balance sheet items.</li> <li>• Stress testing results are used to determine the adequacy of the provision and capital funds. In case of shortage, the banks have prepared a contingency plan that is practical and feasible.</li> </ul> <p>In order to assess the susceptibility of the financial institutions system, the BOT also requests banks to conduct stress testing under the BOT's supervisory scenarios annually.</p> |

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| <b>Assessment of Principle 17</b> | Compliant   |
| Comment                           | The assessors reviewed inspection reports including the orders and recommendations following the inspections. They discussed the follow-up of these recommendations with the relevant examiners.  |
| <b>Principle 18</b>               | <b>Problem assets, provisions and reserves.</b> <sup>55</sup> The supervisor determines that banks have adequate policies and processes for the early identification and management of problem assets, and the maintenance of adequate provisions and reserves. <sup>56</sup>   |
| <b>Essential criteria</b>         |   |
| <b>EC1</b>                        | Laws, regulations or the supervisor require banks to formulate policies and processes for identifying and managing problem assets. In addition, laws, regulations or the supervisor require regular review by banks of their problem assets (at an individual level or at a portfolio level for assets with homogenous characteristics) and asset classification, provisioning and write-offs.  |
| Description and findings re EC1   | <p>The BOT requires banks to have adequate policies and processes regarding problem assets and maintenance of provision as follows:</p> <ul style="list-style-type: none"> <li>• Banks are required to formulate clearly written policies and processes regarding asset classification, provisioning and write off and for timely identification and management of the problem assets. Such policies and processes shall be approved by the banks' Board (BOT Notification No. FPG. 5/2559 Re: Assets Classification and Provisioning and BOT Supervisory Manual on Credit Risk).</li> <li>• Banks are required to review their credit exposures (both on- and off-balance sheet), as well as credit process, at least annually to ensure that banks' asset classification, provisioning, and write off are in line with the BOT regulations. The proportion of credit exposures to be reviewed is based on the credit risk rating of banks assessed by the BOT supervisors, i.e., the riskier the BOT credit risk rating, the higher the proportion of credit portfolios the banks must review. In addition, banks are required to act on troubled debtors and indicate the status or current course of action, such as in the process of debt restructuring, legal execution, and collateral enforcement (the BOT Policy Statement on Credit Reviews).</li> <li>• Banks are required to dispose their foreclosed properties within the period of 5 years unless approved by the BOT and to set additional provision in the range of 20–70 percent of foreclosed property value if the mentioned foreclosed properties exceed</li> </ul> |

<sup>55</sup> Principle 17 covers the evaluation of assets in greater detail; Principle 18 covers the management of problem assets.

<sup>56</sup> Reserves for the purposes of this Principle are "below the line" non-distributable appropriations of profit required by a supervisor in addition to provisions ("above the line" charges to profit).

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|                                 | <p>10 percent of total capital funds (Section 80(2) of FIBA and BOT Notification No. FPG. 22/2552 Foreclosed Properties).</p> <p>As part of ongoing supervision, the BOT supervisors determine whether banks have sound policies and processes to identify and manage loans, both nonperforming and performing. This covers identification, grading &amp; classification, provisioning, monitoring, collection, restructuring &amp; legal action, and write-off. Credit review is independent and effectively implemented for both problem and non-problem assets (at an individual level or at portfolio level for assets with homogenous characteristics).</p> <p>In this respect, the BOT supervisors will review documents and information from banks such as relevant policies and processes, debtor classifications and provisions, internal reports, credit review/internal audit report, and meeting minutes of the banks' Board and relevant committees. During the onsite examination, the BOT supervisors will walk-through to examine end-to-end credit processes, interview staff and review selected credit files to evaluate the effectiveness of the processes and relevant systems and to ensure that classifications and provisions in line with the BOT regulations. They will also assess the effectiveness and independence of credit review function.</p> <p>Special attention is paid to loans that show signs of credit quality deterioration or possibly impaired loans (Possible Impaired Loans: PIL), such as watch listed, rescheduled, restructured, special mentioned loans. Since 2011, the BOT supervisors have required banks to maintain additional provisions for current loans (CL) and PIL to cover expected credit loss (<math>PD \times LGD \times EAD</math>) and to review the amount of CL/PIL provisions every month. Banks can use internal PD and LGD in calculating provisions subject to the BOT model approval. In case that banks are not able to determine their own PD and/or LGD, they are required to calculate expected loss provisions for the said loans by using the BOT's prescribed rates. This expected credit loss provisions are treated as a buffer to protect the Thai banking system against losses that could be caused by cyclical market and macroeconomic conditions.</p> |
| <b>EC2</b>                      | <p>The supervisor determines the adequacy of a bank's policies and processes for grading and classifying its assets and establishing appropriate and robust provisioning levels. The reviews supporting the supervisor's opinion may be conducted by external experts, with the supervisor reviewing the work of the external experts to determine the adequacy of the bank's policies and processes</p>   |
| Description and findings re EC2 | <p>Under BOT Notification No. FPG. 5/2559 Re: Assets Classification and Provisioning, banks are required to have adequate policies and processes for grading and classifying their assets and to establish appropriate and robust provisioning levels. Such policies and processes must include at least:</p> <ul style="list-style-type: none"> <li>• Roles and responsibilities of the board and senior management.</li> <li>• Quantitative and qualitative factors applied in the credit grading and classification process.</li> <li>• Assumptions and methodologies to calculate provisions.</li> </ul>   |

- Write off and recovery of assets.
- Internal control and accounting systems.
- Monitoring system to ensure accuracy in grading/classification, adequacy of provisioning, and reliability of evidences and information used.

Banks are also required to classify their assets into six classes: pass, special mentioned, substandard, doubtful, doubtful of loss, loss, and loss, based on quantitative factors (number of days past due) and qualitative factors (e.g., debtor's ability to pay).

Also, the BOT requires banks to set provisions against, and write-off, their assets based on assets' classification and debtors' ability to repay.

- For assets classified as pass and special mention, banks shall set provision at least 1 percent and 2 percent of the total outstanding amount after deducting the value of eligible collateral as prescribed by the BOT or using the collective approach based on the banks' historical credit loss experiences;
- For assets classified as nonperforming (substandard, doubtful, and doubtful of loss), a specific provision shall be set for the difference between the outstanding amount and the present value of (i) expected cash flows from debtors, or (ii) expected proceeds from collateral disposals. However, the method of using the present value of expected cash flows from debtors is not usually used by the banks. In addition, for retail loan portfolios with homogeneous credit risk characteristics, banks may apply a collective approach based on the banks' own historical credit loss experience.
- Banks are also required to write off their assets deemed irrecoverable, including assets classified as loss.

The BOT also requires banks to conduct an independent review of credit portfolios to detect and address any deficiencies and to ensure accuracy of assets classification as well as adequacy of provisioning & write off (BOT Policy Statement on Credit Reviews).

As part of ongoing supervision, the BOT supervisors assess whether banks have adequate policies and processes for credit grading, classification and provisioning, including appropriate tools such as credit rating and behavioral scoring models, at least in accordance with the BOT regulations. The BOT supervisors will continuously monitor quality of the banks' asset portfolio and assess accuracy of asset classifications and adequacy of provision by reviewing information regularly received from the banks, e.g., information on classifications and provisions (including CL/PIL), meeting minutes of the Board and relevant committees, internal reports, credit review reports, and sampling credit files.

Where it is found that banks' asset classification and provisioning policies and processes are inadequate, or banks have an inadequate level of provisions due to the policies or processes, the BOT will instruct the banks to take remedial actions and/or set aside additional provisions.

Moreover, the BOT supervisors meet with banks' external auditors, both regularly (at least once a year) and ad hoc if needed to discuss supervisory concerns and obtain opinions

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|                                 | from the external auditors regarding adequacy of the banks' risk management and internal control and provisioning.   |
| <b>EC3</b>                      | The supervisor determines that the bank's system for classification and provisioning takes into account off-balance sheet exposures. <sup>57</sup>   |
| Description and findings re EC3 | <p>The BOT requires banks to set aside provisions for off-balance sheet exposures in the same way as on-balance sheet exposures (BOT Notification No. FPG. 5/2559 Re: Asset Classification and Provisioning).</p> <p>As part of ongoing supervision, the BOT supervisors check whether the banks' system for classification and provisioning takes into account off-balance sheet exposures by assessing documents and information provided by banks (e.g., documents of classification and provisioning processes and systems, information on classifications and provisions which are regularly submitted to the BOT and internal reports) as well as check selected transactions/credit files whether classifications and provisions include off-balance sheet exposures. If significant findings/deficiencies are found, the BOT instructs the banks to rectify the findings/deficiencies.</p>   |
| <b>EC4</b>                      | The supervisor determines that banks have appropriate policies and processes to ensure that provisions and write-offs are timely and reflect realistic repayment and recovery expectations, taking into account market and macroeconomic conditions.   |
| Description and findings re EC4 | <p>As mentioned in EC1-2, the BOT requires banks to have adequate policies and processes for identification, monitoring, and management of credit risk, including policies and processes for grading and classifying its assets and establishing appropriate provisioning levels (BOT Policy Statement on Credit Transactions and BOT Supervisory Manual on Credit Risk).</p> <p>In addition, the BOT also requires banks to conduct an independent review of credit portfolios to ensure accuracy of assets classification, and adequacy of provisioning &amp; write-off (BOT Policy Statement on Credit Reviews).</p> <p>As part of ongoing supervision, the BOT supervisors assess whether:</p> <ul style="list-style-type: none"> <li>• Banks' provisioning and write-off are timely (e.g., debtors already passed away or disappeared).</li> <li>• Input/factors/criteria/assumptions/methodologies used in determining provisioning/write-off give the outputs which realistically reflect the borrowers' ability to repay and recovery amount, considering market and macroeconomic conditions (i.e., expected credit loss) and are subject to periodic and independent validation/review.</li> </ul> |

<sup>57</sup> It is recognized that there are two different types of off-balance sheet exposures: those that can be unilaterally cancelled by the bank (based on contractual arrangements and therefore may not be subject to provisioning), and those that cannot be unilaterally cancelled.

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|                                 | <ul style="list-style-type: none"> <li>• Banks maintain enough provision to absorb expected credit loss, at least in accordance with the BOT regulations plus additional provision for current loans, which show deteriorating sign and/or possible impaired loans (CL/PIL) as mentioned in EC1.</li> <li>• Banks regularly perform credit reviews to ensure sound credit processes including classification and provisioning that accurately reflect the borrowers' ability to repay.</li> </ul> <p>by reviewing submitted documents on policies and processes as well as information on classifications, provisions and write-offs (e.g., classification and provision information, meeting minutes of the Board and relevant committees, internal risk/management reports, credit review report). The BOT supervisors will also assess rationality and suitability of the models (including collective approach for portfolio with homogeneous characteristics) with respect to data inputs/factors/criteria/assumptions used to set provision along with validation results. Moreover, during onsite examinations, the BOT supervisors will review selected transactions/credit files, walk through end-to-end process and interview relevant staffs including credit review function to assess effectiveness of oversight roles. If significant findings/deficiencies or inadequate provisions are found, the BOT will instruct banks to rectify the findings/deficiencies or increase provisions.</p> |
| <b>EC5</b>                      | <p>The supervisor determines that banks have appropriate policies and processes, and organizational resources for the early identification of deteriorating assets, for ongoing oversight of problem assets, and for collecting on past due obligations. For portfolios of credit exposures with homogeneous characteristics, the exposures are classified when payments are contractually in arrears for a minimum number of days (e.g., 30, 60, 90 days). The supervisor tests banks' treatment of assets with a view to identifying any material circumvention of the classification and provisioning standards (e.g., rescheduling, refinancing or reclassification of loans).</p>  |
| Description and findings re EC5 | <p>As part of ongoing supervision, the BOT supervisors check whether banks have appropriate policies, processes and organizational resources for early identification of deteriorating assets, for ongoing oversight of problem assets, and for collecting past due obligations, for example:</p> <ul style="list-style-type: none"> <li>• Both quantitative and qualitative aspects are considered when identifying deteriorating assets.</li> <li>• Tools for credit risk assessment (e.g., risk grading) are reliable.</li> <li>• Policies, processes and systems are adequate and effective in ensuring timely identification of deteriorating assets, ongoing oversight and management of problem assets, as well as rescheduling/restructuring and collection of past due obligations. For example, the system classifying portfolio of credit exposures with homogenous characteristics based on the number of days past due should be accurate.</li> <li>• Sufficient resources (i.e., budget, manpower) are allocated for identification of deteriorating assets, ongoing oversight and management of problem assets, and collection of past due obligations.</li> <li>• Independent credit review on such processes is effectively performed.</li> </ul>  |

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|                                 | <p>by reviewing documents and information submitted by banks (e.g., documents on policies, processes, systems, tools, methods, organization chart / budget vs. actual headcount/qualifications of staff involved in these processes, internal reports, credit review/internal audit reports) including walk-through processes and systems, interviewing relevant staffs, reviewing transactions/credit files to assess whether day-to-day operations are in line with the written policies and processes and the systems/tools are working correctly and promptly.</p> <p>In addition, the BOT supervisors assess policies, criteria, and methods with respect to rescheduling/restructuring and treatment of banks' assets to identify if there are any material circumvention of classification and provisioning standards (e.g., rescheduling, refinancing or reclassification of loans) by reviewing submitted documents and information (e.g., policies, criteria, methods, information on classification and provisions as well as loans on monitoring list, watch listed, rescheduled/restructured loans, special mentioned loans, NPL re-entry, internal reports used to monitor and identify risk rating, meeting minutes of the Board and relevant committees, credit review/internal audit report) as well as reviewing credit files of deteriorating or troubled debtors and debtors which have been identified as deteriorating or troubled but have been upgraded or reclassified as performing.</p>         |
| <b>EC6</b>                      | <p>The supervisor obtains information on a regular basis, and in relevant detail, or has full access to information concerning the classification of assets and provisioning. The supervisor requires banks to have adequate documentation to support their classification and provisioning levels.</p>  |
| Description and findings re EC6 | <p>The BOT supervisors have full access to information concerning the classification of assets and provisioning and can require banks to have documentation of their asset classification and provisioning including credit files and credit reviews in places for BOT inspection upon request (Section 71 and 85 of FIBA and BOT Notification No. FPG. 5/2559 Re: Assets Classification and Provisioning).</p> <p>On a regular basis, the BOT requires banks to submit detailed information concerning asset classification and provisioning both on a loan by loan (for business loan) and on aggregate basis via DMS system. The BOT supervisors also receive additional information from banks such as internal management report which display various aspects of portfolio quality (e.g., diversification of assets by risk rating and/or classifications) and provisioning level. The BOT supervisors will analyze such information and compare classifications of the same borrower across banks. If less conservative classification is found in any bank, the BOT supervisors will investigate further and may require the bank to adjust the classification and provision for such borrower to appropriately reflect the risk. In addition, during onsite examination, the BOT supervisors will review selected credit files, relevant documents and supporting documents for classification and provision. If there are any questions, the BOT can ask banks to supply further clarifications/information.</p> |
| <b>EC7</b>                      | <p>The supervisor assesses whether the classification of the assets and the provisioning is adequate for prudential purposes. If asset classifications are inaccurate or provisions are deemed to be inadequate for prudential purposes (e.g., if the supervisor considers existing</p>  |

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|                                 | <p>or anticipated deterioration in asset quality to be of concern or if the provisions do not fully reflect losses expected to be incurred), the supervisor has the power to require the bank to adjust its classifications of individual assets, increase its levels of provisioning, reserves or capital and, if necessary, impose other remedial measures.</p>   |
| Description and findings re EC7 | <p>On an ongoing basis, the BOT supervisors assess whether banks' asset classification is accurate and truly reflect their ability to repay, considering potentially deterioration in asset quality. Also, provisions are adequate and fully reflect expected loss.</p> <p>In this respect, the BOT supervisors will review detailed information concerning asset classification and provisioning as well as additional information concerning asset quality (please refer to EC6 for more detail) together with analysis/assessment on economic and financial conditions, and various industries (from both internal and external sources) that may affect the banks and their counterparties which may impact asset quality, collateral and ultimately the banks' adequacy of provision. If there are any questions or supervisory concerns, the BOT will ask banks to give further clarifications/information.</p> <p>In addition, during onsite supervision, the BOT supervisors will conduct random sampling of credit files to assess accuracy and appropriateness of asset classification and the use of risk mitigant in calculation of required provision as well as adequacy of provisioning, and to assess efficacy and effectiveness of relevant processes and systems as mentioned in EC2-EC5.</p> <p>If the BOT supervisors find that a bank's asset classifications and/or provisions are inaccurate, inappropriate or inadequate, the BOT supervisors will require the bank to adjust its classifications, increase its level of provisioning, and, if necessary, impose other remedial measures, such as requiring the bank to improve processes, systems, or methods.</p> |
| <b>EC8</b>                      | <p>The supervisor requires banks to have appropriate mechanisms in place for regularly assessing the value of risk mitigants, including guarantees, credit derivatives and collateral. The valuation of collateral reflects the net realizable value, taking into account prevailing market conditions.</p>   |
| Description and findings re EC8 | <p>The BOT requires banks to have policies and processes as well as mechanism for regularly assessing the value and legal enforceability of risk mitigants. Such policies and processes must be approved by the banks' Board and communicated to all relevant staff to ensure effective implementation (BOT Policy Statement on Collateral Valuation and the BOT regulations regarding calculation of credit risk-weighted assets and capital charges).</p> <p>For collateral valuation, banks' collateral value must be independently and regularly appraised in accordance with the valuation standards prescribed by the Thai Valuers Association, the Valuers Association of Thailand and published by the SEC, considering market and net realizable values. Such collateral valuation must be approved by the banks' valuation acceptance committees, which are accountable for collaterals value to be used as credit risk mitigants for prudential purpose.</p>   |

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|                                 | <p>Furthermore, only collaterals of low credit exposures are exempted from appraisal requirement of using qualified external / independent appraisers, i.e., those who obtain licenses from the SEC or approved by the BOT.</p> <p>As part of ongoing supervision, the BOT supervisors assess adequacy and effectiveness of the banks' policies, processes, systems, as well as organization structure for regularly assessing the value and enforceability of risk mitigants. For example, the BOT supervisors will assess whether:</p> <ul style="list-style-type: none"> <li>• Valuation approaches/methodologies are sound and in according with the standards.</li> <li>• Collateral valuation unit is independent of business unit.</li> <li>• Collateral valuation is approved by the banks' valuation acceptance committees and, if required under the BOT guidelines, appraised by qualified external/ independent appraiser on the SEC list or approved by the BOT.</li> <li>• Value and enforceability of risk mitigants are periodically reviewed, e.g., regularly benchmarking value of property collateral with property price data from public databases to ensure that the collateral value truly reflects the expected realizable values (net realizable value).</li> <li>• Use of risk mitigants in the calculation of required provision is in compliance with the BOT regulations and the banks' total provision is adequate to absorb expected credit loss (EL) of the banks' credit portfolio, including NPL, CL/PIL.</li> </ul> <p>by reviewing policies, processes, methods, organization chart regarding collaterals/risk mitigants as well as information submitted to the BOT such as information on classification and provision, collaterals, internal reports and meeting minutes of relevant committees.</p> <p>Furthermore, during onsite examination, the BOT supervisors will conduct interviews with relevant staffs, walk through processes and systems as well as review credit files and documents on collaterals to assess compliance with the banks' internal policies and the BOT's requirements. If there are non-compliance/deficiencies, the BOT will require banks to rectify these issues.</p> |
| <b>EC9</b>                      | <p>Laws, regulations or the supervisor establish criteria for assets to be:</p> <ul style="list-style-type: none"> <li>• Identified as a problem asset (e.g., a loan is identified as a problem asset when there is reason to believe that all amounts due, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement).</li> <li>• Reclassified as performing (e.g., a loan is reclassified as performing when all arrears have been cleared and the loan has been brought fully current, repayments have been made in a timely manner over a continuous repayment period and continued collection, in accordance with the contractual terms, is expected).</li> </ul>  |
| Description and findings re EC9 | <p>As mentioned in EC2, banks are required to classify their assets into 6 classes based on quantitative factors and qualitative factors as prescribed in the BOT Notification No. FPG. 5/2559 Re: Assets Classification and provisioning. Loans that have incidents to believe that there will be some difficulties to service the loans according to the contract terms, for</p>   |

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|                                  | <p>instance, loans with payment in arrears of more than 3 months or borrowers with weak financials and deteriorated ability to repay, shall be classified as NPLs.</p> <p>Furthermore, the BOT supervisors check whether banks have sound policies and processes in identifying and managing loans, which are still performing, but show deteriorating sign and/or possibly become impaired loans (CL/PIL), e.g., watch list, rescheduled, restructured, special mentioned loans. (Please refer to EC1). The BOT supervisor assesses whether the Asset classification and re-classification are accurate and truly reflect ability to repay and financial status. Also, the BOT supervisors continuously monitor the banks' CL/PIL portfolios via offsite review of information and reports submitted by banks and onsite supervision.</p>  |
| <b>EC10</b>                      | <p>The supervisor determines that the bank's Board obtains timely and appropriate information on the condition of the bank's asset portfolio, including classification of assets, the level of provisions and reserves and major problem assets. The information includes, at a minimum, summary results of the latest asset review process, comparative trends in the overall quality of problem assets, and measurements of existing or anticipated deterioration in asset quality and losses expected to be incurred.</p>  |
| Description and findings re EC10 | <p>The BOT requires that banks' Board obtains timely and appropriate information and understands the condition of the banks' asset portfolio, including classification of assets, level of provisions, and major problem assets. Banks must have credit review processes and annual credit plans approved by the Board and shall inform the Board the results, progress, problems or obstacles of credit review process (BOT Policy Statement on Credit Reviews and BOT Supervisory Manual on Credit Risk).</p> <p>On an ongoing basis, the BOT supervisors will assess whether:</p> <ul style="list-style-type: none"> <li>• Banks report conditions of asset portfolio to the Board and senior management in a timely and adequately comprehensive manner, with appropriate frequency. For example, details of the reports may include existing and trends in overall quality of assets and provisioning level vs. required level, measurements of existing or anticipated deterioration in asset quality and losses expected to be incurred, summary results of the latest asset review process. There should also be policies and processes to escalate important issues to the Board and relevant committees so that they can be addressed promptly and appropriately. On this, the BOT supervisors will review internal reports sent to the Board and relevant committees (e.g., asset review report, regular aging, grading, classification and provisioning reports), meeting minutes of the Board and relevant committees as well as related policies and processes and will conduct interviews relevant staffs.</li> <li>• Banks' board and relevant committees understand, participate, provide beneficial opinions and suggestions, order and follow ups of issues when assets quality significantly deteriorate by reviewing meeting minutes of the Board and relevant committees as well as interviewing relevant staffs.</li> <li>• Banks have in place effective process and information systems for timely identification of problem assets, correctly classify and set adequate provisions, aggregation and reporting of asset portfolio conditions to the banks' Board and senior management by</li> </ul> |

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|                                  | <p>reviewing relevant documents, interviewing staffs and conducting walkthroughs of processes and systems during onsite examination along with reviewing transactions to assess whether they can identify, calculate, aggregate, and report conditions of asset portfolio to the Board and senior management correctly, completely and promptly.</p>  |
| <b>EC11</b>                      | <p>The supervisor requires that valuation, classification, and provisioning, at least for significant exposures, are conducted on an individual item basis. For this purpose, supervisors require banks to set an appropriate threshold for the purpose of identifying significant exposures and to regularly review the level of the threshold.</p>  |
| Description and findings re EC11 | <p>As mentioned in EC2, the BOT requires banks to assess, classify, and set provision for their credit exposures generally on a loan-by-loan basis. However, for portfolios with homogenous characteristics, a collective approach based on historical loss experiences can be used to estimate expected loss and provisioning on a portfolio-by-portfolio basis. Such portfolios are required to be grouped based on type of facilities, payment in arrears, and time to maturity to ensure similar characteristics as well as credit risk. Assumptions and methodologies used in calculating provision as part of classification and provisioning policies must be approved by the banks' Board (BOT Notification No. FPG. 5/2559 Re: Assets Classification and Provisioning).</p> <p>On an ongoing basis, the BOT supervisors assess adequacy and appropriateness of banks' valuation, classification and provisioning for credit exposures. For exposures not included in a portfolio of homogenous characteristics, valuation, classification, and provisioning shall be conducted on an individual item basis. In this respect, the BOT supervisors review banks' documents, reports and information such as asset classification and provision reports, credit review report, internal report to senior management, the Board, and relevant committees. Moreover, during the onsite examination, the BOT supervisors review credit files and relevant documents such as collateral appraisal reports and assess effectiveness of credit review function by reviewing working papers and interviewing relevant staffs.</p> <p>Moreover, the BOT supervisors model specialist team will assess the credibility and suitability of methods/models used for valuation, classification and provisioning (e.g., credit/facility rating, credit scoring, models, collective approach for portfolio with homogeneous characteristics) in terms of input data, factors/parameters/criteria, assumptions, control processes, and validation results.</p> <p>If there are issues, the BOT will require banks to rectify these issues.</p> |
| <b>EC12</b>                      | <p>The supervisor regularly assesses any trends and concentrations in risk and risk build-up across the banking sector in relation to banks' problem assets and takes into account any observed concentration in the risk mitigation strategies adopted by banks and the potential effect on the efficacy of the mitigant in reducing loss. The supervisor considers the adequacy of provisions and reserves at the bank and banking system level in the light of this assessment.</p>  |

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| Description and findings re EC12  | <p>The BOT regularly receive information on banks' portfolios such as overview of loan portfolio, quality of portfolio in different dimensions, details of all loan accounts including classification, provision and collaterals/risk mitigants for each account for use in assessing concentration risk in various dimensions e.g., sector and geographical areas. The BOT can also request additional information such as relevant committees' minutes (e.g., Risk Management Committee, Credit Committee) and internal risk reports (Section 71 and 85 of FIBA).</p> <p>From the information above, the BOT supervisors continuously monitor, review and assess status, asset quality, adequacy of provision and concentration risk of each bank as well as the overall financial institution system, for example, top 100 large groups of connected borrowers of the banking sector, top 100 large single borrowers of each bank, significant business sector/types of portfolio with concentration risk (e.g., automobile, real estate) to help indicate risk and possible impact to banks and the financial institutions system. (Please refer to CP19 EC4)</p> <p>Furthermore, the BOT requires all banks to conduct stress test under the BOT's supervisory scenarios which specify industries affected from certain situations such as prolonged economic slowdown which may affect the banks' loan portfolio with concentration in those industries. The BOT uses the stress test results to estimate impact from stressed events on asset quality, capital adequacy as well as each bank's provision and the financial institutions system's provision.</p> <p>If any risks are recognized, asset quality shows deteriorating trend, or provision may become insufficient, the BOT supervisors will follow up with the banks to understand the root causes and to ensure that the banks have appropriate risk mitigation strategies.</p> <p>On an occasional basis, the BOT will conduct a thematic examination to assess the impact of a macroeconomic situation on banks' significant activities/portfolios, such as real estate lending, hire purchase lending, and unsecured lending, both in the aspect of quality and adequacy of provision.</p> |
| <b>Assessment of Principle 18</b> | Largely compliant   |
| Comments                          | <p>The assessors reviewed several examination reports and risk assessments for asset classification and provisioning. They found that the examinations were comprehensive and in sufficient depth to cover the implementation of BOT laws and regulations. The findings of the thematic examinations were reviewed and discussed with the relevant examination teams. The BOT ensures that banks have adequate policies and processes for the early identification and management of problem assets, and the maintenance of adequate provisions and reserves. The BOT supervisors closely monitor the asset quality at a very granular level in individual banks and at the level of the banking system. The assessors were shown trends in cure rates and migration rates for restructured and defaulted exposures, at individual bank level and for the banking system. These trends inform the intensity of supervision of asset quality during the annual inspections. Provision coverage is</p>  |

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|                     | <p>also high. It stands at 140 percent (total provisions/total NPLs) and 170 percent (total provisions/required provisions).</p> <p>There are areas that should be revised to align the BOT regulations and practices with the most recent Basel guidelines (“Prudential Treatment of Problem Assets—Definitions of Non-performing Loans and Forbearance—April 2017”).</p> <ul style="list-style-type: none"> <li>• Banks should be required to include a list of indicators to determine the qualitative criterion of unlikeliness to pay in their policies. While the assessors were shown evidence that at least one Thai banks has a list of indicators of unlikeliness to pay, it is recommended the BOT regulations explicitly require banks to do so.</li> <li>• The BOT definition of restructuring and rescheduling is not in line with the definition of forbearance in international good practice; it should refer to financial difficulty of the borrower and it should not be conditional on the bank making a loss.</li> <li>• The probation period for nonperforming restructured exposures to be upgraded to performing exposures is currently three months. International good practice requires it to be a minimum of one year.</li> <li>• No upgrade of the exposure should take place when restructuring is granted (BOT Notification FPG 5/2559 Regulations on Asset Classification and Provisioning of Financial Institutions paragraph 5.2.3 (2)). Upgrades should only be allowed after the debtor has successfully completed the probation period. <ul style="list-style-type: none"> <li>- More detailed guidance should be given in the BOT regulation on the level of application (borrower or transaction level) of the classification. The BOT has included guidance on the level of application in the Q&amp;A attached to the regulation, but the assessors believe the topic is important enough to ensure this be included in the regulation.</li> </ul> </li> </ul> <p>The BOT has issued a revised Asset Classification. After TFRS 9 becomes effective in 2020, asset classification, provisioning and write off shall be in accordance with the TFRS 9, considering economic, business, and financial conditions of the debtors. That is, the asset will be classified into three classes: performing, under-performing, and nonperforming. For assets classified as performing, provision shall be set against expected credit loss over 12-month period while assets classified as under-performing and nonperforming shall be set against expected credit loss over the expected life. The revised regulation was not in force at the time of the assessment but is likely to address most of the recommendations listed above.</p> |
| <b>Principle 19</b> | <p>Concentration risk and large exposure limits. The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate concentrations of risk on a timely basis. Supervisors set prudential limits to restrict bank exposures to single counterparties or groups of connected counterparties.<sup>58</sup></p>  |

<sup>58</sup> Connected counterparties may include natural persons as well as a group of companies related financially or by common ownership, management or any combination thereof.

continued

| Essential criteria              |  |
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| <b>EC1</b>                      | Laws, regulations, or the supervisor require banks to have policies and processes that provide a comprehensive bank-wide view of significant sources of concentration risk. <sup>59</sup> Exposures arising from off-balance sheet as well as on-balance sheet items and from contingent liabilities are captured.   |
| Description and findings re EC1 | <p>The BOT notification no. FPG 10/2561 on Corporate Governance of financial institutions requires that banks have risk management policies and processes in place covering all risks associated with their businesses including concentration risks arising from various types of activities both on and off-balance sheet. The policies including risk appetites shall be approved by the banks' Boards and communicated to the relevant staff at all level. The banks' Boards shall carry out their risk oversight responsibility, which allow them to have a comprehensive bank-wide view of concentration risk exposures of various sources to ensure that the exposures remain consistent with the approved policies or to take appropriate actions as deemed necessary.</p> <p>Under BOT Notification No. SVG. 5/2552 Guideline on Supervisory Review of Capital Adequacy (Pillar 2), banks are required to establish a sound risk management system including credit concentration risk and to assess credit concentration risk using quantitative method at least in aspect of large borrower concentration and sector concentration. Upon the assessment results, if credit concentration risk exceeding the limit, banks are required to improve their risk management system or mitigate such risk exposure to maintain such risk within an appropriate level within a period of no longer than 12 months.</p> <p>In addition, sections 30, 34, 50, 57, 71, 84, and 85 of FIBA empower the BOT to prescribe the regulations on concentration risk, for instance, large exposure limit, investment limit, limit on FX position, and funding concentration as well as empower BOT to instruct banks to rectify any deficiencies, to reduce their excessive exposures, or to maintain additional capital against significant risks.</p> <ul style="list-style-type: none"> <li>• Limit on single counterparty: under BOT Notification No. FPG. 22/2555: Supervisory Guidelines on Large Exposure (Single lending limit) and BOT Notification No. FPG. 8/2560: Regulations on Risk Supervision of Financial Business Groups, banks are not allowed to lend to, invest in, or transact with a single counterparty or with several persons for the same project/objective (those persons have a common source of income or repayment ability which constitute a common source of risk to a bank) in an aggregate exposure exceeding 25 percent of banks' total capital funds. When determining such aggregate exposure, a group of connected borrowers shall be included.</li> </ul> |

<sup>59</sup> This includes credit concentrations through exposure to: single counterparties and groups of connected counterparties both direct and indirect (such as through exposure to collateral or to credit protection provided by a single counterparty), counterparties in the same industry, economic sector or geographic region and counterparties whose financial performance is dependent on the same activity or commodity as well as off-balance sheet exposures (including guarantees and other commitments) and also market and other risk concentrations where a bank is overly exposed to particular asset classes, products, collateral, or currencies.

- Limit on investments: under the BOT Notification No. FPG. 7/2561: Investment Regulations and Methods for Financial Institutions, banks are not allowed to invest directly or indirectly in any company or financial instrument for more than the following limits.
    - (1) Limit of total investments in all shares of all companies: 20 percent of total capital funds of banks.
    - (2) Limit of investments in shares of any individual company: 5 percent of total capital funds or 10 percent of total paid-up shares of such invested company.
    - (3) Limit of investments in FinTech business: 3 percent of total capital funds.
    - (4) Limit of total investments in shares, investment units, trusts of FinTech business: 30 percent of total capital funds.
  - Limit on Foreign Exchange Positions: under the BOT Notification No. FPG. 74/2551 Re: Regulations on Foreign Exchange Positions for Commercial Banks, banks are subject to foreign exchange limits as follows.
    - (1) Individual currency limit: net open position in each currency shall not exceeding 15 percent of their capital fund or USD 5 million, whichever is greater.
    - (2) Aggregate currency limit: an aggregate foreign currency position shall not exceed 20 percent of their capital funds or USD 10 million, whichever is greater.
- The BOT supervisors will assess to ensure that the banks' policies and procedures are capable of identifying, measuring, monitoring, and controlling concentration risk exposure arising from both on- and off- balance sheet items, as well as from contingent liabilities, and cover all banks' significant concentration risk areas, especially credit, in terms of a single borrowers, groups of connected borrowers, business sectors, country/geographic locations, types of loans (i.e., housing, credit card, unsecured personal loans), and risk grades. Banks should define thresholds/limits for acceptable level of concentration risks and should have appropriate monitoring and reporting processes (please refer to EC3 for more detail). Furthermore, banks should have policies and procedures for concentration risk in other significant areas such as funding concentration risk, market concentration risk (For market and liquidity concentration risk management, please refer to CP22 and CP24, respectively, for more detail).
- Such policies and procedures must be approved by the Board or sub-committee designated by the Board, subject to periodic review to be in line with changing internal and external circumstances and be clearly communicated and applied across the organization.

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| <b>EC2</b>                      | The supervisor determines that a bank's information systems identify and aggregate on a timely basis, and facilitate active management of, exposures creating risk concentrations and large exposure <sup>60</sup> to single counterparties or groups of connected counterparties.  |
| Description and findings re EC2 | <p>The BOT requires that banks have appropriate risk management process and information system to identify, measure, monitor, and control significant types of risks including concentration risk in a timely manner. In addition, the banks' board and senior management must obtain risk reports on a regular and timely basis, especially when there is an incident that could significantly pose risk to the banks. (BOT Notification No. FPG. 10/2561 Corporate Governance of Financial Institutions and BOT Notification No. SVG. 5/2552 Guideline on Supervisory Review of Capital Adequacy (Pillar 2))</p> <p>For ongoing supervision, the BOT supervisors evaluate the effectiveness of banks' processes and information systems to ensure timely identification, aggregation, and reporting of exposures that create risk concentrations and large exposures to single counterparties or groups of connected counterparties to the banks' Board and senior management. The BOT supervisors review the banks' internal Board and senior management reports to see if significant concentration risk is reported in a timely manner and whether it covers a single borrower, a group of connected borrowers, and other aspects such as industry sectors and countries. The reporting frequency should also be appropriate.</p> <p>In addition, the BOT supervisors will interview relevant stakeholders and walk through the processes and systems during onsite supervision, including randomly reviewing debtors and related parties, to assess if the processes and systems of the bank are able to accurately consolidate and report concentration risk exposure to the Board and senior management in a timely manner. If it appears that the banks' processes and systems are not effective enough, the BOT may order such banks to strengthen their processes.</p> |
| <b>EC3</b>                      | The supervisor determines that a bank's risk management policies and processes establish thresholds for acceptable concentrations of risk, reflecting the bank's risk appetite, risk profile and capital strength, which are understood by, and regularly communicated to, relevant staff. The supervisor also determines that the bank's policies and processes require all material concentrations to be regularly reviewed and reported to the bank's Board.   |
| Description and findings re EC3 | The BOT requires that banks' risk management policies and processes include thresholds/limits for acceptable concentrations of risk, which are consistent with the banks' risk appetite, risk profile, capital strength, and strategies, and regularly and clearly communicated to relevant staff. In addition, the banks' Board and senior management must receive reports on risk exposures, including all material concentrations, and their   |

<sup>60</sup> The measure of credit exposure, in the context of large exposures to single counterparties and groups of connected counterparties, should reflect the maximum possible loss from their failure (i.e., it should encompass actual claims and potential claims as well as contingent liabilities). The risk weighting concept adopted in the Basel capital standards should not be used in measuring credit exposure for this purpose as the relevant risk weights were devised as a measure of credit risk on a basket basis and their use for measuring credit concentrations could significantly underestimate potential losses (see *"Measuring and controlling large credit exposures"*, January 1991).

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|                                 | <p>impact on capital regularly. These reports must be accurate, comprehensive, timely, and easily understandable to support decision making of the Board and senior management (BOT Notification No. FPG. 10/2561 Corporate Governance of Financial Institutions and the BOT Notification No. SVG. 5/2552 Guideline on Supervisory Review of Capital Adequacy (Pillar 2)).</p> <p>For ongoing supervision, the BOT supervisors:</p> <ul style="list-style-type: none"> <li>• Assess suitability and consistency of thresholds/limits for concentration risks with the banks' risk appetite, risk profile and capital strength, and strategies by reviewing policies and related documents, and reviewing rationale for setting and adjusting these thresholds/limits.</li> <li>• Evaluate whether the bank's staff are aware of the thresholds/limits by interviewing and reviewing documentation communicated to the banks' staff.</li> <li>• Assess whether the bank reports significant concentration risk to the Board and senior management in a timely manner and at appropriate reporting frequency (as mentioned in EC2). The significant concentration risk should cover a single borrower and groups of connected borrowers, and in other respects, such as industry sectors and countries. Banks should have policies and procedures to monitor concentration risk against threshold/limits. Any excess in soft/hard thresholds/limits should be escalated to senior management, relevant committees, and/or Board to consider appropriate and timely actions, including controlling large borrower concentration to be under the regulatory limit both in terms of solo and consolidated basis. On this, the BOT supervisors review internal reports presented to the Board and senior management as well as relevant policies and procedures.</li> <li>• Assess whether the banks' Board and senior management understand, participate, and provide useful comments, suggestions and corrective orders when, for instance, banks are exposed to high concentration risk or when changing environment adversely affect banks' exposures. On this, the BOT supervisors review the minutes of the Board and relevant committees' meetings, and interview relevant staffs.</li> </ul> |
| <b>EC4</b>                      | The supervisor regularly obtains information that enables concentrations within a bank's portfolio, including sectoral, geographical, and currency exposures, to be reviewed.  |
| Description and findings re EC4 | <p>The BOT obtains information on banks' portfolios monthly in terms of overall credit portfolio aggregated across many dimensions and individual accounts which can be aggregated to consider various dimensions of concentration risk such as sectoral, geographical and currency. Moreover, the BOT requires banks to submit additional information such as internal risk reports and meeting minutes of related committees such as Risk Management Committee and Credit Committee (Section 71 and 85 of FIBA).</p> <p>Based on the information above, the BOT supervisors continuously review, assess, and evaluate concentration risk of each bank and the overall banking system, in terms of single borrowers, groups of connected borrowers, sectors, countries, and currencies. The BOT supervisors frequently prepare an analysis report of key business sectors, such as</p>  |

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|                                 | <p>automobile, real estate, top 100 debtors of the banking system and top 100 debtors of each bank to help identify business sector, country or group of debtors that may potentially have negative impacts on an individual bank and/or the financial system. If the BOT supervisors observe high concentration risk, they will follow up with the banks to understand the root causes and to ensure that the banks have appropriate risk mitigation strategies. For example, the analysis of top 100 debtor groups by exposure is conducted every semester. The BOT supervisors will review the loan growth together with the quality of top 100 debtors. In addition, scenario tests based on the default of debtors in a sensitive sector will be applied to assess the capital adequacy of the banks.</p>   |
| <b>EC5</b>                      | <p>In respect of credit exposure to single counterparties or groups of connected counterparties, laws or regulations explicitly define, or the supervisor has the power to define, a "group of connected counterparties" to reflect actual risk exposure. The supervisor may exercise discretion in applying this definition on a case by case basis.</p>  |
| Description and findings re EC5 | <p>Section 4 and 50 of FIBA and BOT Notification No. FPG. 22/2555 Re: Supervisory Guidelines on Large Exposure (Single lending limit) requires that in determining credit exposure to a single counterparty, the following connected person should be included:</p> <ul style="list-style-type: none"> <li>• Closed family members (i.e., spouse and child).</li> <li>• A company of which such person, including their spouse and child, has power of management, power to control the majority of votes in the shareholders meeting, holds 20 percent or more of the company's share capital, or power to control the appointment or removal of directors.</li> <li>• A subsidiary or affiliate of the company.</li> <li>• A principal or agent.</li> <li>• Other persons having such characteristics as prescribed in the BOT notification.</li> </ul> <p>The BOT supervisors review the grouping of connected borrowers of banks and randomly review the grouping of debtors and related parties to assess whether they are in compliance with the law and regulations. If it is found to be inaccurate, the BOT supervisors will order the banks to make corrections.</p> |
| <b>EC6</b>                      | <p>Laws, regulations or the supervisor set prudent and appropriate<sup>61</sup> requirements to control and constrain large credit exposures to a single counterparty or a group of connected counterparties. "Exposures" for this purpose include all claims and transactions (including those giving rise to counterparty credit risk exposure), on-balance sheet as well as off-balance sheet. The supervisor determines that senior management monitors these limits and that they are not exceeded on a solo or consolidated basis.</p>   |

<sup>61</sup> Such requirements should, at least for internationally active banks, reflect the applicable Basel standards. As of September 2012, a new Basel standard on large exposures is still under consideration.

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| Description and findings re EC6 | <p>As mentioned in EC1, under BOT Notification No. FPG. 22/2555 Re: Supervisory Guidelines on Large Exposure (Single lending limit) and BOT Notification No. FPG. 8/2560 Re: Regulations on Risk Supervision of Financial Business Groups, banks must not have exposures both on- and off-balance sheets to a single borrower including their connected persons or to any project for the same purpose more than 25 percent of their capital funds on the solo basis and 25 percent of their financial consolidated group's capital fund on the consolidated basis. Exposures include all transactions relating to granting credits, investments, undertaking of contingent liabilities, counterparty credit risk exposure, and other credit exposure.</p> <p>In addition, the BOT requires that banks' senior management monitors these limits (on both solo and consolidated basis) to ensure that they follow applicable laws and regulations and do not exceed the banks' internal risk tolerance level (BOT Notification No. FPG 10/2561 Re: Corporate Governance of Financial Institutions and BOT Notification No. FPG 8/2560 Re: Regulations on Risk Supervision of Financial Business Groups).</p> <p>In this respect, the BOT supervisors review the coverage, timeliness, and frequency of concentration risk reports prepared for the banks' Board and senior management. The BOT supervisors will check to ensure that banks have policies and processes to monitor concentration against thresholds and limits. Should these thresholds and limits be breached, they shall be timely escalated to senior executives, relevant committees, or Board for appropriate actions (please refer to EC3 for more detail)</p> |
| <b>EC7</b>                      | The supervisor requires banks to include the impact of significant risk concentrations into their stress testing programs for risk management purposes.  |
| Description and findings re EC7 | <p>Banks are required to periodically conduct stress tests under self-developed scenarios to assess the impact of the stress events on the banks' key risk exposures, including credit concentration and adequacy of the banks' provision and capital, at least annually. Stress test outcomes shall be used for the banks' own risk management. (BOT Notification No. SVG. 5/2552 Guideline on Supervisory Review of Capital Adequacy (Pillar 2))</p> <p>In this respect, the BOT supervisors evaluate the results and procedures of the banks' stress test whether:</p> <ul style="list-style-type: none"> <li>• Banks' Board and senior management are involved in the preparation of a stress test, ranging from policy formulation to execution, to acknowledgment of the results and contingency planning.</li> <li>• Scenarios and assumptions used to perform the stress tests are reasonable and appropriate to the nature, risk, size and complexity of the business as well as the economic conditions at that time.</li> <li>• Exposure under stress testing covers all major credit risk transactions such as loan, investment and off-balance sheet.</li> <li>• Stress test significantly affects the banks' provisioning and capital adequacy, If the test results in considerable amount of losses which require higher provisions and cause</li> </ul>  |

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|                                   | <p>capital to fall below minimum requirement, supervisors will check if banks have risk mitigation measures and/or appropriate and feasible plans.</p> <p>In addition, to compare stress test results among banks and aggregate for system wide analysis, the BOT requires banks to perform stress tests under the BOT's supervisory scenarios every year. For example, the regulatory scenarios would identify industries that are affected by prolonged economic slowdown and would affect the banks' loan portfolios that are concentrated in such industries.</p>  |
| <b>Additional criteria</b>        |  |
| <b>AC1</b>                        | <p>In respect of credit exposure to single counterparties or groups of connected counterparties, banks are required to adhere to the following:</p> <ul style="list-style-type: none"> <li>• Ten percent or more of a bank's capital is defined as a large exposure.</li> <li>• Twenty-five percent of a bank's capital is the limit for an individual large exposure to a private sector nonbank counterparty or a group of connected counterparties.</li> </ul> <p>Minor deviations from these limits may be acceptable, especially if explicitly temporary or related to very small or specialized banks.</p>   |
| Description and findings re AC1   | <p>The BOT notification sets out the following requirements for banks:</p> <p>(a) Under BOT Notification No. SVG. 5/2552 Re: Guideline on Supervisory Review of Capital Adequacy (Pillar 2), banks are required to evaluate large exposure concentration risk for the bank's aggregated exposures to a single counterparty or to a group of connected counterparties exceeding 10 percent of its capital fund.</p> <p>(b) Under BOT Notification No. FPG. 22/2555 Re: Supervisory Guidelines on Large Exposure (Single lending limit), banks are prohibited from having aggregated exposures to a single borrower or to a group of connected counterparties exceeding 25 percent of the banks' capital fund unless prior approval is obtained from the BOT on a case by case basis.</p> <p>In practice, the BOT supervisors assess sector concentration policy and large borrower concentration policy and check if banks have policies and processes to monitor concentration against the approved thresholds and limits. If there is any concern, the BOT will instruct the bank to reduce the risk exposure or holding additional capital against the exposure.</p> <p>Banks can apply for temporary exemptions of these limits under exceptional circumstances. The BOT can grant these exemptions but requires additional capital as well as a plan to reduce the exposure.</p> |
| <b>Assessment of Principle 19</b> | Compliant  |
| Comments                          | The assessors reviewed examination reports, risks assessments, and a Pillar 2 assessment and concluded that the BOT supervisors review concentration risks adequately.   |

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| <b>Principle 20</b>             | <b>Transactions with related parties.</b> In order to prevent abuses arising in transactions with related parties <sup>62</sup> and to address the risk of conflict of interest, the supervisor requires banks to enter into any transactions with related parties <sup>63</sup> on an arm's length basis; to monitor these transactions; to take appropriate steps to control or mitigate the risks; and to write off exposures to related parties in accordance with standard policies and processes.   |
| <b>Essential criteria</b>       |   |
| <b>EC1</b>                      | Laws or regulations provide, or the supervisor has the power to prescribe, a comprehensive definition of "related parties." This considers the parties identified in the footnote to the Principle. The supervisor may exercise discretion in applying this definition on a case by case basis.   |
| Description and findings re EC1 | <p>Sections 4, 48, 49, and 59 of FIBA define related party and empower BOT to issue standards (notifications) on related party transactions. Related parties include directors, senior management, major shareholders, business with related interest, subsidiaries and affiliates, and related parties of those persons. Definitions are prescribed as follows:</p> <ul style="list-style-type: none"> <li>• Major shareholder: a person who holds or possesses shares of a bank in excess of five percent of outstanding shares, including shares held by related persons.</li> <li>• Business with related party: a company in which a bank, its directors, persons with power of management, or any related person of those persons hold shares in aggregate of more than ten per cent of the total shares sold of that company.</li> <li>• Subsidiary: (i) a company that has another company as its parent company; or (ii) a subsidiary of the company under (i) of any level along the line; (With this regard, a parent company refers to a company that has power to control the business of another company whether directly or indirectly in any of the following manners: (i) holding shares in a company more than fifty percent of its total shares sold; (ii) having power to control the majority of votes in the shareholders meeting of a company; (iii) having power to control the appointment or removal of persons with power of management or at least one-half of all directors of a company; or (iv) having power to control business in any other manners pursuant to the rules prescribed in the notification of the BOT. Holding shares in a company of twenty per cent or more of its total shares sold whether directly or indirectly shall be presumed to have power to control the business unless proven otherwise).</li> </ul> |

<sup>62</sup> Related parties can include, among other things, the bank's subsidiaries, affiliates, and any party (including their subsidiaries, affiliates and special purpose entities) that the bank exerts control over or that exerts control over the bank, the bank's major shareholders, Board members, senior management and key staff, their direct and related interests, and their close family members as well as corresponding persons in affiliated companies.

<sup>63</sup> Related party transactions include on-balance sheet and off-balance sheet credit exposures and claims, as well as, dealings such as service contracts, asset purchases and sales, construction contracts, lease agreements, derivative transactions, borrowings, and write-offs. The term transaction should be interpreted broadly to incorporate not only transactions that are entered into with related parties but also situations in which an unrelated party (with whom a bank has an existing exposure) subsequently becomes a related party.

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|                   | <ul style="list-style-type: none"> <li>• Bank’s affiliate: a subsidiary which has a common parent company.</li> <li>• Related person: a person who is related to another person in any of the following manners:             <ol style="list-style-type: none"> <li>(1) Spouse.</li> <li>(2) A child or adopted child who is under legal age.</li> <li>(3) A company of which such person or the person under (1) or (2) has power of management.</li> <li>(4) A company of which such person or the person under (1) or (2) has power to control the majority of votes in the shareholders meeting.</li> <li>(5) A company of which such person or the person under (1) or (2) has power to control the appointment or removal of directors.</li> <li>(6) A subsidiary of the company under (3), (4) or (5).</li> <li>(7) An affiliate of the company under (3), (4) or (5).</li> <li>(8) A principal, an agent.</li> <li>(9) Other persons having such characteristics as prescribed in the BOT notification.</li> </ol> </li> </ul> <p>Where any person directly or indirectly holds shares in any company in the amount of twenty per cent or more of the total shares sold, it shall be presumed that such company is a related person of such person, unless proven otherwise.</p> <p>The BOT supervisors assess whether banks have established policies for and the definition of related lending that are clear and consistent with the law and BOT regulations. The supervisors also assess whether banks have a process for identifying and monitoring related transactions, to ensure that banks are in compliance with the law, BOT regulations and banks’ own internal policies. The assessment is done through reviewing documents containing policies, processes and other data/information submitted to the BOT, for example,</p> <ul style="list-style-type: none"> <li>• Data submitted to the BOT on a regular basis through the DMS such as the monthly submission of outstanding loans, investments and contingent liabilities owed by a person or related business with significant relevance.</li> <li>• Information on shareholding, directorship, status as an authorized person or controlling stakes in businesses, and any related person of a director and an authorized person (such as spouse or children).</li> <li>• Meeting minutes/reports of the Board and Credit Committee meeting.</li> </ul> <p>In addition, the BOT supervisors evaluate efficiency and effectiveness of the processes, working systems and tools to identify and monitor related persons by conducting walkthrough, interviewing relevant staff and related party transaction testing to assess whether the banks’ policy implementation on related parties are correct, complete and in accordance with the law, regulations and banks’ own internal policies.</p> |
| <p><b>EC2</b></p> | <p>Laws, regulations or the supervisor require that transactions with related parties are not undertaken on more favorable terms (e.g., in credit assessment, tenor, interest rates, fees,</p>   |

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|                                 | amortization schedules, requirement for collateral) than corresponding transactions with non-related counterparties. <sup>64</sup>  |
| Description and findings re EC2 | <p>Section 49 of FIBA and BOT Notification No. FPG. 36/2551: Guidelines on Conducting Transactions with Major Shareholders or Businesses with Interest (Related Lending), banks' transactions with their major shareholders, business with related interest, or related persons of those persons shall be undertaken on an arm length basis and shall not be given favorable considerations and contain more favourable terms than those done with non-related parties; particularly, those transaction shall not have the following characteristics:</p> <ul style="list-style-type: none"> <li>• Not taking into account the status and operating performance of the business or not taking into account a feasibility analysis of the project.</li> <li>• Offering any special favor to the business, e.g., charging lower interest rate than the rate normally charged on customers with similar risk profile, no mortgage registered on immovable property placed as collateral, no legal enforcement made on the collateral, etc.</li> <li>• There is reasonable doubt that the business is truly conducted.</li> </ul> <p>Furthermore, banks are required to have in place policies and processes on conducting transactions with a major shareholder or a business with interests, which stipulates that such transactions must be conducted in accordance with the BOT guidelines on credit transactions.</p> <p>Section 48 (1) of FIBA prohibits banks from granting credits or credit-like transactions, or providing guarantees for any of the banks' directors, senior management (such as managers, deputy managers, assistant managers or persons holding equivalent positions under different titles, authorized persons), or any related person of those persons except the transactions that are part of employees' benefits.</p> <p>For transactions with banks' subsidiaries and affiliates, the parent company's Board must approve a policy on intra-group transactions and a policy on risk management for intra-group transactions as well as any change to those policies and submit a letter confirming their policy approval to the BOT at least once a year. Companies within a financial group must be subject to the approved policies on transactions with intra-group companies and must comply with the same process as applied to transactions with general customers unless approved otherwise. Furthermore, in entering into intra-group transactions, legally enforceable agreements must be made with the same terms or conditions as specified for transactions with general customers with the same risk profile. For example, the purchase/sale of assets within the group should be made at a market price with the same terms or conditions as specified for the purchase/sale of assets with external parties (BOT Notification No. FPG. 8/2560: Regulations on Risk Supervision of Financial Business Groups).</p> <p>Moreover, as part of ongoing supervision, the BOT supervisors monitor banks' related transactions to ensure that such transactions are complied with the same process applied to</p> |

<sup>64</sup> An exception may be appropriate for beneficial terms that are part of overall remuneration packages (e.g., staff receiving credit at favorable rates).

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|                                 | <p>non-related counterparties and are not undertaken on more favorable terms. The BOT supervisors will review related policies and processes, internal reports, internal audit/compliance/credit reports as well as interview relevant staff and walk through the processes. In addition, the BOT supervisors will randomly examine credit files to ensure that the credit approval process (including credit analysis) complied with the BOT regulations and the banks' policies, and was conducted under the same standard as normal process, with no special conditions benefitting related parties.</p> <p>If any issue such as improper credit analysis, special interest rate is found, the BOT supervisors will ask the banks to clarify and will order the banks to rectify immediately should any misconduct be found.</p>   |
| <b>EC3</b>                      | <p>The supervisor requires that transactions with related parties and the write-off of related-party exposures exceeding specified amounts or otherwise posing special risks are subject to prior approval by the bank's Board. The supervisor requires that Board members with conflicts of interest are excluded from the approval process of granting and managing related party transactions.</p>   |
| Description and findings re EC3 | <p>Supervisors assess if banks have policies on conflict of interests, especially, in the case of transactions with related parties and comply with the intra-group transactions and related risk management policies approved by the banks' Board, unless the Board approves otherwise. In particular, such policies and processes on transactions with a major shareholder or a business with interests are approved by the banks' Board with unanimous resolution.</p> <p>Under BOT Notification No. FPG. 5/2559: Asset Classification and Provisioning, the BOT requires banks to set out clear and written policies, guidelines or procedures for writing off loans as well as internal controls and to ensure that loan write-offs must not be for benefits of the banks' directors, senior management, shareholders, or related parties or entities that those persons have related interests. In addition, starting from 2020, all write-offs of related party exposures must obtain prior approval from the banks' Board of directors.</p> <p>Furthermore, under the BOT Notification No. FPG. 10/2561: Corporate Governance, banks' board members are required to perform their duties with integrity, specifically, without participation or involvement in any decision relating to transactions or affairs that they or their related parties have shares of interest, neither directly nor indirectly, to avoid conflict of interests.</p> <p>During onsite examinations, the supervisors assess related party transaction policy and credit approval process and the appropriate write-off threshold. Supervisors assess whether credit approval and write-offs processes for related party transactions comply with the bank's internal policies, whereas directors with possible conflict of interests must not be involved in the approval or credit policy override process. The assessment is done by reviewing meeting minutes of the Board and relevant credit files to ensure that such cases comply with the BOT regulations and the banks' internal policies and that the approval</p> |

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|                                 | obtains unanimous vote by the Board for which the directors with possible related or conflicting interests are not involved.   |
| <b>EC4</b>                      | The supervisor determines that banks have policies and processes to prevent persons benefiting from the transaction and/or persons related to such a person from being part of the process of granting and managing the transaction.   |
| Description and findings re EC4 | Supervisors determine that banks have prudent policies and processes to prevent the persons with conflict of interests and those who may be related from being part of the process of granting and managing the transactions and that the banks' Board oversees the banks on this matter. Supervisors review documents containing policies and processes, the Board's and Credit Committee's meeting reports, and meeting reports of other committees related to approval of loans and transactions with related parties. Moreover, the BOT supervisors will randomly review related party transactions to ensure they were not undertaken on more favorable terms and were subject to proper credit assessment and independent approval without any involvement of those with possible related interests. Internal audit, compliance and credit review reports will be reviewed to assess whether the banks' internal audit, compliance and credit review functions have reviewed these transactions and properly reported the results to the banks' Board and related committees.  |
| <b>EC5</b>                      | Laws or regulations set, or the supervisor has the power to set on a general or case by case basis, limits for exposures to related parties, to deduct such exposures from capital when assessing capital adequacy, or to require collateralization of such exposures. When limits are set on aggregate exposures to related parties, those are at least as strict as those for single counterparties or groups of connected counterparties.   |
| Description and findings re EC5 | Under Section 49 of FIBA and BOT Notification No. FPG. 36/2551: Guidelines on Conducting Transactions with Major Shareholders or Businesses with Interests (Related Lending), banks are prohibited from having credit exposures to major shareholders and related businesses exceeding 5 percent of the banks' total capital or 25 percent of total liabilities of such shareholders and their related businesses, whichever amount is lower. In this regard, credit exposures to related persons of major shareholders shall be treated as transactions with major shareholders.<br><br>Supervisors check whether the amount of transactions that the banks conduct with related parties do not exceed the limits and the banks have appropriate policies and processes for identifying and monitoring by setting appropriate threshold/limit and monitoring such exposures against the threshold/limit such as having an early warning system. Should exposure exceed the soft/hard threshold/limit, escalation to senior management/committees should take place for consideration of appropriate and timely actions. The BOT supervisors will review the banks' policies and processes for setting limits, internal reports presented to the Board and senior management, reports of internal audit/compliance/ credit reviews, as well as related policies and processes, and will interview relevant parties and randomly review credit files. The BOT maintains database on related party borrowing and monitors credit bureau information and borrowings with other banks. |

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| <b>EC6</b>                      | The supervisor determines that banks have policies and processes to identify individual exposures to and transactions with related parties as well as the total amount of exposures, and to monitor and report on them through an independent credit review or audit process. The supervisor determines that exceptions to policies, processes and limits are reported to the appropriate level of the bank's senior management and, if necessary, to the Board, for timely action. The supervisor also determines that senior management monitors related party transactions on an ongoing basis, and that the Board also provides oversight of these transactions.   |
| Description and findings re EC6 | <p>The BOT supervisors determine that (i) Banks have policies and processes to identify both individual and total exposures to related parties and to monitor and report them through an independent credit review or audit process; (ii) Exceptions to policies, processes, and limits are reported to appropriate level of the banks' senior management and to the Board in a timely manner; (iii) Senior management frequently monitors related party transactions; and (iv) The Board performs oversight function of these transactions.</p> <p>BOT supervisors assess adequacy and effectiveness of the banks' policies and procedures with regards to related party transactions and exposures, including the processes and systems for monitoring and reporting related party exposures. The BOT supervisors will review exceptions to the policies, processes and limits and governance of the banks' Board and senior management in overseeing transactions with related parties on an ongoing basis. Activities of the oversight functions such as credit review, compliance and internal audit will be reviewed to determine whether there is any comment or issue on transactions with related parties and whether such comment or issue is timely reported to the Board and senior management. The assessment is done through reviewing information that the banks regularly submit to the BOT such as documents on policies and procedures, minutes of the Board and related committees meeting, internal reports of Credit Review Committee, compliance, internal audit and external audit reports as well as interviewing relevant persons.</p> <p>During Onsite examination, supervisors review bank processes and information systems to determine whether they can identify, monitor and report related party transactions and exposures efficiently and effectively. The BOT supervisors will randomly examine credit files and related party transaction reports to check whether identification and calculation of total exposures is in line with the internal and regulatory limits. In the case where related party exposures exceed the regulatory limits, the BOT will check whether such case is reported to the Board and senior management in accordance with the banks' policies and procedures. If the BOT supervisors find any issues or deficiencies, they will require the banks to address the issues and to prevent future incidents.</p> |
| <b>EC7</b>                      | The supervisor obtains and reviews information on aggregate exposures to related parties.  |
| Description and findings re EC7 | BOT receives information on related party exposures from banks through the Data Management System (DMS) such as the monthly submission of outstanding loans, investments and contingent liabilities transacted with a person or a related business, classified by debtor. Section 71 and 85 of FIBA give the BOT the authority to ask banks to   |

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|                                   | submit supplemental information such as relevant minutes of committee meeting and internal reports. The BOT supervisors review the information, along with banks' financial disclosures such as exposures amount, credit lines to related parties against the limits on aggregate bases, in order to monitor aggregate exposures to related parties of each bank on an ongoing basis.   |
| <b>Assessment of Principle 20</b> | Compliant   |
| Comments                          | Except for credit cards, directors, bank management and persons with power of management are not permitted to borrow from the bank. The framework regulating related party lending is comprehensive and compliance closely supervised by the BOT.   |
| <b>Principle 21</b>               | <b>Country and transfer risks.</b> The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate country risk <sup>65</sup> and transfer risk <sup>66</sup> in their international lending and investment activities on a timely basis.   |
| <b>Essential criteria</b>         |   |
| <b>EC1</b>                        | The supervisor determines that a bank's policies and processes give due regard to the identification, measurement, evaluation, monitoring, reporting and control or mitigation of country risk and transfer risk. The supervisor also determines that the processes are consistent with the risk profile, systemic importance and risk appetite of the bank, take into account market and macroeconomic conditions and provide a comprehensive bank-wide view of country and transfer risk exposure. Exposures (including, where relevant, intra-group exposures) are identified, monitored and managed on a regional and an individual country basis (in addition to the end-borrower/end-counterparty basis). Banks are required to monitor and evaluate developments in country risk and in transfer risk and apply appropriate countermeasures. |
| Description and findings re EC1   | The BOT requires banks with cross-border branches or significant lending and investment activities to have clearly defined policies and procedures to identify, measure, evaluate, monitor, report, and control country risk, including transfer risk. Such policies and procedures must be consistent with the banks' risk profile, systemic importance and risk appetite. Banks are also required to monitor and evaluate developments in country risk and transfer risk and apply appropriate countermeasures and/or contingency plan. (BOT Policy Statement on Country Risk Management)   |

<sup>65</sup> Country risk is the risk of exposure to loss caused by events in a foreign country. The concept is broader than sovereign risk as all forms of lending or investment activity whether to/with individuals, corporate, banks or governments are covered.

<sup>66</sup> Transfer risk is the risk that a borrower will not be able to convert local currency into foreign exchange and so will be unable to make debt service payments in foreign currency. The risk normally arises from exchange restrictions imposed by the government in the borrower's country. (Reference document: *IMF paper on External Debt Statistics—Guide for compilers and users*, 2003.)

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|                                 | <p>On an ongoing basis, the supervisors review banks' country risk policies and processes to assess whether:</p> <ul style="list-style-type: none"> <li>• Policies and processes address all key country risk components, i.e., (i) sovereign risk, (ii) transfer risk, (iii) contagion risk, and (iv) macroeconomic risk, including transfer risk, both directly and indirectly affecting the banks' counterparties.</li> <li>• Such policies and processes are commensurate with the banks' risk profile, systemic importance and risk appetite, take into account market and macroeconomic conditions, and provide a comprehensive bank-wide view of country and transfer risk exposures as well as impacts on the banks' provisioning and capital adequacy.</li> <li>• Country risk exposures include both on and off balance sheet items, are appropriately identified and measured, aggregated and monitored on a regular basis, and properly managed and controlled. For example, the exposures are subject to individual country limit and/or regional limits, monitored against limits on a regular basis, and subject to additional provisioning.</li> </ul> <p>The BOT supervisors assess whether the banks have sufficient human resources, processes, systems including risk management, internal controls, and information systems for identification, measurement, evaluation, monitoring, reporting, and control or mitigation of country risk and transfer risk effectively, as well as senior management oversight. This is done by reviewing documents received from banks (i.e., organization chart, capacity, qualifications of relevant staff, and documents of the process, system, and procedures, internal audit/compliance reports, minutes of the committees' meetings). If the BOT finds that the banks' country risk has significant changes, the BOT will ask for more information or request more supporting measures from the banks and/or include as a focus area for further onsite examination.</p> <p>In addition, the supervisors assess how the banks monitor and evaluate developments in country and transfer risk and how the banks prepare to apply appropriate countermeasures and/or contingency plan. Additional information on the banks' supporting measures may be requested if there is any event in foreign countries that may affect the banks. For example, during BREXIT, the BOT supervisors asked the banks to assess its impact on the banks and the financial system, both from devaluation of the pound and volatility in the markets along with the banks' preparation of supporting measures.</p> |
| <b>EC2</b>                      | <p>The supervisor determines that banks' strategies, policies and processes for the management of country and transfer risks have been approved by the banks' Boards and that the Boards oversee management in a way that ensures that these policies and processes are implemented effectively and fully integrated into the banks' overall risk management process.</p>   |
| Description and findings re EC2 | <p>BOT requires that banks' strategies, policies, and processes for managing country risk are approved and regularly reviewed by the Board (at least once a year or when there is a significant change) and are communicated and implemented throughout the bank. The banks' Boards must oversee the management to ensure that these policies and processes</p>   |

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|                                 | <p>are implemented effectively and fully integrated into the banks' overall risk management process (BOT Policy Statement on Country Risk Management).</p> <p>On an ongoing basis, the BOT supervisors:</p> <ul style="list-style-type: none"> <li>Assess that strategies, policies, and processes are approved and regularly reviewed by the Board and that such strategies, policies and processes are communicated and effectively implemented through reviewing minutes of the Board meetings, evidences of communication to staff, and compliance and internal audit reports. Furthermore, during onsite examination, the BOT supervisors walk through the process and interview related staff as well as randomly review transactions/loan portfolios (transaction testing) to evaluate whether the strategies, policies and processes are adhered to.</li> </ul> <p>Supervisors assess oversight by the Board by reviewing minutes of the Board meetings, internal reports that the Board and other related committees receive, and interviewing related parties to evaluate if the Board receives information related to country risk that is sufficient and timely to make decisions, and act on their duties to make comments or suggestions that are useful, issue instructions, and follow up on the management's actions when country risk is high.</p>   |
| <b>EC3</b>                      | <p>The supervisor determines that banks have information systems, risk management systems and internal control systems that accurately aggregate, monitor and report country exposures on a timely basis; and ensure adherence to established country exposure limits.</p>   |
| Description and findings re EC3 | <p>The BOT requires that banks have in place information systems, risk management systems, and internal control systems for timely and accurately aggregation, monitoring and reporting of all country risk exposures to the senior management and/or the Board, as well as for ensuring adherence to the established country exposure limits (BOT Policy Statement on Country Risk Management).</p> <p>On an ongoing basis, the BOT supervisors:</p> <ul style="list-style-type: none"> <li>Assess that banks have appropriate policies and processes to analyze, evaluate, and rank country risk. For instance, there is evaluation of country risk in terms of economic, social, and political uncertainties, and risk rating. Relevant country-specific transactions are reviewed at least once a year or when significant changes are made. Such risk assessment results are considered when determining country's risk limits, classification and provision for transactions exposed to country risks. On this, the BOT supervisors review related policies and processes, internal reports, internal audit/compliance/credit reports, as well as interview related parties, walk through the processes, and randomly review loan portfolios during onsite supervision.</li> <li>Assess that banks have in place effective information systems for timely and accurate aggregation, monitoring and reporting of all country risk exposures to the banks' Board and senior management, monitor status, and communicate with relevant counterparties in other countries or regions regularly and present sufficient and timely information to the Board and senior management, beneficial to their decision making.</li> </ul> |

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|                                 | <p>There must also be appropriate reporting frequency such as review of bank internal reports presented to the Board and senior management, documentation of communication with counterparties in other countries or regions, interviews with related parties, and walk through of processes and information systems.</p> <ul style="list-style-type: none"> <li>• Assess that banks have policies and processes for monitoring country risk by determining appropriate threshold/limit (such that it reflects country risk rating) and monitoring country risk exposure against the threshold/limit. Escalation should be made if the banks exceed the soft/hard threshold/limit to senior management/committees for consideration of appropriate and timely action. The BOT supervisors evaluate by reviewing policies and processes for setting limit, bank internal reports presented to the Board and senior management, reports of internal audit/ compliance/ credit reviews, as well as related policies and processes and interviewing relevant parties.</li> <li>• Assess that the Board and senior management understand, are engaged, provide beneficial feedback or suggestions, instruct and monitor banks make improvements when country risk is high by reviewing the Board and other related Committees' meeting minutes and interviewing related parties.</li> </ul> |
| <b>EC4</b>                      | <p>There is supervisory oversight of the setting of appropriate provisions against country risk and transfer risk. There are different international practices that are all acceptable as long as they lead to risk-based results. These include:</p> <ul style="list-style-type: none"> <li>• The supervisor (or some other official authority) decides on appropriate minimum provisioning by regularly setting fixed percentages for exposures to each country taking into account prevailing conditions. The supervisor reviews minimum provisioning levels where appropriate.</li> <li>• The supervisor (or some other official authority) regularly sets percentage ranges for each country, taking into account prevailing conditions and the banks may decide, within these ranges, which provisioning to apply for the individual exposures. The supervisor reviews percentage ranges for provisioning purposes where appropriate.</li> <li>• The bank itself (or some other body such as the national bankers association) sets percentages or guidelines or even decides for each individual loan on the appropriate provisioning. The adequacy of the provisioning will then be judged by the external auditor and/or by the supervisor.</li> </ul>  |
| Description and findings re EC4 | <p>The BOT requires that banks have their own policies and processes to maintain appropriate provisions against country risk and transfer risk. Such policies and processes must be approved by the Board and must include (i) analysis of each country's problem and how severe the problem is, and (ii) estimate of loss and provision needed to cover expected loss. The banks must clearly determine who has the authority and responsibility to consider the level of provisions (BOT Policy Statement on Country Risk Management).</p>   |

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|                                 | <p>On an ongoing basis, the BOT supervisors review the banks' provisioning policies and procedures and assess if they are appropriately and regularly reviewed. The BOT supervisors also assess accuracy of provisioning calculation and provision level against the BOT guidelines by sampling some credit files with country risk and transfer risk exposures, where the sampling size depends on significance of transactions in that country and interviewing related parties.</p> <p>Furthermore, the banks' external auditor is responsible for determining accuracy and adequacy of the provision following the list of audit duties required under BOT Notification No. FPG. 5/2558.</p>  |
| <b>EC5</b>                      | The supervisor requires banks to include appropriate scenarios into their stress testing programs to reflect country and transfer risk analysis for risk management purposes.   |
| Description and findings re EC5 | <p>Banks are required to periodically conduct stress tests, in accordance with the size and sophistication of exposure in each country, as well as assess the impact of stressed events on the banks' country risk exposures and on adequacy of provision and capital. Stress test results should be used for banks' own risk management and reported to the Board and senior management (BOT Policy Statement on Country Risk Management).</p> <p>The BOT supervisors evaluate banks' stress test results and processes as follows:</p> <ul style="list-style-type: none"> <li>• The banks' Board and senior management must be involved in stress test from setting policy, implementation, acknowledging results and formulating contingency plans.</li> <li>• Scenarios and assumptions used to conduct stress tests are reasonable and appropriate for the banks' nature of business, risk, size, and complexity, as well as that country's economic conditions.</li> <li>• Exposure under stress testing covers transactions with country risk and transfer risk of all major types such as loan, investment and off-balance sheet items.</li> </ul> <p>Stress test results and the impact on provision and capital and capital sufficiency are assessed. If the impact is greater than an acceptable level, the banks should reassess their policies and limits on transactions with relevant countries, mitigation measures, and/or have appropriate support plans going forward.</p> |
| <b>EC6</b>                      | The supervisor regularly obtains and reviews sufficient information on a timely basis on the country risk and transfer risk of banks. The supervisor also has the power to obtain additional information, as needed (e.g., in crisis situations).   |
| Description and findings re EC6 | The BOT receives information on country risk and transfer risk from banks on a regular and timely basis through the Data Management System (DMS) (such as data on loans, obligations, and capital that can be separated and viewed by risks that banks have with each country, balance sheet and income statement from each overseas branch and subsidiary of Thai banks). Furthermore, the BOT requires that banks send additional information such as meeting minutes of related committees and internal management/risk reports. Based on the information above, the BOT supervisors monitor, review and evaluate  |

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|                                   | <p>country risk for each bank and the overall banking system on an ongoing basis. Important country risk analysis reports are prepared to help assess the impact to individual banks and the financial system.</p> <p>Moreover, the BOT supervisors have the power to request additional information under Section 85 of FIBA, should there be issues of concern, for example, performance of top 20 foreign borrowers in each country. The BOT supervisors will follow up with the banks to understand the root causes and to ensure that the banks have appropriate risk mitigation strategies. In case of rare situations, such as during Brexit, the BOT supervisors may ask for additional information to follow up on the impact and discuss preventive measures with the bank's senior management.</p>           |
| <b>Assessment of Principle 21</b> | Compliant   |
| Comments                          | Cross-border activities, including establishing onsite presence, are increasing. Examiners conduct onsite reviews of cross-border offices as warranted. Country risk manual should be enhanced by providing best practices on strategic risk analysis of banks expanding cross-border and linking to corporate customers due diligence that they are serving.   |
| <b>Principle 22</b>               | <b>Market risk.</b> The supervisor determines that banks have an adequate market risk management process that takes into account their risk appetite, risk profile, and market and macroeconomic conditions and the risk of a significant deterioration in market liquidity. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate market risks on a timely basis.   |
| <b>Essential criteria</b>         |   |
| <b>EC1</b>                        | Laws, regulations, or the supervisor require banks to have appropriate market risk management processes that provide a comprehensive bank-wide view of market risk exposure. The supervisor determines that these processes are consistent with the risk appetite, risk profile, systemic importance and capital strength of the bank; take into account market and macroeconomic conditions and the risk of a significant deterioration in market liquidity; and clearly articulate the roles and responsibilities for identification, measuring, monitoring and control of market risk.   |
| Description and findings re EC1   | The Notification on Corporate Governance of Financial Institutions requires banks to develop sound and robust risk management policies and processes, commensurate with their business strategies and complexity and addressing risks, including market risk. In addition, the BOT Notification No. FPG. 94/2551: Regulations on Market Risk Supervision and Capital Requirements for Market Risk of Financial Institutions sets out requirements on market risk management in terms of effective governance and oversight, and sound market risk measurement and management. Particularly, it requires banks to develop an internal control system for market risk management that comprises (i) Roles and responsibilities of the Board of directors and senior management; (ii) Risk identification, monitoring, and |

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|                                 | <p>assessment; (iii) Risk control and segregation of duties; (iv) Record keeping and internal communication; and (v) Internal audit system and corrective action.</p> <p>To ensure that banks have an adequate market risk management process consistent with the risk appetite, risk profile, systemic importance and capital strength of the banks as well as all requirements specified in the BOT notification, during onsite inspections on market risk which is also supported by the BOT's dedicated team of market risk specialists, supervisors will evaluate the banks' market risk management covering areas of, senior management oversight, three lines of defense mechanism/role and responsibility, day-to-day operational management, and capital adequacy.</p> <p>The banks' trading book and risk appetite must be approved by the Board and reviewed regularly considering the changing business and economic environment. To ensure sound market risk measurement and management, supervisors review whether the banks clearly establish responsible units for identifying, measuring, monitoring and controlling market risk.</p> <p>BOT monitors banks' market risk profile on an ongoing basis, including changes in trading policy, portfolio, and market risk status from internal management reports/minutes and a predefined set of key risk indicators from market risk dashboard changes in trading volume, market risk weighted assets, and profitability).</p> |
| <b>EC2</b>                      | <p>The supervisor determines that banks' strategies, policies and processes for the management of market risk have been approved by the banks' Boards and that the Boards oversee management in a way that ensures that these policies and processes are implemented effectively and fully integrated into the banks' overall risk management process.</p>  |
| Description and findings re EC2 | <p>To ensure that banks' market risk strategies, policies and processes are adopted under effective governance and oversight, supervisors review meeting minutes of the Board, senior management, and other relevant committees (Risk Management Committee, Audit Committee) and review whether (i) strategies and key policies for market risk management have been approved and are periodically reviewed by the Board; (ii) the Board and senior management are actively involved in market risk management as well as are responsible for overseeing the market risk management process in ensuring that such processes are in place to identify, measure, evaluate, monitor and control market risk exposure; and (iii) the assigned committees appropriately and effectively implement the banks' market risk strategies and policies.</p> <p>Supervisors review operations of various departments related to market risk management process such as limit-setting, risk measurement, trading profitability, mark to market process, and new products offering to comply with the policies and procedures set by the Board and senior management both in terms of the business perspective and risk management perspective.</p>   |

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| <p><b>EC3</b></p>                      | <p>The supervisor determines that the bank's policies and processes establish an appropriate and properly controlled market risk environment including:</p> <ul style="list-style-type: none"> <li>• Effective information systems for accurate and timely identification, aggregation, monitoring and reporting of market risk exposure to the bank's Board and senior management.</li> <li>• Appropriate market risk limits consistent with the bank's risk appetite, risk profile and capital strength, and with the management's ability to manage market risk and which are understood by, and regularly communicated to, relevant staff.</li> <li>• Exception tracking and reporting processes that ensure prompt action at the appropriate level of the bank's senior management or Board, where necessary.</li> <li>• Effective controls around the use of models to identify and measure market risk, and set limits.</li> <li>• Sound policies and processes for allocation of exposures to the trading book.</li> </ul>  |
| <p>Description and findings re EC3</p> | <p>The bank's process of trading activities is assessed by reviewing documents, interviewing staff, and reviewing systems and control functions to ensure the consistency of policies and processes of the front, middle, and back offices. Supervisors will:</p> <p>(a) Determine whether the bank's information system entails reliable, accessible, and timely information of all market risk-related activities to ensure that the management information system including the IT infrastructure can effectively identify, aggregate, monitor, issue alert, and report information related to market risk exposures (positions and risk sensitivities). Market risk reports must be accurately produced and reported to the banks' Board, senior management, and related sub-committees in a timely manner.</p> <p>(b) Review whether risk limits are consistent with the banks' risk appetite, profile, and capacity to handle and absorb loss. Banks are required to have written policies and appropriate channels of communication to inform and enforce the limits of relevant business units and staff. Furthermore, to ensure effective risk control, the supervisors check whether the limits are set by a unit independent from the risk-taking activities and are sufficiently granular. Such limits must be authorized and periodically reviewed by the banks' Board.</p> <p>(c) Determine whether banks have established a reporting process to monitor limit utilization, exceptions, or limit excesses. The process must include: (i) appropriate monitoring procedures, reports, and controls to adhere with the limits, and (ii) the actions of the Board, senior management, and assigned committees in case of limit excesses. These actions should include reasons for the excesses, reporting of the incidents and approval seeking from the banks' Board, senior management or delegated sub-committees. Exception activities (limit breaching transactions, off-hour/off-premise/off-market rate transactions) must be appropriately tracked, monitored, reviewed, reported, and audited.</p> <p>The BOT supervisors determine if banks have issued clear written guidelines/policies to the relevant staff regarding the type of unusual deals that are permitted, including the</p> |

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|                                 | <p>approval, reporting and monitoring process in case of transactions not in compliance with the banks' policies. The unusual and non-delegated transactions must be reported to the authorized persons for approval.</p> <p>(d) Review whether the use of internal models related to market risk management activities including assumptions, methodologies are grounded by academic theory, widely accepted and used by the financial industry. The models must adequately capture all material risks related to trading activities. Furthermore, banks must conduct validation, including back testing, to test whether the assumptions used in the models are appropriate. The models should be independently validated at least once a year and re-calibrated when necessary.</p> <p>(e) Determine the suitability and compliance of trading book policy, for example, determining appropriate and reasonable holding periods for trading book positions, criteria used for assigning financial instruments in the trading book, and guidelines for transferring transactions between trading and banking books. The BOT supervisors randomly check justification for transfers between books and the report of such transfers to senior management. BOT Notification No. FPG. 94/2551 sets out expectations on the sound policies and processes for allocation of exposures to the trading book and appropriate market risk limits.</p> |
| <b>EC4</b>                      | <p>The supervisor determines that there are systems and controls to ensure that banks' marked-to-market positions are revalued frequently. The supervisor also determines that all transactions are captured on a timely basis and that the valuation process uses consistent and prudent practices, and reliable market data verified by a function independent of the relevant risk-taking business units (or, in the absence of market prices, internal or industry-accepted models). To the extent that the bank relies on modeling for the purposes of valuation, the bank is required to ensure that the model is validated by a function independent of the relevant risk-taking businesses units. The supervisor requires banks to establish and maintain policies and processes for considering valuation adjustments for positions that otherwise cannot be prudently valued, including concentrated, less liquid, and stale positions.</p>   |
| Description and findings re EC4 | <p>The BOT Notification No. FPG. 94/2551, requires banks to establish an appropriate valuation system that can revalue trading book positions daily through mark-to-mark or mark-to-model methods.</p> <p>The BOT supervisors assess whether banks have in place fair valuation policies and processes that have been approved by the appropriate committee. The BOT supervisors review the valuation process including the methods and systems used in determining the fair value to ensure that the revaluation process is independent, accurate, and timely. For example, determine that marked-to-market positions are revalued daily, at observable market prices, from reliable and independent sources (Reuter and Bloomberg).</p> <p>For positions priced and revalued by mark-to-model approach, the BOT supervisors ensure that pricing models are developed and validated by units independent of risk-taking units and the models are regularly reviewed at least once a year. For example, the BOT</p>   |

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|                                 | <p>supervisors assess appropriateness of the assumptions, parameters, and comparison of actual closing values to model outputs. Banks should have a process in place to notify senior management or assigned sub-committee weaknesses of the models used and how best to reflect those in the valuation output. The BOT supervisors also determine that banks have a fair valuation adjustment policy for financial instruments, especially for positions revalued by marked-to-model and illiquid products, consider the complexity of portfolios, as well as assess how banks implement such policy.</p> <p>In cases where marking to market is not possible and banks apply marking-to-model, the BOT supervisors determine that banks set governance structures and control processes for all instruments measured at fair value. The banks must have in place sound processes for model development, i.e., the model that is developed based on widely accept concept and the inputs used to develop the model are from reliable source. The developed model shall be initially validated and approved by a unit that is independent from trading and model development units. Validation must include the verification of reliability of inputs, the methodology which includes mathematics, assumptions, and software used, as well as outputs. In addition, the models must be subject to periodic review /validation at least annually. Banks are required to have a policy and process to determine and identify the type of valuation adjustments and set out procedures for considering valuation adjustments / reserves for positions when there is any uncertainty of model valuation, which include but not limited to illiquid positions, concentrated positions and model risk.</p> |
| <b>EC5</b>                      | The supervisor determines that banks hold appropriate levels of capital against unexpected losses and make appropriate valuation adjustments for uncertainties in determining the fair value of assets and liabilities.  |
| Description and findings re EC5 | <p>The BOT Notification No. FPG. 94/2551 requires banks to maintain capital against market risks (foreign exchange, interest rate, equity, and commodity risks) if the trading book positions meet the specified threshold.<sup>67</sup> Banks with trading book positions below the threshold are required to maintain capital against only commodity risk and market risk for credit derivatives. However, the BOT may require banks with trading book positions below the threshold to maintain capital for all risk factors or any risk factor in addition to the commodity risk and market risk for credit derivatives if it is deemed necessary to enhance the banks' stability.</p> <p>As part of ongoing market risk monitoring, supervisors monitor actual Value at Risk (unexpected loss) in comparison with their VaR limit, market risk capital charge, as well as the banks' predefined preventive actions to mitigate risk as deemed necessary.</p> <p>Additionally, the BOT supervisors will verify accuracy of unexpected loss and market risk weighted asset calculation by randomly reviewing certain significant transactions, complex</p>  |

<sup>67</sup> Threshold level: 1( Amount of baht-equivalent trading book positions of all currencies averaged over the last 6 months of 3,000 million baht and above or 2( Proportion of the amount of baht-equivalent trading book positions to the sum of baht-equivalent of total assets, total liabilities, and total derivative transactions in all currencies, averaged over the last 6 months of 5% and above.

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|                                   | <p>products, and new types of transactions to ensure that market risk exposures are accurately measured and the capital against the market risk exposures is appropriate.</p> <p>As part of the ICAAP review supervisors assess the banks' assumptions, methodologies, scenarios, measures and other relevant details as set out in the bank's ICAAP report to ensure that the banks have appropriate risk calculation methodology, adequate capital against all major types of risks, including market risk, in both normal, uncertain, and stressed conditions.</p>  |
| <b>EC6</b>                        | The supervisor requires banks to include market risk exposure into their stress testing programs for risk management purposes.   |
| Description and findings re EC6   | <p>As part of ICAAP, banks are required to conduct stress tests under both supervisory scenarios once a year and self-developed scenarios that should cover market risk exposures on a quarterly basis. The stress testing or scenario analysis should be part of the risk management process for the banks to effectively manage risks and assess market risk that may adversely affect the banks' goals. The results of stress testing must be routinely reported to and periodically reviewed by the banks' Board and senior management and must be incorporated in the risk monitoring, management and control, and review process.</p> <p>Supervisors review whether banks regularly conducted market risk stress tests for their own internal risk monitoring.</p> <p>1. Self-developed scenarios (ICAAP): by using the banks' own scenarios, which are set in accordance with the banks' risk appetite, trading policy, risk management policy, and short term to long term capital projection, banks shall conduct stress test on market risk exposures and incorporate the stress test results in three years capital planning.</p> <p>Supervisors review the stress testing process (e.g., identifying and reviewing the self-developed scenarios) and verify how the banks incorporate stress testing results into their internal risk management. Where stress test results reveal vulnerability to a given set of circumstances, the BOT supervisors require the banks to take prompt steps to manage those risks appropriately (reducing the banks' exposures or increasing capital).</p> <p>2. Supervisory stress scenarios: for trading book and available for sale (AFS) positions, the banks must perform stress tests under baseline, moderate and severe scenarios prescribed by the BOT to determine potential loss from such portfolios and its effect on the banks' capital. The BOT supervisors use the results to compare across banks and give feedback to each individual bank, as well as to assess the total market risk of the banking system.</p> |
| <b>Assessment of Principle 22</b> | Compliant  |
| Comments                          | Market risk is considered low and is monitored through onsite and offsite activities. Trading income is less than 10 percent of Thai bank earnings. Stress tests do not disclose any significant impacts.  |

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| <b>Principle 23</b>             | <b>Interest rate risk in the banking book.</b> The supervisor determines that banks have adequate systems to identify, measure, evaluate, monitor, report and control or mitigate interest rate risk <sup>68</sup> in the banking book on a timely basis. These systems take into account the bank's risk appetite, risk profile and market and macroeconomic conditions.   |
| <b>Essential criteria</b>       |   |
| <b>EC1</b>                      | Laws, regulations or the supervisor require banks to have an appropriate interest rate risk strategy and interest rate risk management framework that provides a comprehensive bank-wide view of interest rate risk. This includes policies and processes to identify, measure, evaluate, monitor, report, and control or mitigate material sources of interest rate risk. The supervisor determines that the bank's strategy, policies and processes are consistent with the risk appetite, risk profile and systemic importance of the bank, take into account market and macroeconomic conditions, and are regularly reviewed and appropriately adjusted, where necessary, with the bank's changing risk profile and market developments.  |
| Description and findings re EC1 | <p>The BOT Notification No. FPG. 42/2551: Regulation on Interest Rate Risk in the Banking Book of the Financial Institutions prescribes qualitative requirements for management of interest rate risk in the banking book in line with the BCBS principles for the management and supervision of interest rate risk (July 2004). The notification requires that banks have an interest rate risk management framework, which comprises the following elements:</p> <ul style="list-style-type: none"> <li>(i) adequate oversight of interest rate risk by the Board and senior management;</li> <li>(ii) appropriate risk management policies and procedures; (iii) effective risk measurement, monitoring and control; (iv) efficient internal controls relevant to risk management. Details are as follows:</li> </ul> <ul style="list-style-type: none"> <li>• The Board has roles and responsibilities regarding interest rate risk management framework, such as approving and reviewing the business strategy and interest rate risk policy including interest rate risk tolerance/limits proposed and put into execution by the senior management. In addition, the Board must ensure that the organizational structure can effectively facilitate risk oversight and regular assessment of interest rate risk management, for instance, proper segregation of duty between risk taking unit and risk management unit, independent reporting line, adequate skilled resources.</li> <li>• Risk management policies and procedures must cover at least, risk limits, operating procedures, clear lines of responsibilities, and internal control processes, that are clearly communicated to all relevant parties. The risk management policies and procedures must be commensurate with the scope, volume, and complexity of the banks' business as well as changing market environment.</li> <li>• Risk management systems must be able to effectively measure, monitor and control interest rate risk and support timely reporting. The systems must be able to measure</li> </ul> |

<sup>68</sup> Wherever "interest rate risk" is used in this Principle the term refers to interest rate risk in the banking book. Interest rate risk in the trading book is covered under Principle 22.

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|                   | <p>the impact of interest rate changes on the Net Interest Income (NII) and Economic Value of Equity (EVE) covering all material positions that incur interest rate risk. The adopted systems must be commensurate with the scope, volume and complexity of the bank’s activities. In addition, banks are required to regularly conduct stress test, the results of which must be used to enhance their risk management policy.</p> <ul style="list-style-type: none"> <li>• Efficient internal controls must be in place. Banks are required to establish internal control systems, suitable for their interest rate risk management process and subject to independent review on a regular basis.</li> </ul> <p>Under the BOT Notification No. SVG. 5/2552: Guideline on Supervisory Review of Capital Adequacy (Pillar 2), banks are required to control their interest rate risk in the banking book to be within the acceptable limit, i.e., the impact from interest rate changes on losses in bank’s economic value be within the specified threshold (20 percent of total capital).</p> <p>The BOT supervisors assess whether the banks’ IRRBB policies (including their risk appetite), processes, and systems are commensurate with the scope, volume, and complexity of their business, their systemic importance, changing market environment. In doing so, the BOT supervisors evaluate the end-to-end process of the banks’ interest rate risk management. Each individual bank’s risk management systems must be able to effectively measure, monitor and control interest rate risk, and support timely reporting on a quarterly basis. The systems must be able to measure the impact of interest rate changes on the NII and EVE for major currencies and all other currencies covering the material positions that incur interest rate risk. The BOT supervisors also assess interest rate sensitivity of the banks’ balance sheet structure, especially foreign currency funding and wholesale funding, including their deposit structure, funding cost (fixed/floating rate) as well as the movement and rollover rate of deposit/loans.</p> <p>The BOT supervisors also monitor interest rate risk in the banking book of the banks on an ongoing basis by tracking repricing gap, NII, EVE, and the banks’ internal indicators and reviewing internal reports/minutes. If there is any concern, the BOT supervisors will communicate with the banks and may require remedial actions.</p> <p>In addition, as part of the ICAAP review under Pillar 2, the BOT supervisors assess whether the impact from interest rate changes on losses in bank’s economic value moves within the specified threshold (20 percent of total capital). Under the BOT Notification No. SVG. 5/2552: Guideline on Supervisory Review of Capital Adequacy (Pillar 2), if the BOT supervisors determine that interest rate risk has increased beyond the acceptable limit, they may require banks to increase their capital or reduce interest rate risk exposures (using the authority under Section 30 of FIBA).</p> |
| <p><b>EC2</b></p> | <p>The supervisor determines that a bank’s strategy, policies and processes for the management of interest rate risk have been approved, and are regularly reviewed, by the bank’s Board. The supervisor also determines that senior management ensures that the strategy, policies and processes are developed and implemented effectively.</p>   |

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| Description and findings re EC2 | <p>The BOT supervisors review Board, RMC and ALCO minutes and related information to assess their roles and responsibilities for approving and reviewing policies, strategies, and processes, as well as risk appetite. Supervisors also determine if the risk appetite and limits adequately reflect the risk profile, complexity, and market environment by considering all relevant information; past performance, available resources, risk and return comparison.</p> <p>Supervisors assess the following:</p> <ul style="list-style-type: none"> <li>• Roles and responsibilities of departments, such as treasury/ALM and risk management departments, are clearly specified, and appropriately structured with checks and balances. Delegation of authority or limits reflect approved strategies, policies, and risk appetite. Procedures are in place, updated and communicated to relevant parties.</li> <li>• The risk management system is in line with approved strategies, policies, risk profile, complexity and take into consideration all management information and market conditions such as interest rate movements, yield curve. Risk level remains within risk appetite; risk control and hedging strategies are appropriate; stress testing is conducted regularly and the results of which are used for policy enhancement.</li> <li>• Risk reports provide timely and sufficient information for decision making, such as risk level, limit utilization. Exception cases are reported, and appropriate approval process is in place. This is to ensure that emerging risks are reported to the top-level executives, sub-committees, and as necessary to the Board, in a timely manner with appropriate monitoring and control mechanism.</li> </ul> |
| <b>EC3</b>                      | <p>The supervisor determines that banks' policies and processes establish an appropriate and properly controlled interest rate risk environment including:</p> <ol style="list-style-type: none"> <li>(a) Comprehensive and appropriate interest rate risk measurement systems.</li> <li>(b) Regular review, and independent (internal or external) validation, of any models used by the functions tasked with managing interest rate risk (including review of key model assumptions).</li> <li>(c) Appropriate limits, approved by the banks' Boards and senior management, that reflect the banks' risk appetite, risk profile and capital strength, and are understood by, and regularly communicated to, relevant staff.</li> <li>(d) Effective exception tracking and reporting processes which ensure prompt action at the appropriate level of the banks' senior management or Boards where necessary.</li> <li>(e) Effective information systems for accurate and timely identification, aggregation, monitoring and reporting of interest rate risk exposure to the banks' Boards and senior management.</li> </ol>  |
| Description and findings re EC3 | <p>The BOT supervisors assess bank policies and effectiveness as follows:</p> <ol style="list-style-type: none"> <li>(a) Review risk assessment systems and tools used for interest rate risk assessment and whether they are commensurate with the scope, volume and complexity' business/activities and are capable of measuring the impact of interest rate changes</li> </ol>   |

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|                                 | <p>on the Net Interest Income (NII) and Economic Value of Equity (EVE), covering all material interest rate sensitive assets, liabilities ,and off balance sheet items.</p> <p>The BOT supervisors assess interest rate sensitivity, especially on foreign currency funding and wholesale funding. A review of the deposit structure in terms of funding cost (fixed/float rate), as well as movement and rollover rate projection are used as input data for interest rate risk measurement (such as repricing gap).</p> <p>(b) For Advanced Banks that use the internal model approach for interest rate risk assessment and behavioral adjustment (behavioral adjustment on non-maturity deposits for repricing gap), supervisors analyze whether the banks’ model is based on suitable assumptions and subject to validation and regular review by an independent function to ensure the model quality.</p> <p>(c) The banks’ risk appetite / limits are approved by the Board and commensurate with the banks’ scope, size, complexity of the positions, quality of risk management, and capital strength, and are clearly and consistently communicated to all relevant staff.</p> <p>(d) The risk exception policy, guidance and procedure for limit exceptions are assessed to determine if exceptions are reported with appropriate reasons and approved by appropriate level of authority or by the Board where necessary. Furthermore, the exceptions must receive prompt attention and action by senior management or by the Board where necessary.</p> <p>(e) To assess the effectiveness of the information system, the reporting process and the report output used for risk monitoring and controls are assessed to ensure that they provide accurate and sufficient information for decision making by senior management, risk management committee and ALCO, or the Board, in a timely manner.</p> |
| <b>EC4</b>                      | The supervisor requires banks to include appropriate scenarios into their stress testing programs to measure their vulnerability to loss under adverse interest rate movements.  |
| Description and findings re EC4 | <p>Banks are required to assess interest rate risk under stress scenarios, considering their strategies and positions as well as risk characteristics, and use the results to improve their risk policies including interest rate risk tolerance and limits.</p> <p>Plausible scenarios include, but not limit to, abrupt changes in various benchmark interest rates, changes in the relationship among key benchmark interest rates (Basis risk), and changes in the pattern of yield curve (yield curve risk).</p> <p>Under Pillar 2 ICAAP, banks are required to conduct stress test under self-developed scenarios that should cover IRRBB risk on a quarterly basis. Apart from the banks’ own stress scenarios, the BOT may require banks to conduct stress test under supervisory stress scenarios when circumstance warrants it.</p> <p>To ensure robustness of the banks’ stress test, the BOT supervisors assess data accuracy, assumption rationale, probability and severity of crisis events, and the impact on net interest incomes, economic value of equity, and capital. Supervisors check whether stress</p>  |

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|                                   | testing is conducted independently and whether banks incorporate stress test results into the setting and review of relevant risk limits as well as regularly report the results to the Board and senior management.   |
| <b>Additional criteria</b>        |  |
| <b>AC1</b>                        | The supervisor obtains from banks the results of their internal interest rate risk measurement systems, expressed in terms of the threat to economic value, including using a standardized interest rate shock on the banking book.  |
| Description and findings re AC1   | <p>Banks are required to submit a quarterly assessment reports on interest rate risk in the banking book in accordance with the format and guidelines set out by the BOT. The reports are submitted in terms of major currencies and all currencies repricing gap where the impact of a yield curve shift (<i>standardized interest rate shock</i>) by +_100-basis points on the Net Interest Income (NII) and Economic Value of Equity (EVE).</p> <p>The BOT supervisors evaluate whether the assessed impacts on net interest income, economic value of equity, and capital are accurate, within the limits, and in line with interest rate trends. Should there be any significant change or impact, the BOT supervisors discuss with the banks' management for explanations and risk mitigating actions.</p> |
| <b>AC2</b>                        | The supervisor assesses whether the internal capital measurement systems of banks adequately capture interest rate risk in the banking book.   |
| Description and findings re AC2   | As part of the ICAAP review, supervisors check whether banks maintain appropriate capital to cover the overall risk including interest rate risk in the banking book. Banks assess interest rate risk in the banking book by examining impacts on economic value stemming from interest rate change by at least 200 basis points. If the banks' economic value changes by more than 20 percent of total capital, the banks enhance their risk management system or mitigate risk exposure to maintain the impact within 20 percent of total capital. In case where the BOT perceives that the banks have deficiency in risk management, inappropriate ICAAP or inadequate capital for their risk position, the BOT supervisors will order the banks to reduce the risk exposure or increase their capital.       |
| <b>Assessment of Principle 23</b> | Compliant  |
| Comments                          | Fixed car loans funded by floating rate deposits; represents the main risk. But the exposure is small, less than 8 percent of total loans and is housed in banks that the BOT judges able to manage the risk   |
| <b>Principle 24</b>               | <b>Liquidity risk.</b> The supervisor sets prudent and appropriate liquidity requirements (which can include either quantitative or qualitative requirements or both) for banks that reflect the liquidity needs of the bank. The supervisor determines that banks have a strategy that enables prudent management of liquidity risk and compliance with liquidity requirements. The strategy considers the bank's risk profile as well as market and macroeconomic  |

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|                                 | conditions and includes prudent policies and processes, consistent with the bank's risk appetite, to identify, measure, evaluate, monitor, report and control or mitigate liquidity risk over an appropriate set of time horizons. At least for internationally active banks, liquidity requirements are not lower than the applicable Basel standards.  |
| <b>Essential criteria</b>       |  |
| <b>EC1</b>                      | Laws, regulations, or the supervisor require banks to consistently observe prescribed liquidity requirements including thresholds by reference to which a bank is subject to supervisory action. At least for internationally active banks, the prescribed requirements are not lower than, and the supervisor uses a range of liquidity monitoring tools no less extensive than, those prescribed in the applicable Basel standards.  |
| Description and findings re EC1 | <p>The BOT framework for liquidity risk supervision aims to ensure that banks have sound and effective liquidity risk management as well as maintain liquidity to withstand stressed situations. The framework is based on the Basel Standards &amp; Principles comprising qualitative requirements, quantitative requirements, as well as liquidity monitoring tools.</p> <p><u>Quantitative requirements</u></p> <p>BOT issued quantitative liquidity requirements for all commercial banks in Thailand: (i) BOT Notification No. FPG. 9/2558: The Liquidity Coverage Ratio (LCR) Requirement, and (ii) BOT Notification No. FPG. 1/2561: The Net Stable Funding Ratio (NSFR) Requirement.</p> <p>Under the LCR requirements, all banks must maintain High-quality Liquid Assets (HQLA) to cover the expected net cash outflows over 30 days under acute stress scenarios. Phase-in of the LCR adoption started at 60 percent in January 2016 and increased by 10 percent each year until 100 percent in January 2020. Currently, banks are required to maintain LCR at 80 percent.</p> <p>Apart from the LCR requirements, banks are subject to the NSFR requirements to ensure that banks have sound liquidity profile and are not too exposed to liquidity risk arising from maturity transformation. Under the NSFR requirements effective since July 2018, all banks are required to hold stable funds to cover the amount of required stable funds arising from their assets and off-balance sheet items.</p> <p>Banks that fail to comply with the requirements issued under Section 63 and 64 of <u>FIBA</u> shall be liable to a penalty charge in accordance with Section 128 of FIBA. In addition, any breach of the requirements set out under section 63 and 64 of FIBA shall be considered as a condition that may cause damage to the public interest, and the BOT shall have the power to take actions (Section 90 of FIBA); for example, to order the banks to rectify their condition or operation.</p> <p><u>Qualitative requirements</u></p> <p>The qualitative requirements for liquidity risk set out in the BOT Policy Guidelines on Liquidity Risk Management of Financial Institutions, is in line with the BCBS Principles for Sound Liquidity Risk Management and Supervision (September 2008). Under the Policy Guidelines, banks are expected to have robust liquidity risk management framework to</p> |

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|                                 | <p>identify, measure, monitor, and control liquidity risk covering on and off-balance sheet items, both contractual and non-contractual, in all currencies on both solo and consolidated basis. The framework shall comprise effective governance and oversight by the Board, sound liquidity measurement and management including maturity mismatch, intraday liquidity management, early warning system, stress test and contingency plan to ensure that banks have liquidity to meet liquidity needs in both normal and stress period.</p> <p>BOT supervisors monitor liquidity risk by adopting a range of liquidity monitoring tools that include contractual and behavioral adjusted maturity mismatch, concentration of funding, LCR breakdown by significant currency.</p>   |
| <b>EC2</b>                      | The prescribed liquidity requirements reflect the liquidity risk profile of banks (including on- and off-balance sheet risks) in the context of the markets and macroeconomic conditions in which they operate.  |
| Description and findings re EC2 | <p>Under the BOT Policy Guidelines on Liquidity Risk Management, banks are expected to proactively estimate cash flows arising from their assets, liabilities and off-balance sheet items and are expected to take account for behavioral adjustments (rollover rates, drawdown of commitment) and changing environment that could have impacts on both their cash inflow and outflow.</p> <p>Under the LCR requirement, banks are required to include inflow and outflow arising from both on- and off-balance sheet items to calculate net cash outflow under stressed scenarios. Liabilities and off-balance sheet commitments used to calculate cash outflow are categorized by commitment type, sophistication level and relationship with banks. Different run-off rates shall be applied to each category to reflect their sensitivity, likelihood to be drawn and stickiness. The required HQLA to cover net cash outflow, thus, depends on the banks' funding structure and liquidity risk profile.</p> <p>The NSFR requirement also captures all items from both on- and off-balance sheet items which are subject to different required stable funding (RSF) and available stable funding (ASF) factors, reflecting the amount of stable fund required for each type of assets and off-balance sheet items and the stickiness of each source of fund, respectively.</p> |
| <b>EC3</b>                      | The supervisor determines that banks have a robust liquidity management framework that requires the banks to maintain sufficient liquidity to withstand a range of stress events, and includes appropriate policies and processes for managing liquidity risk that have been approved by the banks' Boards. The supervisor also determines that these policies and processes provide a comprehensive bank-wide view of liquidity risk and are consistent with the banks' risk profile and systemic importance  |
| Description and findings re EC3 | Supervisors assess liquidity management and policy guidelines to ensure that the framework was approved by the Board and that the bank has liquidity to fulfill its obligations both on- and off-balance sheet including non-contractual commitments in both normal and stress periods.  |

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|                                 | <p>To ensure that policies and processes provide a comprehensive bank-wide view of liquidity risk, supervisors determine if banks' processes and systems cover all major types of risks and enable all exposures to be aggregated on a bank-wide basis. Supervisors determine if processes and systems adequately identify, measure, monitor and control liquidity risk of the bank and the banking group, and are consistent with their policies, strategies, complexity of business profile, financial positions, funding ability and their systemic importance. In case of a banking group with subsidiaries, supervisors evaluate the process to monitor liquidity status of the group as well as the plan to provide liquidity support to their subsidiaries.</p> <p>Any deficiencies observed would affect the rating of this SA and the BOT supervisors will require correction of the weaknesses and may be subject the bank to subsequent follow-up or more frequent monitoring.</p>  |
| <b>EC4</b>                      | <p>The supervisor determines that banks' liquidity strategy, policies and processes establish an appropriate and properly controlled liquidity risk environment including:</p> <ul style="list-style-type: none"> <li>(a) Clear articulation of an overall liquidity risk appetite that is appropriate for the banks' business and their role in the financial system and that is approved by the banks' Boards.</li> <li>(b) Sound day-to-day, and where appropriate intraday, liquidity risk management practices.</li> <li>(c) Effective information systems to enable active identification, aggregation, monitoring and control of liquidity risk exposures and funding needs (including active management of collateral positions) bank-wide.</li> <li>(d) Adequate oversight by the banks' Boards in ensuring that management effectively implements policies and processes for the management of liquidity risk in a manner consistent with the banks' liquidity risk appetite.</li> <li>(e) Regular review by the banks' Boards (at least annually) and appropriate adjustment of the banks' strategy, policies and processes for the management of liquidity risk in the light of the banks' changing risk profile and external developments in the markets and macroeconomic conditions in which they operate.</li> </ul> |
| Description and findings re EC4 | <p>Supervisors assess strategies, policies and processes on liquidity risk management and governance structure, Board and senior management oversight, internal controls, day-to-day operations including liquidity measurement, management, and reporting mechanisms by reviewing relevant documents, interviewing relevant persons, and flowcharting operations to ensure that an appropriate and properly controlled liquidity risk environment is in place. Specifically, the BOT supervisors assess the following elements:</p> <ul style="list-style-type: none"> <li>(a) Review relevant documents, meeting minutes of the Board, the Assets and Liability Committee (ALCO) and the Risk Management Committee (RMC) to verify that the Board has effectively performed their roles and responsibilities in approving liquidity risk policy and strategy including liquidity risk appetite and tolerance. In addition, the</li> </ul>  |

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|  | <p>BOT supervisors evaluate whether the liquidity risk management policy, strategy and procedure including a contingency plan, is coherent and consistent with the banks' business strategy, characteristics and complexity, financial position, fund mobilization ability, roles of the banks' in the financial system both under normal and extreme circumstances.</p> <p>(b) Review the process of intraday liquidity management and evaluate whether the banks estimate cash inflow and cash outflow on a daily basis so as to facilitate the day to day liquidity management. Furthermore, assess intraday liquidity management to ensure that risks payment failure and settlement are well managed and properly addressed within a required time-period. Review how intraday exposures are assessed, whether intraday liquidity is enough to facilitate smooth intraday settlements.</p> <p>(c) To ensure that banks have systems that can effectively identify, aggregate, monitor and control liquidity risk in a forward-looking manner, the BOT supervisors evaluate the following elements of the banks' liquidity management system:</p> <ul style="list-style-type: none"> <li>• Measurement tools used for assessing, monitoring, and controlling risks and determine if they are appropriate and consistent with size and complexity of operations.</li> <li>• Whether process and system comprehensively project cash flows arising from on- and off-balance sheets and non-contractual obligations in all currencies on both solo and consolidated basis, while taking into account other forward looking factors that may result in liquidity needs, for instance, targeted loan growth. Banks are expected to establish a system that can provide cash inflow and outflow with appropriate time bucket that would efficiently facilitate day to day, short-term and longer-term liquidity management. In case where a model approach is adopted, for instance, the behavior model used to adjust the timing of cash inflows and outflows according to the customers' behaviors, the BOT supervisors verify model integrity by reviewing reliability of inputs, rationality of the concept and methodology adopted for model development, independence of model validation, independence of back testing, and appropriateness of review frequency. The BOT supervisors may challenge the banks on the assumptions used as well as require the banks to verify the appropriateness of assumptions and data input.</li> <li>• Review relevant liquidity reports e.g., liquidity coverage ratio, liquidity gap report under both normal (contractual and behavioral) and crisis circumstances (stress test) and other limits to ensure that they are accurate and timely, being able to facilitate liquidity risk monitoring, management and control on daily /weekly/ monthly basis. The data input is checked whether it is complete, accurate, up-to-date, and reliable.</li> <li>• Evaluate whether the banks have established an appropriate Early Warning System (both qualitative and quantitative approach) to indicate increasing liquidity risk so that the banks can take necessary preemptive or corrective actions. The BOT supervisors also review whether the bank regularly reviews appropriateness of EWS including liquidity risk indicators to better suits the changing situations and market conditions. In</li> </ul> |
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|                                 | <p>addition, BOT supervisors determine if banks have designated responsible persons for monitoring triggers and alerts to take appropriate actions in a timely manner.</p> <p>(d) To ensure that the Board performs adequate oversight in ensuring that senior management effectively implements liquidity policy and strategy, the BOT supervisors evaluate whether the Board approves the organizational and operational structure to ensure proper controls. In case of limit breach or any deviations from liquidity risk management policy, the BOT supervisors will determine if reports to the Board or other delegated committees address the exceptions</p> <p>(e) To ensure that banks' policy and strategy are consistently suitable for the changing business &amp; market environment, the BOT supervisors check whether the Board regularly reviews policies and strategies, that include liquidity risk tolerance, are reviewed annually or immediately when there are changes in the environment, business strategy, revision of assumptions for behavioral adjustment or when a critical stress test is conducted in order to improve policy, strategy and practices.</p> |
| <b>EC5</b>                      | <p>The supervisor requires banks to establish, and regularly review, funding strategies and policies and processes for the ongoing measurement and monitoring of funding requirements and the effective management of funding risk. The policies and processes include consideration of how other risks (e.g., credit, market, operational and reputation risk) may impact the bank's overall liquidity strategy, and include:</p> <p>(a) An analysis of funding requirements under alternative scenarios.</p> <p>(b) The maintenance of a cushion of high quality, unencumbered, liquid assets that can be used, without impediment, to obtain funding in times of stress.</p> <p>(c) Diversification in the sources (including counterparties, instruments, currencies, and markets) and tenor of funding, and regular review of concentration limits.</p> <p>(d) Regular efforts to establish and maintain relationships with liability holders.</p> <p>(e) Regular assessment of the capacity to sell assets.</p>  |
| Description and findings re EC5 | <p>The BOT Policy Guidelines on Liquidity Risk Management expect banks to hold liquid assets to meet needs under various scenarios and to properly manage their HQLA and other alternative funding sources. The HQLA and funding sources should be well-diversified considering the depth of relevant market and financial conditions.</p> <p>The BOT supervisors assess the following elements:</p> <p>(a) Review liquidity stress test and scenario analyses to evaluate liquidity risk and funding needs under various scenarios and the banks' ability to access funding under such circumstances in order to verify the appropriateness of the banks' liquidity profile and contingency funding plan. In addition, the banks' funding strategies (Baht/Foreign currency) including cost of funding, source of fund, and risk trends are reviewed as part of liquidity management under various circumstances.</p>   |

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|            | <p>(b) Determine if banks properly manage assets or collateral and maintain cash or high quality liquid assets that can provide a liquidity cushion under normal and extreme circumstances in line with the approved policy and strategy, nature of business, liquidity risk tolerance and survival period of the banks. Based on stress test results under various scenarios, the BOT supervisors verify if banks maintain liquid assets or seek other alternative funding sources that can provide immediate liquidity to cover liquidity needs at least within the survival period approved by the Board.</p> <p>The quality of assets and relevant infrastructure is also reviewed to ensure that the assets can be liquidated in a timely manner without any impediments to support liquidity needs. A pool of liquid assets must be properly managed to avoid concentrations that may negatively affect price during liquidation. In case where the banks have liquidity shortfalls in any time buckets, the BOT supervisors ask for back up funding plans.</p> <p>(c) To ensure that the bank's funding sources are properly diversified, the BOT supervisors review the funding structure by evaluating whether it unduly relies on a single counterparty, type of instrument or maturity and whether the bank have made any significant changes in funding strategies. Impact on liquidity of leveraging on short-term borrowing or concentration on source of funds/ large creditors are evaluated as well. In addition, the BOT supervisors assess whether banks place concentration limits on source of funds in terms of counterparty or tenor to enhance risk management and operations within the approved limits.</p> <p>(d) To ensure that banks establish and maintain relationship with fund providers, the BOT supervisors interview officers, check frequencies of contact with major fund providers, walk through the operating procedures as well as relevant systems in the treasury/ALM department, and ensure that the banks regularly test availability of the committed credit lines provided by other banks. The BOT supervisors review whether the banks specify source of funds and abilities to seek alternative sources of funding.</p> <p>(e) The BOT supervisors evaluate the bank's process for assessing the quantity and quality of financial instruments and assets to ensure that the market depth can accommodate timely liquidation of assets without significant discount in price. The BOT supervisors also check whether the banks have established operational procedures and necessary infrastructures, such as system and legal document, to facilitate assets selling.</p> |
| <b>EC6</b> | <p>The supervisor determines that banks have robust liquidity contingency funding plans to handle liquidity problems. The supervisor determines that the bank's contingency funding plan is formally articulated, adequately documented and sets out the bank's strategy for addressing liquidity shortfalls in a range of stress environments without placing reliance on lender of last resort support. The supervisor also determines that the bank's contingency funding plan establishes clear lines of responsibility, includes clear communication plans (including communication with the supervisor) and is regularly tested and updated to ensure it is operationally robust. The supervisor assesses whether, in the light of the bank's</p>   |

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|  | <p>risk profile and systemic importance, the bank's contingency funding plan is feasible and requires the bank to address any deficiencies.</p>  |
| <p>Description and findings re EC6</p> | <p>BOT supervisors evaluate whether the banks have established contingency plans with clear lines of responsibilities and processes to address liquidity circumstances according to the variety and severity of stress scenarios.</p> <p>To ensure that banks have robust liquidity contingency funding plans (CFP) to handle liquidity problem, supervisors check whether the banks' CFP (i) has outlined strategies and procedures to ensure smooth implementation during stress scenarios, (ii) is prepared to address liquidity shortfalls under various stress scenarios. Supervisors also assess whether the CFP is consistent with the banks' financial position, strategies, complexity of transactions and risks.</p> <p>The BOT supervisors also evaluate three key elements of the banks' contingency plan which are (i) early warning indicators of liquidity risk, (ii) clear process for handling liquidity shortage, and (iii) back-up funding, as follows:</p> <ul style="list-style-type: none"> <li>• The BOT supervisors assess appropriateness of early warning indicators (both qualitative indicators, such as rumor, deterioration of financial status, credit rating down grade and qualitative indicators, such as accumulated cash outflow) to ensure that they can indicate increased liquidity risk in a timely manner. Appropriate triggers to activate CFP must be set.</li> <li>• For the process of handling liquidity shortfalls, supervisors review CFP procedures and interview relevant staff to ensure that the operating procedures are clearly documented, roles and responsibilities of relevant parties are clearly defined and communicated, and reporting line is set in advance for decision making and have a clear communication plan to all relevant stakeholders, including supervisors.</li> <li>• For back-up funding, the BOT supervisors assess appropriateness and feasibility of funding sources, including expected cash inflows, and time-period to receive funding.</li> </ul> <p>Furthermore, the BOT supervisors check to ensure that banks consider various elements in developing contingency funding plan including stress test results, source of liquidity supports, ability to access source of funds, and ability to transfer liquidity within the group. And to ensure that the banks' CFP is operationally robust, supervisors assess whether the 'contingency plan is regularly tested to ensure its effectiveness. In case of deficiencies, supervisors check whether the banks have a process to improve their CFP.</p> |
| <p><b>EC7</b></p>                      | <p>The supervisor requires banks to include a variety of short-term and protracted bank-specific and market-wide liquidity stress scenarios (individually and in combination), using conservative and regularly reviewed assumptions, into their stress testing programmes for risk management purposes. The supervisor determines that the results of the stress tests are used by the bank to adjust its liquidity risk management strategies, policies and positions and to develop effective contingency funding plans.</p>  |

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| Description and findings re EC7 | <p>Under the BOT Guidelines on liquidity risk management, banks are expected to regularly conduct stress tests under various scenarios, including bank-specific crisis, market-wide crisis and scenarios that are a combination of both, at least once every quarter to ensure that banks withstand liquidity shocks under various scenarios.</p> <p>As part of the ICAAP (BOT Notification No. SVG. 5/2552: Guideline on Supervisory Review of Capital Adequacy (Pillar 2), banks are required to conduct liquidity stress test under self-developed scenarios (at least quarterly) and supervisory scenarios. Stress test results are used to develop a liquidity contingency plan. The BOT supervisors ensure that banks have regularly conducted liquidity stress test under self-developed and supervisory scenarios.</p> <p><u>Self-developed scenarios:</u> Supervisors assess appropriateness of stress tests by considering various assumptions, methodology for calculation and frequency of stress testing as follows:</p> <ul style="list-style-type: none"> <li>• Stress test is conducted, on a quarterly basis, under various self-developed crisis scenarios including bank-specific, system-wide or a combination of both.</li> <li>• Stress test assumptions consider such factors as business profile, weaknesses of banks, transactions that customers can cancel, withdraw, or transfer cash immediately, interlinkage between liquidity risk and other risks, interlinkage between market liquidity and funding plan, based on conservative approach.</li> </ul> <p>To check validity and appropriateness of the banks' stress test, the BOT supervisors may challenge whether the stress test assumptions are established in a conservative manner and determine whether the banks have a process to review the assumptions in line with the changing environment or business strategy.</p> <p><u>Supervisory scenario:</u> banks perform stress test under baseline, moderate and severe scenarios to determine the impact on LCR. Each scenario varies by the degree of economic indicators affecting deposit structure/deposits bases, deterioration of cash flow from loan due to high NPL, lower asset value due to market risk factors, and liquidity support to subsidiaries.</p> <p>Supervisors ensure that outcomes are discussed by management and, based on the discussion, outcomes of stress test form the basis for taking remedial or mitigating actions to limit the banks' exposures, build a liquidity cushion and adjust liquidity profile. Stress test results play a role in shaping contingency planning and determining strategy and tactics to deal with liquidity stress.</p> |
| <b>EC8</b>                      | <p>The supervisor identifies those banks carrying out significant foreign currency liquidity transformation. Where a bank's foreign currency business is significant, or-the bank has significant exposure in a given currency, the supervisor requires the bank to undertake separate analysis of its strategy and monitor its liquidity needs separately for each such significant currency. This includes the use of stress testing to determine the appropriateness of mismatches in that currency and, where appropriate, the setting and regular review of limits on the size of its cash flow mismatches for foreign currencies in</p>   |

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|                                 | <p>aggregate and for each significant currency individually. In such cases, the supervisor also monitors the bank's liquidity needs in each significant currency, and evaluates the bank's ability to transfer liquidity from one currency to another across jurisdictions and legal entities.</p>   |
| Description and findings re EC8 | <p>Banks are required to have effective liquidity risk management to ensure liquidity to meet needs in all currencies under both normal and stress periods. Banks undertaking business in multiple currencies are expected to have a liquidity management system that can measure, monitor and control every significant foreign currency separately including Thai baht. Banks must consider capability, constraints and time-period for transfer in liquidity between operating units, juristic persons and across borders, as well as functions of the foreign exchange markets as part of assumption setting for stress test. In addition, the BOT Notification No. FPG. 74/2551: Regulations on Foreign Exchange Positions for Commercial Banks excluding Retail Banks requires banks to limit their net foreign exchange positions, both on an individual currency and in aggregate, at the end of each day, not to exceed 15 percent and 20 percent of total capital respectively.</p> <p>Supervisors check whether banks' foreign currency funding is consistent with the approved policy, strategy and risk appetite, and whether the banks have a separate policy, process and liquidity risk management for each significant currency such as Baht and USD.</p> <p>In addition, the BOT supervisors review whether banks set up maturity mismatch limits of foreign currency assets and liabilities as well as appropriateness of such limits, considering transferability and convertibility of assets in different location and currency of liquidity needs. In case where the banks make change to the limits of any currency, the BOT supervisors assess appropriateness of the modifications, utilization, and suitability of the new limits. To ensure the efficiency of liquidity risk management for each currency, supervisors evaluate if banks designate responsible units and report liquidity position of each currency to senior management in a timely manner.</p> |
| <b>Additional criteria</b>      |  |
| <b>AC1</b>                      | <p>The supervisor determines that banks' levels of encumbered balance-sheet assets are managed within acceptable limits to mitigate the risks posed by excessive levels of encumbrance in terms of the impact on the banks' cost of funding and the implications for the sustainability of their long-term liquidity position. The supervisor requires banks to commit to adequate disclosure and to set appropriate limits to mitigate identified risks.</p>  |
| Description and findings re AC1 | <p>The BOT supervisors regularly monitor the amount of encumbered balance-sheet assets of banks through monthly supervisory reports. On this, the BOT supervisors assess risks to sustainability of the banks' funding profile; considering the risk that asset encumbrance may have on both short-term and long-term funding sources. Moreover, the BOT supervisors monitor the proportion of unencumbered liquid assets to total assets to ensure that they are at an appropriate level. Most encumbered assets involve repurchase transactions (Repo) and are disclosed clearly and not included in the pool of liquid assets.</p>  |

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| <b>Assessment of Principle 24</b> | Complaint   |
| Comments                          | Operationally, liquidity is monitored through gap analysis and is mainly derived from deposits. LCR and NSFR have been adopted.   |
| <b>Principle 25</b>               | <b>Operational risk.</b> The supervisor determines that banks have an adequate operational risk management framework that takes into account their risk appetite, risk profile and market and macroeconomic conditions. This includes prudent policies and processes to identify, assess, evaluate, monitor, report and control or mitigate operational risk <sup>69</sup> on a timely basis.   |
| <b>Essential criteria</b>         |   |
| <b>EC1</b>                        | Law, regulations, or the supervisor require banks to have appropriate operational risk management strategies, policies and processes to identify, assess, evaluate, monitor, report and control or mitigate operational risk. The supervisor determines that the bank's strategy, policies and processes are consistent with the bank's risk profile, systemic importance, risk appetite and capital strength, take into account market and macroeconomic conditions, and address all major aspects of operational risk prevalent in the businesses of the bank on a bank-wide basis (including periods when operational risk could increase).  |
| Description and findings re EC1   | <p>To promote sound practices in bank's operational risk management, the BOT has issued a set of policy guidance and regulations covering operational risk management, business continuity management/business continuity plan (BCM/BCP), IT risk management and outsourcing (please refer to EC4, EC5 and EC8 for more details).</p> <p>Under the BOT Policy Statement on Operational Risk Management (August 2008), banks are expected to have a comprehensive risk management framework for operational risk, which comprises (i) Sound operational risk management environment with adequate oversight by the Board; (ii) Effective risk management system to identify, measure, monitor, control, and report operational risk; (iii) Public disclosure of the bank's operational risk management.</p> <p>To promote a strong operational risk management environment, the guidance outlines the Board's roles and responsibilities, which include approving and regularly reviewing policy and processes as well as overseeing senior management to implement the approved policy and engage staff to take part and be accountable for operational risk management.</p> <p>As part of ongoing supervision, the BOT supervisors review relevant documents e.g., ORM policies and processes, conduct transactions testing and interview banks' senior management to evaluate whether the banks' ORM policies &amp; procedures are consistent with the banks' risk profile, risk appetite, and capital strength, taking into account market</p> |

<sup>69</sup> The Committee has defined operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk.

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|                                 | <p>and macroeconomic conditions, and address all major aspects of operational risk prevalent in the banks' businesses on a bank-wide basis.</p> <p>Banks' major business lines ranging from commercial banking business to retail banking business are also reviewed to assess the overall operational risk management procedures on an end-to-end basis. To evaluate banks' composite rating under the Significant Activities (SA) supervisory approach, the BOT supervisors assess the banks' inherent risk that could be generated by people, processes, systems and external events in combination with risk management quality across all major business lines.</p> <p>Moreover, the BOT supervisors review internal audit reports, engage with the banks' internal auditor on any issues relating to the banks' ORM and discuss with the Board as well as senior management to enhance effectiveness of the banks' ORM framework.</p> <p>If there are any shortfalls or concerns in operational risk management, BOT supervisors will instruct the bank to make corrections. Shortfalls in operational risk management may result in moral suasion, for instance, and not granting permission to engage in businesses that require high degree of operational control.</p> |
| <b>EC2</b>                      | <p>The supervisor requires banks' strategies, policies and processes for the management of operational risk (including the banks' risk appetite for operational risk) to be approved and regularly reviewed by the banks' Boards. The supervisor also requires that the Board oversees management in ensuring that these policies and processes are implemented effectively.</p>   |
| Description and findings re EC2 | <p>As mentioned in EC1, the BOT Policy Statement on Operational Risk Management (August 2008) expects the Board and senior management to promote a strong operational risk management environment through policy approval and risk oversight.</p> <p>As part of ongoing supervision, the BOT supervisors check whether the banks' operational risk policies and risk appetite are approved and subject to periodic review by the Board. The BOT supervisors will review the banks' relevant documents e.g., meeting minutes of the Board and various committees, operational loss events report, Key Risk Indicators (KRIs) report, Risk and Control-Self Assessment (RCSA) to confirm that the Board oversees the management in putting the policy, strategy and process into practice effectively under an appropriate organization structure, accountability, and level of staff awareness and participation that facilitates effective operational risk oversight.</p>   |
| <b>EC3</b>                      | <p>The supervisor determines that the approved strategy and significant policies and processes for the management of operational risk are implemented effectively by management and fully integrated into the bank's overall risk management process.</p>  |
| Description and findings re EC3 | <p>To ensure the effective implementation of the operational risk policy, the BOT supervisors assess whether senior management has established rules, procedures, clear lines of responsibilities, and systems consistent with the policy approved by the Board. Through interviewing executives and staff, the BOT supervisors will evaluate whether the banks' senior management has effectively communicated.</p>   |

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|                                 | <p>The BOT supervisors will review internal audit reports to ensure that the banks' operational manuals and relevant rules are observed and check whether the operational loss data are utilized to identify weaknesses and continuously improve the banks' operational risk control. The BOT supervisors will also check to ensure that banks have effective whistle blowing policies in place, evaluate the effectiveness of the banks' risk mitigation, and review the banks' relevant documents e.g., meeting minutes of the Board and management committees (including Risk Management Committee) and risk reports to assess whether operational risk management is thoroughly integrated in the banks' overall risk management.</p>   |
| <b>EC4</b>                      | <p>The supervisor reviews the quality and comprehensiveness of the bank's disaster recovery and business continuity plans to assess their feasibility in scenarios of severe business disruption which might plausibly affect the bank. In so doing, the supervisor determines that the bank is able to operate as a going concern and minimize losses, including those that may arise from disturbances to payment and settlement systems, in the event of severe business disruption.</p>   |
| Description and findings re EC4 | <p>Under BOT Policy Statement on BCM and BCP (August 2008), banks are expected to develop BCM policy as well as operational standard and procedures for all critical functions aiming that those functions be recovered within the reasonably targeted recovery time. Moreover, under the BOT Policy Statement on Operational Risk Management (August 2008), banks are expected to develop operational risk management systems that include a contingency plan (comprising BCP and Business Recovery Plan) as a part of business continuity and risk management.</p> <p>As part of ongoing supervision, the BOT supervisors assess whether the Board and senior management are responsible for determining strategies and policies concerning BCM and allocating adequate resources to support the banks' operations. Also, the BOT supervisors verify whether:</p> <ul style="list-style-type: none"> <li>• All critical functions are identified based on risk assessment and disruption impact analysis.</li> <li>• Recovery objectives for all critical functions are reasonable.</li> <li>• BCP to achieve the recovery objectives is feasible and is sufficient to cover all plausible disruption scenarios.</li> <li>• Relevant staff are aware of their roles and responsibilities.</li> <li>• Tests have been conducted, the targeted recovery time was achieved, and the test results are used to improve the banks' BCP in case where the recovery objective was not achieved.</li> </ul> <p>In addition, the BOT supervisors assess whether the banks' BCP has and outline of actions, procedures, responsible persons, required resources as well as a communication plan.</p> <p>The BOT has a specialist department to conduct IT examinations to maintain confidentiality, integrity and availability (CIA) of critical payment systems e.g., BAHTNET and ICAS. The</p> |

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|                                 | <p>scope of the examination covers the IT-Disaster Recovery Plan (DRP), which is part of the banks' BCP. The BOT examinations check whether banks perform an IT-DRP test annually and meet their pre-defined recovery time objective (RTO) as planned. For critical payment system like BAHTNET and ICAS, banks must perform IT-DRP test annually in collaboration with the BOT as part of industry wide test.</p>  |
| <b>EC5</b>                      | <p>The supervisor determines that banks have established appropriate information technology policies and processes to identify, assess, monitor, and manage technology risks. The supervisor also determines that banks have appropriate and sound information technology infrastructure to meet their current and projected business requirements (under normal circumstances and in periods of stress), which ensures data and system integrity, security and availability and supports integrated and comprehensive risk management.</p>   |
| Description and findings re EC5 | <p>As part of ongoing supervision, the BOT supervisors evaluate the Board's roles and responsibility for approving IT risk management policy, IT security policy and IT contingency plan, as well as overseeing that those policies are implemented accordingly. The Board must ensure that the banks' IT strategy is in line with their business strategy and IT inherent risks. Banks are required to conduct IT stress testing at least annually and when significant changes arise, especially on critical systems such as internet banking system and payment gateway system, as a part of its contingency planning. The BOT supervisors also assess the robustness of the banks' infrastructure such as data center to ensure data and system integrity, security, availability, being able to support integrated and comprehensive risk management.</p> <p>To assess banks under the Significant Activity (SA) Approach, the BOT supervisors monitor SA-IT transactions both in terms of strategic risk (e.g., IT policy, IT roadmap, and IT investment budget) and operational risk (e.g., IT Security Strategy &amp; Design, System Stability, Data Center Operation, IT Incident/Complaint to IT Security, Data Integrity, and System Disruption).</p> <p>The BOT conducts IT risk examination at least once a year by the BOT's IT team. The IT examination is based on (i) IT Risk Based Supervision (CIA of the management processes and operations); (ii) SA Approach (relying on measuring inherent risk and residual risk); and (iii) Examination topology, which are based on the U.S. the Federal Financial Institutions Examination Council's (FFIEC) examination manuals.</p> <p>Under the BOT Notification No. FPG.19/2560: Regulations on IT risk of Financial Institutions, the BOT requires banks to put in place process/procedure to incorporate IT risk into Enterprise Risk Management (ERM) framework and comply with the minimum IT security standard in accordance with CIA principle. Furthermore, banks are required to seek approval from the BOT before using any technology for the first time or making any changes to the technology usage, which has a significant impact or risk on business operations. The BOT supervisors will check relevant documents, conduct an interview with senior management, management, and persons in charge of each IT functions, and review</p> |

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|                                 | <p>the banks' day-to-day operations to ensure that there is sound framework for IT risk management in place.</p> <p>The BOT supervisors assess the banks against IT audit guidelines set out in accordance with the BOT Notification on IT risk Regulations of Financial Institutions covering (i) IT Oversight Function: Board &amp; Senior Management/IT Risk Management/IT Compliance and IT Internal Audit; and (ii) IT Operational Risk Management: Project Management, System Development Life Cycle (SDLC), Change Management, IT Incident and Problem Management, BCM BCP DRP and IT Outsourcing.</p> <p>In addition, the BOT has issued IT best practices as guidelines to be used for banks' IT self-assessment and self-control so as to promote CIA of the IT system in such areas as (i) IT Best practices for deposit, withdrawal, and money transfer; (ii) IT Best practices for e-Banking and e-Payment; and (iii) IT Best practices for Cloud Computing service for banks adopting cloud computing service in their IT risk management. The result of the gap analysis along with the banks' IT system improvement plan will be discussed during the BOT IT risk annual inspection.</p> <p>Moreover, the BOT has issued IT Risk Management Implementation Guideline and Cyber Resilience Assessment Framework in accordance with International Standard such as COBIT, FFIEC, NIST and ISO. In 2017, banks are required to assess their cyber inherent risk and cyber management and control (Maturity level) to identify important gaps of cyber resilience which must be mitigated by 2018.</p> |
| <b>EC6</b>                      | <p>The supervisor determines that banks have appropriate and effective information systems to:</p> <ul style="list-style-type: none"> <li>• Monitor operational risk.</li> <li>• Compile and analyze operational risk data.</li> <li>• Facilitate appropriate reporting mechanisms at the banks' Boards, senior management, and business line levels that support proactive management of operational risk.</li> </ul>   |
| Description and findings re EC6 | <p>Under the BOT's Policy Statement on Operational Risk Management (August 2008), banks' operational risk management system must facilitate collection of operational loss data according to business lines and loss event types, data processing, and producing reports for timely monitoring of operational risk. Banks are expected to identify operational risk of all products, services, systems and business units and consider business complexity, historical operational loss and efficiency of internal control systems. The systems are expected to facilitate risk measurement in terms of frequency and severity and timely reporting for monitoring by the banks' Board and senior management in order that they can promptly introduce additional control or adopt appropriate mitigation as necessary.</p> <p>On this, the BOT supervisors assess whether banks' operational risk management system is well integrated into the banks' overall risk management process, and whether operational risk reports are submitted to the Board and senior management and are used in risk analysis, monitoring, and control. Moreover, the BOT supervisors will check whether such</p>   |

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|                                 | <p>reports describe appropriate actions taken by the banks in dealing with incurred losses. This is to ensure that business unit, senior management, and the Board are well informed in a timely manner and can take actions promptly to prevent, control, or mitigate loss that may occur. The BOT supervisors will also check whether operational risk data are effectively used for enhancing the banks' risk management.</p>  |
| <b>EC7</b>                      | <p>The supervisor requires that banks have appropriate reporting mechanisms to keep the supervisor apprised of developments affecting operational risk at banks in their jurisdictions.</p>   |
| Description and findings re EC7 | <p>The BOT has set several mechanisms to keep apprised of developments affecting banks' operational risk. Firstly, the BOT executives meet with executives of each bank at the beginning of each year to discuss the bank's business strategy. During these meetings, major changes of business strategy and systems that could affect operational risk will be discussed. Secondly, banks' new banking channel and outsourcing trends are monitored using information from banks' strategic plans and reports submitted to the BOT. Thirdly, any changes in key persons of banks shall be observed during the fit and proper assessment.</p> <p>In addition, the BOT obtains data from periodic reports including operational loss data classified by business line and event, the estimation of regulatory minimum capital for operational risk (regulatory capital) and internal capital for operational risk of the bank (economic capital). These data provide an indication of the operational risk loss trend around business lines and loss events which may trigger supervisory concern and operational risk mitigation strategies of the banks.</p> <p>The operational loss data observed from these reports are used to monitor operational risk loss trends in the banking system and to facilitate the BOT supervisors in setting the scope of onsite examination for each individual bank. Operational risk incidents that have been increasingly observed and indicate operational risk loss trend in the banking system may trigger prompt supervisory actions or be shared to the banks' Board and senior management to raise the banks' awareness and encourage them to strengthen their security measures against these incidents.</p> |
| <b>EC8</b>                      | <p>The supervisor determines that banks have established appropriate policies and processes to assess, manage and monitor outsourced activities. The outsourcing risk management program covers:</p> <ul style="list-style-type: none"> <li>(a) Conducting appropriate due diligence for selecting potential service providers.</li> <li>(b) Structuring the outsourcing arrangement.</li> <li>(c) Managing and monitoring the risks associated with the outsourcing arrangement.</li> <li>(d) Ensuring an effective control environment.</li> <li>(e) Establishing viable contingency planning.</li> </ul>   |

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|  | <p>Outsourcing policies and processes require the bank to have comprehensive contracts and/or service level agreements with a clear allocation of responsibilities between the outsourcing provider and the bank.</p>  |
| <p>Description and findings re EC8</p> | <p>Under the BOT Notification No. FPG. 8/ 2557: Regulations on Outsourcing of Financial Institutions, banks can outsource their non-strategic functions but remain responsible to their customers as if the functions are conducted by the banks themselves, for which the banks must pay attention to business continuity, customer care, and management of outsourcing risk. In this respect, the bank's Board is responsible for approving outsourcing policy which covers, for instance, type of functions to be outsourced, risk management system, internal control process and impact management plan, and periodic review of effectiveness and suitability of relevant policies and systems for supervising, monitoring, examining, and assessing performance and potential of outsourcing.</p> <p>The BOT Notification on Outsourcing of Financial Institutions provides guidance on areas to be covered by the banks' outsourcing risk management program as follows:</p> <ul style="list-style-type: none"> <li>(a) Banks are required to have appropriate service provider selection criteria prior to entering into a new contract renewed contract. The selection criteria shall at least include the technical ability and expertise, financial strength, business reputation, corporate culture, concentration risk.</li> <li>(b) Banks are required to enter into a written contract and an agreement with the service providers that covers key issues including details of the service types, allocation of responsibility between bank and service provider, risk management, internal control process, as well as security system for safeguarding information and assets of banks, etc.</li> <li>(c) Banks are required to have appropriate management of outsourcing risk which covers system, procedure, and resources to supervise, monitor, examine, and assess service providers. Any losses and potential problems arising from outsourcing shall be escalated to senior management for taking actions in a timely manner. There should be periodic review of service providers, while their performance is taken into consideration when renewing the contract. Additionally, banks are required to ensure that the contract must assign the right for the BOT, the banks, external auditors or other authorities to inspect operations as well as internal control and to request for relevant information from the service providers.</li> <li>(d) Banks are required to specify the significant level of outsourced functions and to require the service providers to have a business continuity plan especially for activities with wide impact as well as to allocate adequate resources for such operations. Bank must conduct a regular test on BCP and report the test results to the BOT.</li> </ul> <p>With respect to IT outsourcing, the BOT Notification No. FPG.19/2559: Regulations on IT Outsourcing for Business Operations of Financial Institutions requires banks to ensure that a service provider has appropriate risk management process, procedure and control, which should, at least, cover triad principle of IT Management (confidentiality, integrity, and availability or CIA). The banks' Board must be responsible for approving IT outsourcing</p> |

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|                                 | <p>policy that covers classification of IT outsourcing, management of outsourcing risks, management of service providers, security of IT system and information, integrity of IT system and information, availability of the outsourced IT activities, customer protection, additional guidelines for critical IT outsourcing, reporting and examination, etc.</p> <p>During onsite examination, the BOT supervisors assess suitability of outsourcing for core systems associated with significant working processes and evaluate the banks' necessity to rely on those outsourcing services, suitability of service fees rate and other consequences that may arise from outsourcing activities such as data confidentiality, responsibilities for operations. Outsourcing policies/procedures conducted must be approved by the Board or senior management, covering all outsourcing risks and in consistent with the banks' size and complexity. The responsibilities to consumers such as data confidentiality etc. should be addressed. The BOT supervisors also check banks' recruitment process, criteria and conditions for outsourcing as well as review detailed procedures of the banks' contingency plan and the test conducted to ensure that the banks' service provider operations can be recovered within the timeframe.</p>   |
| <b>Additional criteria</b>      |   |
| <b>AC1</b>                      | The supervisor regularly identifies any common points of exposure to operational risk or potential vulnerability (e.g., outsourcing of key operations by many banks to a common service provider or disruption to outsourcing providers of payment and settlement activities).  |
| Description and findings re AC1 | <p>As set out in the BOT Notification No. FPG. 8/2557: Regulations on Outsourcing of Financial Institutions and the BOT Notification No.FPG.19/2559: Regulations on IT Outsourcing for Business Operations of Financial Institutions, banks are required to consider concentration risk that may arise when the banks' service provider also provide services to many players. Report on outsourcing activities must be submitted to the BOT on a regular basis. In addition, in case where outsourcing services are considered as banks' material function with strategic-related (e.g., loan approval process) or critical to banking business (e.g., IT outsourcing: public cloud computing), banks are required to notify or obtain prior approval from the BOT to employ the outsourcing services.</p> <p>The BOT supervisors review potential outsourcing risks affecting banks and examine whether the banks have prepared a prevention plan consistent with the laws, notifications, regulations, accounting standard, and IT system's advancement, etc. The BOT supervisors will review the contingency plan testing for any disturbance that may arise from IT and non-IT outsourcing.</p> <p>On providers of payment and settlement activities, the BOT is in charge for examining all financial market infrastructure, bank and nonbank e-Payment service providers such as a network switching providers, an e-Counter payment service provider, e-Money service providers, etc. Since there are many service providers, BOT firstly focuses on the big players and high impacted players on the e-Payment system e.g., National ITMX, PCC, and TPN,</p> |

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|                                   | respectively. The IT examination standards used to evaluate the IT good governance and operations are based on the BOT's IT Examination approach and the supplementary standards from FFEIC, HKMA, NIST, ISACA, COBIT, ISO 27001.   |
| <b>Assessment of Principle 25</b> | Compliant   |
| Comments                          | The assessors reviewed inspection reports and risk assessments. They concluded that the BOT examiners assess the operational risk management framework comprehensively and in sufficient depth.   |
| <b>Principle 26</b>               | <b>Internal control and audit.</b> The supervisor determines that banks have adequate internal control frameworks to establish and maintain a properly controlled operating environment for the conduct of their business taking into account their risk profile. These include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding the bank's assets; and appropriate independent <sup>70</sup> internal audit and compliance functions to test adherence to these controls as well as applicable laws and regulations.  |
| <b>Essential criteria</b>         |   |
| <b>EC1</b>                        | <p>Laws, regulations or the supervisor require banks to have internal control frameworks that are adequate to establish a properly controlled operating environment for the conduct of their business, taking into account their risk profile. These controls are the responsibility of the bank's Board and/or senior management and deal with organizational structure, accounting policies and processes, checks and balances, and the safeguarding of assets and investments (including measures for the prevention and early detection and reporting of misuse such as fraud, embezzlement, unauthorized trading and computer intrusion). More specifically, these controls address:</p> <p>(a) Organizational structure: definitions of duties and responsibilities, including clear delegation of authority (e.g., clear loan approval limits), decision-making policies and processes, separation of critical functions (e.g., business origination, payments, reconciliation, risk management, accounting, audit, and compliance).</p> <p>(b) Accounting policies and processes: reconciliation of accounts, control lists, information for management.</p> <p>(c) Checks and balances (or "four eyes principle"): segregation of duties, cross-checking, dual control of assets, double signatures.(d) Safeguarding assets and investments: including physical control and computer access.</p> |

<sup>70</sup> In assessing independence, supervisors give due regard to the control systems designed to avoid conflicts of interest in the performance measurement of staff in the compliance, control and internal audit functions. For example, the remuneration of such staff should be determined independently of the business lines that they oversee.

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| Description and findings re EC1 | <p>The BOT Notification No. FPG.10/2561: Corporate Governance of Financial Institutions outlines the Board’s responsibilities which include approving business strategies and risk management policy, overseeing senior management in putting those strategies and policies into practice, and ensuring an appropriate control environment to effectively facilitate the oversight of the Board. The appropriate control environment includes (i) effective internal audit and internal control policy; (ii) clear delegation of duties; (iii) appropriate checks and balances including segregation of duties, three lines of defense; (iv) sufficient stature, independence, resources of head of control function; (v) independent reporting of control function; (vi) reliable accounting and record keeping; (vii) effective safeguarding of assets.</p> <p>The BOT Policy Statement on Internal Audit (August 2008) sets out scope of bank’s internal audit work to cover the assessment on effectiveness of internal control system, reliability and accuracy of data, safeguarding of assets and examination for frauds, errors, omissions and irregularities, etc. The internal auditor shall ensure that the memorandum, financial and operating reports comprise accurate and reliable data and are in line with the accounting standards. These reports shall obtain relevant data according to the current situation in a timely manner. Moreover, the internal auditor shall verify whether there is sufficient control in safeguarding the bank’s assets.</p> <p>To ensure that banks comply with the above guidelines, the BOT supervisors will review and assess the following:</p> <p>(a) Organizational structure, roles and responsibilities of the Board and senior management and management structure of each business unit to determine whether it provides an effective internal control environment, suitable for the risk profile. For example, the 2nd and 3rd lines of defense shall be independent and have direct reporting lines to the Board or relevant committees (i.e., risk oversight committee in the case of risk management function and audit committee in the case of internal audit function).</p> <p>(b) Accounting policies and processes, systems for data reconciliation, data entry, management report for internal control, preventive measures and reporting for embezzlement, fraud and unauthorized transactions, dormant items and adjusted accounts. Segregation of duties should also be in place in the accounting process, for example, accountants should be independent from the front office activities.</p> <p>(c) Segregation of duties and checks and balances, for example, banks should have independent units, committee, executives and personnel responsible for supporting operations and risk management, with adequate information systems to facilitate accurate, consistent and timely reporting to the Board and senior management. The loan approval process should be independent and incorporate opinions from both front and middle offices. A review process should be in place in order to facilitate operational risk management.</p> <p>(d) Operating policies of specific business units to check whether senior management has provided appropriate safeguard of assets and investments as well as periodic audit of the</p> |
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|                                 | <p>assets. Segregation of duties should be in place in the way that no individual can complete the entire process.</p> <p>In addition, the BOT IT Supervisors will review and assess the adequacy and reliability of the security system to ensure that it is sufficient to prevent damage to human resources, tangible assets and IT assets, both (i) physical access controls where only authorized persons can access the system hardware; and (ii) protective software and hardware from hacking or other threats. Sensitive areas such as dealing room, data center and funds transfer should have additional security protocol. The security policies and control systems will be examined as well.</p>        |
| <b>EC2</b>                      | The supervisor determines that there is an appropriate balance in the skills and resources of the back office, control functions and operational management relative to the business origination units. The supervisor also determines that the staff of the back office and control functions have sufficient expertise and authority within the organization (and, where appropriate, in the case of control functions, sufficient access to the bank's Board) to be an effective check and balance to the business origination units.   |
| Description and findings re EC2 | The BOT supervisors will assess the business units, control functions and back office to determine whether they have adequate resources, knowledgeable and experienced employees in the back-office units, control functions and operational risk management, and the units are sufficiently authorized to counterbalance business origination units. The number of personnel, their responsibilities and scope of work should be adequate, in line with the banks' size, transaction volume and complexity of activities. The BOT supervisors will review personnel records to assess their knowledge, ability and experience to meet their job positions and will occasionally interview employees and executives. |
| <b>EC3</b>                      | The supervisor determines that banks have an adequately staffed, permanent and independent compliance function <sup>71</sup> that assists senior management in managing effectively the compliance risks faced by the bank. The supervisor determines that staff within the compliance function are suitably trained, have relevant experience and have sufficient authority within the bank to perform their role effectively. The supervisor determines that the bank's Board exercises oversight of the management of the compliance function.  |
| Description and findings re EC3 | Under the BOT Notification No. FPG.10/2561: Corporate Governance of Financial Institutions to promote the appropriate checks and balances mechanism, the Board has the responsibility to oversee the financial institution to establish an independent and efficient second line of defense unit, e.g., compliance function. Also, financial institutions should comply with the BOT policy statement on Supervision of Financial Institutions' Compliance (August 2008) which requires the Board to ensure that banks comply with all relevant laws,  |

<sup>71</sup> The term "compliance function" does not necessarily denote an organizational unit. Compliance staff may reside in operating business units or local subsidiaries and report up to operating business line management or local management, provided such staff also have a reporting line through to the head of compliance who should be independent from business lines.

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|                                 | <p>regulations and standards. To do so, the Board is responsible for approving and reviewing the banks' compliance policy including the establishment of the compliance function</p> <p>The compliance function shall be independent, have full access to any necessary information, with properly skilled and trained personnel to fulfill their role in managing compliance risk, which includes identifying, assessing, and establishing a plan to manage and mitigate compliance risk. The compliance function should be independent from the business unit. In case where the compliance resources are embedded within the business unit, they shall report to head of compliance who is independent to the business units and has a direct reporting line to the Board or relevant committee.</p> <p>Based on the regulations above, the BOT supervisors will review and assess the following:</p> <ul style="list-style-type: none"> <li>• The organization structure of the compliance unit and the charter of compliance unit, including reporting lines, operational independence of the compliance unit, the code of ethics, and the status of compliance unit within the organization.</li> <li>• The Board and senior management's participation in decision making, monitoring and their attention to the compliance function by reviewing written policies, guidelines and other documents.</li> <li>• Adequacy of the compliance function resources, including the process to ensure the adequacy of both systems and human resources. Personnel's knowledge, abilities, experience and understanding of related law and regulations and the impact on banking operations as well as training programs will be evaluated. Performance of the compliance function will be monitored on an ongoing basis to ensure strong internal control environment.</li> </ul> |
| <b>EC4</b>                      | <p>The supervisor determines that banks have an independent, permanent and effective internal audit function<sup>72</sup> charged with:</p> <ul style="list-style-type: none"> <li>• Assessing whether existing policies, processes and internal controls (including risk management, compliance and corporate governance processes) are effective, appropriate and remain sufficient for the bank's business.</li> <li>• Ensuring that policies and processes are complied with.</li> </ul>   |
| Description and findings re EC4 | <p>The BOT Notification No. FPG.10/2561: Corporate Governance of Financial Institutions requires that the Board have the necessary tools to effectively carry out its oversight role, for instance, appropriate skill composition, proper governance structure, and use of committees. In terms of governance structure, banks shall establish independent 2<sup>nd</sup> and 3<sup>rd</sup> lines of defense so called risk management compliance and internal audit functions as control mechanisms. To ensure independence of these control functions, they must have</p>   |

<sup>72</sup> The term "internal audit function" does not necessarily denote an organizational unit. Some countries allow small banks to implement a system of independent reviews, e.g., conducted by external experts, of key internal controls as an alternative.

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|            | <p>direct reporting lines to the Board or relevant committees and any removal or changes of the heads of control functions shall be approved by the Board.</p> <p>Under the BOT Policy Statement on Internal Audit (August 2008), banks are expected to have an Internal audit function commensurate to the size, nature and scope of their business activities. The internal audit function shall be tasked with assessing the adequacy and effectiveness of the internal control systems and risk management framework including compliance risk management, efficiency of resource utilization, and compliance to the bank's policies and procedures, as well as reviewing the accuracy of accounting and records.</p> <p>An effective internal audit function must be independent and have appropriate status and authority to provide recommendations to the senior management. Moreover, the internal audit unit must obtain adequate and skilled resources and have full access to necessary information, staff, and records. The internal auditors are required to have qualifications in terms of knowledge, experience and expertise. A training program should be regularly provided to internal auditors to enhance their skills to match with changing business strategy and environment of the banks. The Head of internal audit shall prepare audit plan that is risk oriented in order to prioritize its activities and to ensure that resources are utilized effectively and efficiently. The audit plan should be approved by the Board or audit committee and be regularly reviewed.</p> <p>The BOT supervisors will assess (i) the effectiveness and independence of the internal audit, appropriate to the size, complexity and the nature of transactions of the organization; and (ii) its ability to evaluate the adequacy and appropriateness of the banks' policy implementation and compliance with related regulations. Moreover, the BOT supervisors will review the banks' internal rules, process, risk management, compliance and governance to ensure that these functions are adequate, effective, and practical and are conducted in an appropriate manner. The internal audit unit shall continuously and consistently review and test the internal control function to ensure that it functions properly and supports the banks' business strategy.</p> <p>In case where the BOT detects any deficiency or issue in the internal audit unit, the BOT will generally discuss with the banks' executives. The deficiencies will be detailed in the examination report and the BOT supervisors will monitor their corrective actions accordingly.</p> |
| <b>EC5</b> | <p>The supervisor determines that the internal audit function:</p> <ul style="list-style-type: none"> <li>• Has sufficient resources, and staff that are suitably trained and have relevant experience to understand and evaluate the business they are auditing.</li> <li>• Has appropriate independence with reporting lines to the bank's Board or to an audit committee of the Board, and has status within the bank to ensure that senior management reacts to and acts upon its recommendations.</li> </ul>   |

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|                                   | <ul style="list-style-type: none"> <li>• Is kept informed in a timely manner of any material changes made to the bank's risk management strategy, policies or processes.</li> <li>• Has full access to and communication with any member of staff as well as full access to records, files or data of the bank and its affiliates, whenever relevant to the performance of its duties.</li> <li>• Employs a methodology that identifies the material risks run by the bank.</li> <li>• Prepares an audit plan, which is reviewed regularly, based on its own risk assessment and allocates its resources accordingly.</li> <li>• Has the authority to assess any outsourced functions.</li> </ul>  |
| Description and findings re EC5   | <p>The BOT supervisors will assess the following elements in accordance with the BOT Policy Statement on Internal Audit (August 2008).</p> <ul style="list-style-type: none"> <li>• Adequacy of resources and personnel of internal audit unit by checking whether the number and qualification of personnel as well as their knowledge and experience are suitable for audit function and are consistent with their level of responsibility. In addition, the BOT supervisors will assess personnel's understanding of functions they are auditing, including risks involved and will evaluate whether the internal auditors are properly trained.</li> <li>• The status of internal audit unit within the organization, it is established at a senior level and independent from other functions as well as received support from the senior management, so that internal auditors are able to perform their duties effectively. The reporting channels should be suitable and independent, for example, the Head of Internal Audit should report directly to the Audit Committee or the Board. The BOT, in addition, periodically meets with the Audit Committee to discuss audit review findings and issues regarding the internal control.</li> <li>• The internal auditors' ability to access the required information, assets, personnel and workplace without any restriction. The auditors should be informed of significant change of strategy, policies and procedures of the banks in a timely manner.</li> <li>• End-to-End process of the internal auditing function, including outsourced functions as deemed necessary, by reviewing audit planning, monitoring, and reporting. The process should effectively identify, evaluate and cover major risks and include, but not limited to, risk factor identification, risk analysis, risk grading, audit plan development, in line with the volume, level of risk and complexity of the job. The audit plan should be reviewed periodically in line with risk environment.</li> </ul> |
| <b>Assessment of Principle 26</b> | Compliant  |
| Comments                          |  |
| <b>Principle 27</b>               | <b>Financial reporting and external audit.</b> The supervisor determines that banks and banking groups maintain adequate and reliable records, prepare financial statements in   |

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|                                 | accordance with accounting policies and practices that are widely accepted internationally and annually publish information that fairly reflects their financial condition and performance and bears an independent external auditor's opinion. The supervisor also determines that banks and parent companies of banking groups have adequate governance and oversight of the external audit function.   |
| <b>Essential criteria</b>       |   |
| <b>EC1</b>                      | The supervisor <sup>73</sup> holds the bank's Board and management responsible for ensuring that financial statements are prepared in accordance with accounting policies and practices that are widely accepted internationally and that these are supported by recordkeeping systems in order to produce adequate and reliable data.  |
| Description and findings re EC1 | <p>Under the Accounting Act B.E. 2543 (2000), directors of any corporation in Thailand are under the duty to keep accounts. As such, FIBA empowers the BOT to hold banks' boards and senior management responsible for ensuring that the accounting records are complete, accurate, and in line with the TASs/TFRSs, and the record keeping systems are reliable and well maintained with sufficient supporting documents, as well as certifying that the published financial statements prepared are in compliance with the accounting standards and the rules as prescribed by the BOT to reflect true financial position and performance (Section 27(2), 66, 67, and 68 of FIBA, the BOT Notification No. FPG. 21/2558: Preparation and Announcement of Financial Statements, and Section 8, 11, 12, 13, 14 and 20 of the Accounting Act B.E. 2543 (2000)). For auditing purposes, banks are required to retain the accounting records and supporting documents that sufficiently explain the transactions for a minimum period of five years.</p> <p>Section 146(2) and (3) of FIBA clearly states a penalty for the banks' director, manager or person with power of management, in the case of false entry or failure to enter significant statement in the accounts or documents of the financial institutions; or incomplete, incorrect, out-of-date or untrue accounts.</p> <p>The TASs/TFRSs are promulgated by the Federation of Accounting Professions (FAP) and are closely modeled after the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs). The current BOT notifications on loan loss provision and derivatives set out requirements for all banks which are more conservative than IAS 39 and result in outcomes comparable to IFRS 9.</p> <p>As part of ongoing supervision, the BOT supervisors perform the following duties with respect to financial reporting and audits:</p> <ul style="list-style-type: none"> <li>• Evaluate the responsibilities of the banks' Audit Committee in ensuring the accuracy of the banks' financial statements and check whether the audited financial statements are presented to the banks' Audit Committee on a quarterly basis;</li> </ul> |

<sup>73</sup> In this Essential Criterion, the supervisor is not necessarily limited to the banking supervisor. The responsibility for ensuring that financial statements are prepared in accordance with accounting policies and practices may also be vested with securities and market supervisors.

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|                                 | <ul style="list-style-type: none"> <li>• Verify whether banks have established sound management information system (MIS), IT systems and internal controls to produce adequate and reliable data for preparing the financial statements;</li> <li>• Review whether banks prepare financial statements in compliance with relevant accounting standards, the BOT notifications and other relevant laws.</li> </ul>  |
| <b>EC2</b>                      | The supervisor holds the bank's Board and management responsible for ensuring that the financial statements issued annually to the public bear an independent external auditor's opinion as a result of an audit conducted in accordance with internationally accepted auditing practices and standards.   |
| Description and findings re EC2 | <p>Section 67 and 68 of FIBA and the BOT Notification No. FPG. 21/2558: Preparation and Announcement of Financial Statements require banks both locally-incorporated and foreign bank branches to publish their annual financial statements, including the auditor's report, in public area at their commercial premises, in newspapers, on their websites, and submit them to the BOT no later than four months after the end of each financial year. Locally-incorporated banks are required to publish their first half-year financial statements in all previously mentioned channels and submit them to the BOT no later than three months after the end of first half-year. These financial statements must bear an opinion from the external auditors approved by the BOT. Supervisors also review banks' financial statements to ensure that sufficient and accurate information is disclosed as stated in the BOT Notification. External auditors of most Thai banks are professional firms (Ernst &amp; Young, KPMG, Deloitte, and PwC).</p> <p>The external auditors approved by the BOT shall comply with the code of ethics, Thai Standards on Auditing (TSA) which is based on International Standards on Auditing (ISA), as well as additional requirements set out by the BOT. Please note that FAP currently adopts TSA 200: Overall objectives of the independent auditor and the conduct of an audit in accordance with the standards on auditing which requires auditor to discharge its duties in compliance with the relevant auditing standards and ethics requirements that the auditor shall be independent from the audited entities to express a true and fair view of the financial statements.</p> <p>In case that an auditor is unable to meet the conditions in the discharge of his/her duties as determined by the BOT, the BOT has the authority to rescind the approval (Section 69 of FIBA).</p> |
| <b>EC3</b>                      | The supervisor determines that banks use valuation practices consistent with accounting standards widely accepted internationally. The supervisor also determines that the framework, structure and processes for fair value estimation are subject to independent verification and validation, and that banks document any significant differences between the valuations used for financial reporting purposes and for regulatory purposes.  |
| Description and findings re EC3 | As mentioned in EC1, banks are required to prepare financial statements in accordance with TASs/IFRSs and the rules as prescribed by the BOT, which include valuation practices.   |

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| <p>On valuation of loans and other assets measured at amortized cost, Section 60 and 61 of FIBA require banks to set provisions of performing assets, non-performing assets and contingent liabilities in accordance with the BOT notification, namely, the BOT Notification No. FPG. 5/2559: Guidelines on Asset Classification and Provisioning of Financial Institutions, which sets out the requirements on impairment and provisioning based on incurred loss impairment model of IAS 39 that banks shall assess the credit quality of assets correctly especially the potential impaired assets such as rescheduled/restructured loans or loans that breach financial covenants as well as set provision for these assets.</p> <p>For financial instruments in the trading book that must be measured at fair value (e.g., derivatives, trading securities), banks must conform to the requirements set out in the BOT Notification No. FPG. 94/2551 Regulations on Market Risk and Capital Requirements for Market Risk in Financial Institutions. In this respect, banks are required to measure these instruments at fair value in accordance with TFRS 13: Fair Value Measurement (based on IFRS 13).</p> <ul style="list-style-type: none"> <li>• In marking-to-market, banks must use data from independent and acceptable sources, for instance, Reuter and Bloomberg.</li> <li>• In case of marking-to-model, banks are required to set a governance structure and control processes for all instruments in the trading book measured at fair value. The banks shall have in place sound processes for model development and ensure that the model adopted is based on widely accepted principle and the inputs are from reliable sources. The developed model shall be validated and approved by an independent unit, and the banks shall periodically verify the accuracy of the model at least once a year.</li> </ul> <p>Since the BOT does not specify any additional requirement to valuation used for financial reporting, there is no difference between valuations used for financial reporting purpose and for regulatory purpose. Therefore, banks are required to prepare only one set of financial statement.</p> <p>As part of the ongoing supervision, the BOT supervisors assess whether banks have in place fair valuation policies and processes, which have been approved by the appropriate committee. The BOT supervisors will evaluate the valuation process including the methods and systems used in determining the fair value (mark-to-market and mark-to-model) in order to ensure that the valuation process is independent, timely and accurate.</p> <p>A walkthrough process and meetings will be arranged to verify consistency of actual valuation process and relevant documents as well as sufficient understanding of banks' officers in preparing these reports.</p> <p>The appropriateness of provisioning valuation will be checked in the similar manner as pricing model assessment. For banks with internal provisioning models, the BOT supervisors will verify the provisioning estimation and valuation process, including model governance, appropriation of provisioning and provisioning system. Inspection generally focuses on data sampling to ensure the accuracy and consistency with the methodology</p> |
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|                                 | documents and reporting provided. Please note that during the transition period to IFRS 9 in 2020, the BOT has consistently engaged banks to improve their provisioning models in response to IFRS 9, especially provisioning calculation system.  |
| <b>EC4</b>                      | Laws or regulations set, or the supervisor has the power to establish the scope of external audits of banks and the standards to be followed in performing such audits. These require the use of a risk and materiality based approach in planning and performing the external audit.  |
| Description and findings re EC4 | <p>Section 71 of FIBA empowers the BOT to appoint an auditor or specialist to conduct an audit and report the results thereof to the BOT. The BOT Notification No. FPG. 5/2558: Regulation on the Approval of an Auditor sets out the list of duties of the auditors in performing an audit in accordance with the TSA and submitting an audit program, working papers, and other documents as requested by the BOT. If auditors discharge their duties improperly, the BOT is empowered to order any action as deemed necessary, including to extend the audit scope.</p> <p>The Accounting Professions Act B.E. 2547 (2004) requires auditors to perform their duties in accordance with the TSA which stipulates that the auditors plan and perform the audit based on risk and materiality as set out in the TSA 320: Materiality in Planning and Performing an Audit. In this respect, auditors are required to apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements in the financial statements and in forming the opinion in the auditor's report. Moreover, the auditors shall design and implement the audit plan including the scope, timing, and extent of the audit in response to the risks of material misstatement identified as set out in TSA 330: The Auditor's Responses to Assessed Risks.</p> |
| <b>EC5</b>                      | Supervisory guidelines or local auditing standards determine that audits cover areas such as the loan portfolio, loan loss provisions, nonperforming assets, asset valuations, trading and other securities activities, derivatives, asset securitizations, consolidation of and other involvement with off-balance sheet vehicles, and the adequacy of internal controls over financial reporting.  |
| Description and findings re EC5 | <p>As mentioned in EC4, TSA 320: Materiality in Planning and Performing an Audit requires auditors to consider materiality and its relationship with audit risk when conducting an audit. Therefore, audit areas cover most of the significant areas of banking business, such as loan portfolio, classification and valuation of loans, loan loss provisions, asset valuations, non-performing assets, investments, trading and other securities activities, derivatives, consolidated financial statements, and the adequacy of internal controls.</p> <p>TSA 315: Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment requires auditors to obtain an understanding of the entity and its environment, including the internal control relevant to the audit, in order to assess risks of material misstatement.</p>  |

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| <b>EC6</b>                      | The supervisor has the power to reject and rescind the appointment of an external auditor who is deemed to have inadequate expertise or independence, or is not subject to or does not adhere to established professional standards.  |
| Description and findings re EC6 | <p>As mentioned in EC2, the external auditors approved by the BOT shall adhere to the code of ethics and carry out an audit in compliance with the TSA and additional requirements in BOT notifications. In the case that an auditor is unable to meet the conditions in the discharge of his/her duty as determined by the BOT, the BOT has the authority to reject and rescind the approval.</p> <p>The BOT Notification No. FPG. 5/2558: Regulation on the Approval of an Auditor of a Financial Institutions set out the BOT approval criteria for auditors to include, but not limited to, auditor's independence, ability to perform audits with professional skepticism and in compliance with TSA, and not having been suspended and revoked the approval by other regulators, such as the SEC and the Revenue Department. On this, the BOT assesses the auditor's application considering the auditor's profile, background as well as previous auditing experiences of financial institutions. Banks shall inform the BOT at least 30 days prior to annual appointment of the approved auditors and the BOT has the power to reject and rescind that appointment within 15 business days.</p> |
| <b>EC7</b>                      | The supervisor determines that banks rotate their external auditors (either the firm or individuals within the firm) from time to time.   |
| Description and findings re EC7 | The BOT Notification No. FPG. 5/2558: Regulation on the Approval of an Auditor of a Financial Institutions prohibits banks from appointing the same external auditor for more than 5 consecutive financial years. In other words, individual auditors within an audit firm must be rotated when their 5-year term ends.   |
| <b>EC8</b>                      | The supervisor meets periodically with external audit firms to discuss issues of common interest relating to bank operations.   |
| Description and findings re EC8 | <p>The BOT holds annual meetings with external auditors (without presence of banks) to discuss and keep updated of banks' accounting and auditing issues, including audit plans, findings and other concerns. Sample issues of discussion are as follows:</p> <ul style="list-style-type: none"> <li>• Auditors' key concerns, focus areas for current financial period and subsequent period, and views on impact of changes to the banks' organizational structure and management.</li> <li>• Changes in accounting standards and their impact to banks and implementation challenges.</li> <li>• Quality of management oversight on internal control.</li> <li>• Follow up on the BOT's supervisory concerns on banks.</li> </ul>  |

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|                                 | Other contacts with auditors via telecommunications or emails are made on an ad-hoc basis in relation to specific issues arisen, for example, when breaches of the laws or regulations and errors are found.   |
| <b>EC9</b>                      | The supervisor requires the external auditor, directly or through the bank, to report to the supervisor matters of material significance, for example failure to comply with the licensing criteria or breaches of banking or other laws, significant deficiencies and control weaknesses in the bank's financial reporting process or other matters that they believe are likely to be of material significance to the functions of the supervisor. Laws or regulations provide that auditors who make any such reports in good faith cannot be held liable for breach of a duty of confidentiality.  |
| Description and findings re EC9 | <p>Section 69 of FIBA and the BOT Notification No. FPG. 5/2558: Regulation on the Approval of an Auditor of a Financial Institutions, requires that external auditors directly report to the BOT the matters of non-compliance with relevant laws and regulations, significant deficiencies or weaknesses of internal controls and financial reporting process, and any findings and recommendations on operating performance and management issues. Section 70 of FIBA also requires auditors to promptly notify the BOT and submit relevant document or evidence, in case where the auditors have reasonable ground to suspect that there is a fraudulent act in any banks.</p> <p>Examples of issues reported by the external auditors are weakness of internal control of opening account at branch operation, error of interest rate record of syndicated loan, incorrectness of collateral valuation record in the collateral system, as well as deficient IT general control due to limited space of the bank's system to keep all transaction logs and insufficient password management of high-privileged user that might lead an unauthorized person to access the database to extract or manipulate sensitive data or program. On this, the BOT follows up on rectifications to ensure that the bank's internal control process is efficient.</p> <p>Given the statutory duty of disclosure by auditors under Section 154 of FIBA and the Accounting Professions Act B.E.2547 (2004), auditors who perform the duty in good faith are protected from being held liable for breach of confidentiality.</p> |
| <b>Additional criteria</b>      |  |
| <b>AC1</b>                      | The supervisor has the power to access external auditors' working papers, where necessary.   |
| Description and findings re AC1 | <p>Section 71 and 85 of FIBA empowers the BOT to request auditors to testify or provide information, accounting records, documents and other evidence relating to the business of banks within a specified period, where necessary.</p> <p>The BOT Notification No. FPG. 5/2558: Regulation on the Approval of an Auditor of a Financial Institutions also requires auditors to submit an audit program, working papers, and other documents as requested by the BOT.</p>  |

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| <b>Assessment of Principle 27</b> | Compliant   |
| Comments                          | <p>At the assessment date, the Thai accounting standards are generally in line with IFRS. The BOT's asset classification and provisioning standards for CL/PIL are more conservative standards for provisioning than IAS 39. Quantitative impact studies have revealed that the quantitative outcomes are closer to IFRS 9.</p> <p>In 2020, once TFRS 9 comes into force, the financial statements of Thai banks will be fully aligned with widely accepted international standards.</p>  |
| <b>Principle 28</b>               | <b>Disclosure and transparency.</b> The supervisor determines that banks and banking groups regularly publish information on a consolidated and, where appropriate, solo basis that is easily accessible and fairly reflects their financial condition, performance, risk exposures, risk management strategies, and corporate governance policies and processes.   |
| <b>Essential criteria</b>         |   |
| <b>EC1</b>                        | Laws, regulations or the supervisor require periodic public disclosures <sup>74</sup> of information by banks on a consolidated and, where appropriate, solo basis that adequately reflect the bank's true financial condition and performance, and adhere to standards promoting comparability, relevance, reliability, and timeliness of the information disclosed.   |
| Description and findings re EC1   | <p>Section 66 of FIBA requires that banks prepare their accounts to reflect the true and fair view of the financial position and performance in accordance with the Thai accounting standards (TASs/TFRSs) prescribed by the Federation of Accounting Professions (FAP) and the rules as prescribed by the BOT. The BOT has issued a set of notifications on accounting practices in line with the accounting standards to provide practical guidance for specific activities to promote understanding and comparability among banks' financial standards.</p> <p>Section 67 and 68 of FIBA and the BOT Notification No. FPG. 21/2558: Preparation and Announcement of Financial Statements require banks to prepare their financial statements, both on a consolidated and solo basis, for the first 6-month period of the financial year (locally incorporated banks only) and for the financial year (both locally incorporated banks and foreign bank branches) consistent with the format prescribed in the BOT notification. The financial statements must be audited by a qualified auditor and approved by the banks' directors. The audited financial statements, together with an auditor's report, shall be posted in a public area at the head office (locally incorporated bank and branches) as well as on the banks' website, in newspapers, and submitted to the BOT within 3 months after the first 6-month period-end and within 4 months after the financial year-end. In addition, foreign bank branches shall publish the financial statements of the foreign bank within 1 month after the head office's announcement. The notification also prescribes the format and minimum information to be disclosed.</p> |

<sup>74</sup> For the purposes of this Essential Criterion, the disclosure requirement may be found in applicable accounting, stock exchange listing, or other similar rules, instead of or in addition to directives issued by the supervisor.

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|                                 | <p>Banks that are listed on the SET are required to announce their financial statements for the 1st and the 3rd quarter not later than 45 days after quarter-end, and to announce their financial statements for the first-half and full financial year not later than 60 and 90 days, respectively after the period-end (Section 56 of the Securities and Exchange Act B.E. 2535 (1992)).</p> <p>The BOT Notification No. FPG. 23/2558 Preparation and Disclosure of the Summary Statement of Assets and Liabilities requires banks to prepare and disclose the summary statement of assets and liabilities that are certified by the managing director and accounting director on a monthly basis. The Notification also prescribes the format and minimum information to be disclose. Like the financial statements, the summary statement of assets and liabilities shall be exhibited in a public area at the head office and branches, on the banks' website and in a newspaper. The minimum information to be disclosed include capital adequacy ratio, NPL ratio, and off-balance sheet transactions.</p>   |
| <b>EC2</b>                      | <p>The supervisor determines that the required disclosures include both qualitative and quantitative information on a bank's financial performance, financial position, risk management strategies and practices, risk exposures, aggregate exposures to related parties, transactions with related parties, accounting policies, and basic business, management, governance and remuneration. The scope and content of information provided and the level of disaggregation and detail is commensurate with the risk profile and systemic importance of the bank.</p>  |
| Description and findings re EC2 | <p>As mentioned in EC1, the BOT Notification No. FPG. 21/2558: Preparation and announcement of financial statements prescribes the format and minimum information that banks must disclose in their statement of financial position, income, changes in equity, cash flows, and notes to the financial statement. The minimum information to be disclosed includes both qualitative and quantitative information, covering such areas as basic business activities and risk profile, risk management strategies and practices, significant risk exposures, capital adequacy ratio, basis for preparation of the financial statements, accounting policies, use of estimations and assumptions, transactions with related parties, and remuneration of the Board and senior management.</p> <p>For remuneration disclosure, the BOT Notification No. FPG.10/2561: Corporate governance of financial institutions requires that banks disclose the remuneration and benefits of directors on an individual basis and of the senior management as an aggregate amount to the annual general meeting and disclose their remuneration policy and various forms of remuneration in the annual report.</p> <p>In addition, by virtue of Section 31 of FIBA, the BOT has issued requirements for Pillar 3 disclosure as follows (i) the BOT Notification No. FPG. 4/2556: Disclosure Requirement on Capital Adequacy for a Commercial Bank; and (ii) the BOT Notification No. FPG. 5/2556: Disclosure Requirement on Capital Adequacy for a Financial Group. A bank and banking group are required to describe scope of application, capital structure and capital adequacy, risk exposures and risk assessment covering credit risk, market risk, operational risk, and interest rate risk in the banking book, and additional information, is consistent with the</p> |

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|                                 | <p>current Basel standards. The BOT also provides the sample of templates that banks may utilize for reporting quantitative information for the purpose of comparison among banks.</p> <p>As part of the ongoing supervision, the BOT supervisors will regularly review whether banks have disclosed accurate and complete information as set out by the regulations above, as well as evaluate whether the banks' Pillar 3 disclosure are sufficient for meaningful analysis across the banking industry.</p>   |
| <b>EC3</b>                      | Laws, regulations, or the supervisor require banks to disclose all material entities in the group structure.   |
| Description and findings re EC3 | <p>As mentioned in EC1, Section 66 of FIBA requires that banks prepare financial statements in compliance with TASs/TFRSs as prescribed by the FAP and the rules as prescribed by the BOT, whereas Section 67 and 68 of FIBA require locally-incorporated banks and foreign bank branches to prepare the financial statements according to the format and disclosure template as prescribed by the BOT. In this connection, TASs/TFRSs and the BOT prescribe the rules on disclosure of entities in the group structure as follows:</p> <ul style="list-style-type: none"> <li>• TFRS 12 (Disclosure of Interests in Other Entities) requires the disclosure of the entities' information that enable users of financial statements to evaluate and understand the components of business groups easily such as the name of related entities, ownership proportion, voting right and financial information summary of subsidiaries.</li> </ul> <p>The BOT Notification No. FPG 21/2558: Preparation and Announcement of Financial Statement requires banks to prepare the financial statements for both solo and consolidated basis. Information disclosure of the banks' related entities such as subsidiaries and associates must include names, nature of business, type of securities, ownership proportion and value of securities investment (cost and equity method).</p> |
| <b>EC4</b>                      | The supervisor or another government agency effectively reviews and enforces compliance with disclosure standards.   |
| Description and findings re EC4 | <p>The BOT supervisors review the accuracy and completeness of the disclosures such as financial position, operating performance and risk management of the banks as detailed in the audited financial statement. They also check whether they are disclosed on a timely basis. In addition, the BOT supervisors will check whether the disclosed information is presented in accordance with the regulations. In case that the banks do not comply with the regulations, the supervisors will inform the banks to make correction and might consider proposing the issue to a litigation process and fine the banks. Banks that fail to comply with the requirements issued under Section 31 of FIBA e.g., the BOT Notification on Pillar 3 are liable to a penalty charge in accordance with Section 128 of FIBA.</p> <p>Similarly, the SEC monitors and enforces whether financial statements including the disclosure of listed banks are in compliance with TASs/TFRSs and the SEC regulation. Section 274 of Securities and Exchange Act B.E. 2535 (1992) clearly states the penalty charge for the listed banks which fail to comply with these requirements. In addition, all corporations are required to prepare and submit the annual audited financial statements to</p>   |

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|                                 | the Department of Business Development, Ministry of Commerce, within one month after the date of financial statements' approval. Banks that fail to comply with the requirements shall be liable to a penalty charge as stated in Section 30 and 32 of the Accounting Act B.E. 2543 (2000).   |
| <b>EC5</b>                      | The supervisor or other relevant bodies regularly publishes information on the banking system in aggregate to facilitate public understanding of the banking system and the exercise of market discipline. Such information includes aggregate data on balance sheet indicators and statistical parameters that reflect the principal aspects of banks' operations (balance sheet structure, capital ratios, income earning capacity, and risk profiles).   |
| Description and findings re EC5 | <p>The BOT regularly publishes information on the Thai banking system on its website in the form of aggregate statistics, to facilitate understanding among market participants and the public. The information provided includes financial position and operating performance such as balance sheet, income statement, provision, financial ratios and capital ratios, etc.</p> <p>On an annual basis, the BOT publishes a (FSR) to help relevant stakeholders understand the risks in the Thai financial system, their transmission mechanisms and potential impacts on overall financial stability, so that they can proactively prepare for emerging risks. The FSR contains indicators for financial conditions as well as risks to Thailand's financial stability.</p> <p>Press releases on the summary conclusion of the Joint Meeting of the Monetary Policy Committee and the Financial Institutions Policy Committee to assess overall risks to Thailand's financial stability are also available twice a year.</p>   |
| <b>Additional criteria</b>      |   |
| <b>AC1</b>                      | The disclosure requirements imposed promote disclosure of information that will help in understanding a bank's risk exposures during a financial reporting period, for example on average exposures or turnover during the reporting period.  |
| Description and findings re AC1 | <p>As mentioned before, TASs/TFRSs, FIBA, the BOT Notification No. FPG. 21/2558: Preparation and announcement of financial statements and the BOT Notification No. FPG. 4/2556: Disclosure Requirement on Capital Adequacy for a Commercial Bank stipulate minimum disclosure requirement in the banks' financial statements and Pillar 3 report. These requirements entail information that enables users of the financial statements and Pillar 3 report to understand the banks' financial position and performance, including their risk exposures and concentration.</p> <p>For instance, the BOT Notification No. FPG. 4/2556: Disclosure Requirement on Capital Adequacy for a Commercial Bank requires banks to disclose their gross credit exposures and average gross credit exposures over the reporting period, broken down by major types of credit exposure. Banks are also required to disclose their geographic and industry distribution of credit exposures, as well as residual contractual maturity, all broken down by major types of credit exposure.</p> |

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| <b>Assessment of Principle 28</b> | Compliant  |
| <b>Comments</b>                   | None   |
| <b>Principle 29</b>               | <b>Abuse of financial services.</b> The supervisor determines that banks have adequate policies and processes, including strict customer due diligence (CDD) rules to promote high ethical and professional standards in the financial sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities. <sup>75</sup>   |
| <b>Essential criteria</b>         |  |
| <b>EC1</b>                        | Laws or regulations establish the duties, responsibilities and powers of the supervisor related to the supervision of banks' internal controls and enforcement of the relevant laws and regulations regarding criminal activities.   |
| Description and findings re EC1   | <p>The AMLO is designated as the AML/CFT supervisory authority since the amendment of the Anti-Money Laundering Act (AMLA)<sup>76</sup> in 2013. Sections 40(3/1) and (4) of AMLA prescribe AMLO as the main state authority entrusted with AML/CFT regulation and supervision to establish guidelines, examine, monitor and evaluate implementation of AML/CFT obligations in cooperation with sector-specific supervisors (BOT, SEC, and OIC).</p> <p>Financial institutions must comply with the regulations of both the BOT and other regulators, including AMLO's AML/CFT regulations.</p> <p><b>AML/CFT Regulation</b></p> <p>AMLO is the main agency responsible for issuing rules and regulations relating to AML/CFT for all reporting entities, including banks. Important regulations include:</p> <ul style="list-style-type: none"> <li>• <b>Reporting Requirements:</b> Section 13 of AMLA specifies transaction reporting to include STR requirements.</li> <li>• <b>CDD and Internal Controls requirements:</b> The Ministerial Regulation on Customer Due Diligence (MR CDD), Section 4 and Section 20/1 of AMLA, set out customer acceptance, risk assessment and management, CDD and ongoing monitoring requirements. The MR CDD also sets up requirements on correspondent banks, wire transfer, new technologies, reliance on 3<sup>rd</sup> party, internal controls, foreign branches and subsidiaries, high risk countries, tipping-off and confidentiality.</li> </ul> <p>The BOT's regulations and guidelines that relate to AML/CFT supervision comprise the BOT policy statement on Operational Risk Management, BOT Policy Statement Supervision of</p> |

<sup>75</sup> The Committee is aware that, in some jurisdictions, other authorities, such as a financial intelligence unit (FIU), rather than a banking supervisor, may have primary responsibility for assessing compliance with laws and regulations regarding criminal activities in banks, such as fraud, money laundering and the financing of terrorism. Thus, in the context of this Principle, "the supervisor" might refer to such other authorities, in particular in Essential Criteria 7, 8, and 10. In such jurisdictions, the banking supervisor cooperates with such authorities to achieve adherence with the criteria mentioned in this Principle.

<sup>76</sup> The Anti-Money Laundering Act B.E. 2542 and its amendment.

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|                                 | <p>Financial Institutions' Compliance (August 2008), and the BOT Policy Statement on Internal Audit (August 2008). In addition, the BOT may issue additional AML/CFT guidelines for transactions that are specific to banking products after discussions with AMLO. For example, as banks nowadays engage in more electronic deposits and electronic transactions, the BOT has issued Notification No. FPG. 7/2559: Regulations on Acceptance of Deposits or Money from Customers which requires financial institutions to undertake proper e-KYC to verify the customers who open accounts or transfer funds through electronic channels and to operate under an appropriate risk management framework.</p> <p><b>AML/CFT inspection authority</b></p> <p>AMLO's power to perform inspections is stated in Section 40(3)/1 and 40(4) of AMLA, whereas the BOT's inspection power is in Section 85 of FIBA. The BOT supervisors coordinate with AMLO, in accordance with the MOU of April 2015. If the BOT supervisors find that a bank's practices are not compliant with AMLO requirements they will inform AMLO, and AMLO may send its officers to further investigate or join with the BOT examination team. After that, AMLO will proceed under the law and its authority. However, if the practices are also not compliant with the BOT's guidelines, the BOT will consider legal proceeding and inform AMLO.</p> <p>BOT and AMLO coordinate the regulation and supervision process in a systemic and continuous manner by specifying a Contact Person to coordinate, discuss, and exchange information from the beginning of the examination process (Pre-Examination), during onsite examination, and after the examination. Such close cooperation helps ensure that financial institutions operate appropriately in compliance with the AML/CFT guidelines.</p> <p>Cooperation includes personnel development such as transfer of knowledge in regulation, inspection, financial institutions' operations, and new AML/CFT regulations. Meetings are held to exchange and discuss issues of concern found during onsite examination to support more effective AML/CFT supervision.</p> |
| <b>EC2</b>                      | <p>The supervisor determines that banks have adequate policies and processes that promote high ethical and professional standards and prevent the bank from being used, intentionally or unintentionally, for criminal activities. This includes the prevention and detection of criminal activity, and reporting of such suspected activities to the appropriate authorities.</p>   |
| Description and findings re EC2 | <p>AMLO issued requirements for banks to have adequate policies and procedures that promote high ethical and professional standards. The regulation and supervision by both AMLO and BOT ensure that financial institutions comply and manage AML/CFT risks appropriately and adequately.</p> <p>Under Article 48 of MR CDD and AMLO Notification: Guidelines for Issuing Policies and Procedures for Assessment and Management of Risk Related to Money Laundering and Terrorism Financing, financial institutions are required to have a plan for development and improvement of policies and procedures for ML/TF risk assessment and management that are approved by the Board or senior management. The content of such policies must</p>   |

include (i) accepting customers: the process to approve or deny establishing a business relationship with customers, proving customers presence, searching customer identification information, verification of information and due diligence; and (ii) risk management approach, which includes assessing level of risk of customers, reviewing transaction movements, risk assessment, and maintaining related documents. Furthermore, financial institutions must set and periodically update guidelines or manuals to support actual implementation on the above policies and procedures.

Section 13 of AMLA requires financial institutions to report cash transactions (CTRs), property related transactions (PTRs), wire transfer transactions, and STRs to AMLO.

The BOT considers AML/CFT to be part of operational risk and compliance risk assessment. The BOT prescribes the roles and responsibilities of the Board to outline and establish policies and procedures related to operational risk management and compliance policies with appropriate coverage, in line with volume and complexity of transactions and risk levels of the banks. Such policies and procedures must be subject to periodic reviews (the BOT Policy Statement on Operational Risk Management and the BOT Policy Statement on Supervision of Financial Institutions' Compliance (August 2008)).

#### **Ongoing monitoring and examination**

##### **AMLO:**

AMLO will review policies and procedures to ensure that financial institutions comply with the AML/CFT obligations and effectively implement AML/CFT policies and procedures, in commensurate with their risk profiles and activities. During offsite monitoring, AMLO will analyze STR data to find patterns in the transactions and communicate with financial institutions for more effective monitoring of STR. The STR statistic reports are also sent to the BOT for acknowledgment and analysis. Assessors were provided with details of STR indicators of risk and follow-up that led to identification of violations and issuance of communications to banks alerting them of the identified practices.

##### **BOT:**

The BOT conducts ongoing supervision of financial institutions throughout the year. During offsite monitoring, the BOT supervisors review policies, guidelines, and related reports as follows (i) reviewing policies and guidelines on AML/CFT for compliance with AMLO and BOT regulations; (ii) reviewing internal and external audit reports on AML/CFT issues; (iii) reviewing reports submitted to the BOT, such as meeting minutes of relevant committees, annual compliance report, and loss data report.

When BOT encounters AML/CFT issues, inquiries are made about the causes and possible solutions. BOT may consider the issues as a basis for further onsite examination or site visit. During onsite examinations on AML/CFT, BOT focuses on verifying actual practices against related policies and procedures by interviewing relevant staffs and randomly testing various transactions, such as checking for completeness of documents when opening an account, CDD on customers and respondent bank, checking customers with a list of

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|                                 | designated persons and politicians, reporting of cash transactions and suspicious transactions to AMLO, checking performance of related systems, and document retention. Assessors were provided with examples of issues identified during reviews and the corrective actions taken.  |
| <b>EC3</b>                      | In addition to reporting to the financial intelligence unit or other designated authorities, banks report to the banking supervisor suspicious activities and incidents of fraud when such activities/incidents are material to the safety, soundness or reputation of the bank. <sup>77</sup>  |
| Description and findings re EC3 | <p>Banks are required to report to the BOT significant events that may affect their operations, reputation, and any fraudulent transactions as follows:</p> <ul style="list-style-type: none"> <li>• In case of detection of noncompliance by a bank or its affiliates, the BOT must be notified, and the banks must report corrective actions within 15 days (The BOT Policy Statement on Supervision of Financial Institutions' Compliance (August 2008)).</li> <li>• If important issues are found that could severely damage the banks' operations and financial position, such as fraud, non-compliance with law, unusual incident report/transaction, inefficiency or weaknesses in the internal control systems, the banks must immediately report to document retention. Assessors were provided with examples of issues identified during reviews and the corrective actions taken.</li> <li>• Banks must report loss data caused by human error, system error, external event, internal and external fraud (The BOT policy statement on Operational Risk Management and BOT Letter seeking for financial institutions' cooperation in submitting loss data to the BOT).</li> </ul> <p>In addition to receiving information from banks, the BOT's ongoing supervision includes monitoring news from various sources both formal and informal, such as newspapers, social media, and various bank reports, as well as information obtained from coordination with various agencies such as statistics and analysis of key STR from AMLO. If there is any unusual transaction or event that may affect banks' stability or reputation, the BOT will order the banks to take immediate corrective actions to prevent any damage to the banks.</p> |
| <b>EC4</b>                      | If the supervisor becomes aware of any additional suspicious transactions, it informs the financial intelligence unit and, if applicable, other designated authority of such transactions. In addition, the supervisor, directly or indirectly, shares information related to suspected or actual criminal activities with relevant authorities.  |
| Description and findings re EC4 | <p>Section 154 (4) of FIBA gives the BOT power to disclose information for the benefit of domestic and foreign supervisors in performing their duties. BOT has an MOU with AMLO dated 10 April 2015 to exchange information and to provide mutual support.</p> <p>If supervisors find suspicious transactions, the BOT will inform relevant authorities such as the Financial Intelligence Unit at AMLO to investigate the suspicious transaction or illegal</p>  |

<sup>77</sup> Consistent with international standards, banks are to report suspicious activities involving cases of potential money laundering and the financing of terrorism to the relevant national centre, established either as an independent governmental authority or within an existing authority or authorities that serves as an FIU.

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|                                 | <p>action in a timely manner. If the BOT supervisors find that banks do not operate in accordance with AML/CFT laws, the BOT will coordinate with AMLO to impose legal actions in accordance with the law and regulations.</p> <p>When BOT uncovered Facebook pages that posted illegal purchase of bank account books and ATM cards, BOT coordinated with AMLO to take preventive measures by issuing statements through various news media to warn the public not to be misled by those pages as they may involve money laundering activities. Furthermore, the news/statements informed the public that sale of any savings books to others is illegal. The BOT and AMLO did a joint investigation and instructed all commercial banks to tighten their internal controls, and in the future, banks may be held accountable for negligence if it is discovered that ID cards of other individuals are used to open bank accounts.</p>   |
| <b>EC5</b>                      | <p>The supervisor determines that banks establish CDD policies and processes that are well documented and communicated to all relevant staff. The supervisor also determines that such policies and processes are integrated into the bank's overall risk management and there are appropriate steps to identify, assess, monitor, manage and mitigate risks of money laundering and the financing of terrorism with respect to customers, countries and regions, as well as to products, services, transactions and delivery channels on an ongoing basis. The CDD management program, on a group-wide basis, has as its essential elements:</p> <ul style="list-style-type: none"> <li>(a) A customer acceptance policy that identifies business relationships that the bank will not accept based on identified risks.</li> <li>(b) A customer identification, verification and due diligence programme on an ongoing basis; this encompasses verification of beneficial ownership, understanding the purpose and nature of the business relationship, and risk-based reviews to ensure that records are updated and relevant.</li> <li>(c) Policies and processes to monitor and recognize unusual or potentially suspicious transactions.</li> <li>(d) Enhanced due diligence on high-risk accounts (e.g., escalation to the bank's senior management level of decisions on entering into business relationships with these accounts or maintaining such relationships when an existing relationship becomes high-risk).</li> <li>(e) Enhanced due diligence on politically exposed persons (including, among other things, escalation to the bank's senior management level of decisions on entering into business relationships with these persons).</li> <li>(f) Clear rules on what records must be kept on CDD and individual transactions and their retention period. Such records have at least a five year retention period.</li> </ul> |
| Description and findings re EC5 | Following the BOT's AML/CFT examination guidelines and AMLO's regulations, supervisors determine whether:  |

- Banks have in place written CDD policies and procedures that are approved by the Board or senior management and are integrated into the banks' overall risk management practices (as required under Article 4 of MR CDD).
- Banks conduct ongoing assessment and management of ML/TF risk of their business using appropriate criteria, (in particular, customers' location/country, product & service, transaction type and service channel), implement risk mitigation measures, review CDD relevant information, and update accurate and complete risk assessment and management analysis which is sent to AMLO (as required under AMLO Notification Concerning Guidelines for Issuing Policy and Procedures for Assessment and Management of Risk Related to ML/TF).

BOT supervisors review whether policies are communicated to staff for their understanding (as required under Article 8 of MR CDD) and periodically reviewed and kept up-to-date (as required under Article 4 of MR CDD). Banks' foreign offices, branches or majority-owned subsidiaries must implement ML/TF risk management policies and apply CDD measures as appropriate to their business category (as required under Article 49 of MR CDD).

Supervisors assess banks' CDD policies and procedures according to AMLO Notification on policies and procedures as follows:

- (a) Review whether the customer acceptance policies are set and procedures for approving business relationships establishment or rejection with the customer adhere to the guidelines on customer identification, verification, and due diligence under anti-money laundering law.
- (b) Review whether CDD policies are adequate to facilitate effective due diligence and risk management for all customers, taking into consideration risk factors as prescribed by law and whether regular risk management is performed throughout the business relationship period. Risk management starts from verification to ensure that the customer is not listed for terrorism involvement by the United Nations or AMLO and includes risk classification, transaction monitoring, due diligence, and risk review until the termination of business relationship. According to Article 19 of MR CDD, banks' CDD program must include:
  - Identifying the customer and verifying the customer's identity using documents, data or information from publicly accessible, reliable sources in addition to those obtained from the customer.
  - Identifying the ultimate beneficial owner and taking appropriate measures to verify the identity of the ultimate beneficial owner.
  - Checking customer information and that of the ultimate beneficial owner against the list of persons, groups of persons, legal persons, or entities designated under the resolution of the UN Security Council or notification of terrorists or person designated under the [Counter-Terrorism and Proliferation Financing Act](#) (CTPF Act).

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|  | <ul style="list-style-type: none"> <li>• Obtaining information from the customer regarding the purpose and intended nature of the business relationship.</li> <li>• Checking financial movements, transactions, and information about the conduct of business relationship and transactions undertaken throughout the course of the relationship to ensure that transactions conducted are consistent with the purpose of the business relationship or as stated by the customer, the business and risk profile and other available information on the customer, as well as checking to ensure that data on the customer especially about the source of funds are up-to-date.</li> </ul> <p>(c) Review whether banks have policies and procedures for transaction monitoring and suspicious transaction reporting. Such policies and procedures must specify that when banks suspect there is a transaction involving money laundering or terrorist financing, the banks shall take special care in performing the customer due diligence process. But, if there are reasonable grounds to believe that performing the customer due diligence process will alert the customer or potential customer, they may choose not to pursue that process and file a suspicious transaction report to AMLO (as required under Article 8 of MR CDD). In addition, banks must report any suspicious transaction to AMLO when there are reasonable grounds to believe that a transaction is conducted to avoid compliance of AMLA or a transaction is connected or possibly connected with a warrant to establish an offense or terrorist financing offense, notwithstanding the transaction being single or multiple and including an attempt to conduct such a transaction (as required under Section 13(3) and 14 of AMLA).</p> <p>(d) Review whether banks have established categories of CDD measures to be performed for each customer consistent with his/her ML/TF risk and the measures stated in Article 15 of MR CDD include but not limited to:</p> <ul style="list-style-type: none"> <li>• Obtaining additional information or evidence on customer's business, sources of funds/income, intended nature of the relationship, or reasons for intended/actual transactions.</li> <li>• Obtaining the approval of senior management, including approval of the results verified from the CDD process.</li> <li>• Conducting enhanced examination and monitoring of financial movements for high-risk customers, by increasing the frequency of transaction monitoring and the frequency of examination and verification of customer's or beneficial owner's identity. If the risks are lower, simplified CDD measures may be applied.</li> </ul> <p>(e) Review whether banks have adequate policies, procedures and processes to identify both domestic and foreign PEPs. The definition of PEPs must encompass family members or those closely associated with PEPs and be in line with the requirements under AMLO notification concerning PEPs. Moreover, commencement or continuity of the business relationship with PEPs must obtain approval from the banks' senior management (as required under Article 15 of MR CDD).</p> |
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|                                 | <p>(f) Review the document retention policy which require banks to retain information on customer identification records and due diligence records for a period of five and ten years, respectively, from the date the account was closed or relationship was terminated (as required under Section 22 (1) of the AMLA). Supervisors will evaluate if banks' policy requires for CDD related records to be sufficient to permit reconstruction of individual transactions for the purpose of investigations and prosecutions, and will check whether CDD information is kept accurate, complete, safe, reliable, and retrievable and able to be submitted upon request by the authorities (as required under Article 6–8 of the AMLB Ordinance on Record Keeping (2016)).</p>   |
| <b>EC6</b>                      | <p>The supervisor determines that banks have in addition to normal due diligence, specific policies and processes regarding correspondent banking. Such policies and processes include:</p> <ul style="list-style-type: none"> <li>• Gathering sufficient information about their respondent banks to understand fully the nature of their business and customer base, and how they are supervised.</li> <li>• Not establishing or continuing correspondent relationships with those that do not have adequate controls against criminal activities or that are not effectively supervised by the relevant authorities, or with those banks that are considered to be shell banks.</li> </ul>   |
| Description and findings re EC6 | <p>As part of ongoing supervision, the BOT supervisors will review and assess whether banks have policies and procedures relating to correspondent relationships that address:</p> <ul style="list-style-type: none"> <li>• Collecting information when entering into a relationship with a respondent bank to perform CDD, including nature of the business, target customers, quality of banking supervision, negative record in relation to AML/CFT evaluation or punishment under AML/CFT law (as required under AMLO Guidelines on Customer Due Diligence under AML for the Banking Sector). Identification of the ultimate beneficial owners (“UBOs”) and verify customer and UBO data against the UNSC designated lists, as well as verify trustworthiness of the respondent bank and assess reliability of agencies responsible for the respondent bank’s AML/CFT supervision (as required under Article 43 of MR CDD).</li> <li>• Refusing to enter into a business relationship or conducting a transaction if a respondent bank does not have in place effective AML/CFT controls or the respondent bank’s UBOs are involved in ML/TF activities, and additional due diligence measures are required when establishing the respondent relationship (Article 44 of MR CDD). Prohibiting entering a relationship with a shell bank or an authorized respondent bank which is not physically located within the authorized country or physically located in the authorized country but not conducting business in the location that it is supervised (Article 42 of MR CDD).</li> </ul> |
| <b>EC7</b>                      | <p>The supervisor determines that banks have sufficient controls and systems to prevent, identify and report potential abuses of financial services, including money laundering and the financing of terrorism.</p>   |

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| Description and findings re EC7 | <p>The BOT supervisors monitor and assess whether banks effectively prevent, identify, and report irregularities related to money laundering and financial support for terrorism. The BOT supervisors assess whether the Board performs its duties of setting of policies, strategies, and planning. Subsequently, BOT evaluates policy implementation, starting from process of issuing guidelines and rules, operating practice, and communication with all employees to understand and realize the importance of an effective internal control system. BOT supervisors ensure that banks' operational risk management system is consistent with the banks' size and business complexity, with loss data collection system in place to be beneficial for operational risk management, which includes AML/CFT risk.</p> <p>During onsite examination of AML/CFT, supervisors randomly test actual practice against policies and regulations of the BOT and relevant authorities to evaluate efficiency of the internal control system. For instance, screening lists of customers in various systems including Worldcheck, SAS, PRIME filter, and OTL and suspicious transaction monitoring in NorKom and RisqVu. On this, banks are required to regularly review the STR rules and completeness of Loss Data Reporting that relates to employee fraud and use of banks money laundering channel. In addition, supervisors review AML/CFT issues in the internal audit, compliance, and operational risk management reports. Supervisors continuously follow up on news, customer complaints, and information received from other agencies, such as AMLO, SEC, and OIC.</p> <p>AMLO requires that banks regularly assess and manage money laundering and terrorist financing risk (AML/CFT Self-Assessment) by considering ML/TF risk factors such as risks arising from customer, geography, products, services, nature of transaction, and service channels. AMLO reviews reasonableness of the assessment factors and results of the AML/CFT risk management assessment. (AMLO Guidelines for Issuing Policies and Procedures for Assessment and Management of Risk Related to Money Laundering and Terrorist Financing for Financial institutions and Businesses and Professions).</p> |
| <b>EC8</b>                      | The supervisor has adequate powers to take action against a bank that does not comply with its obligations related to relevant laws and regulations regarding criminal activities.  |
| Description and findings re EC8 | <p>Section 40(3/1) of AMLA empowers AMLO to enforce preventive measures on financial institutions or individuals, including transaction reporting, conducting customer due diligence, and recording information. If a financial institution or individual does not comply with these preventive measures related to criminal activities contained in AMLA and any regulations issued pursuant to it, AMLO may impose civil and criminal penalties, levy fines, and/or take legal actions for imprisonment (Section 62–64 of AMLA). A fine may also be levied on any financial institution that fails to report transactions required by AMLA; any individual giving false statement or concealing facts may face imprisonment.</p> <p>Under Section 23–28 of CTPF Act, AMLO has the power to impose civil and/or criminal sanctions if any reporting entity or individual fails to comply with Section 8 or Section 17 of the Act, or who act in a way to commit a terrorist act.</p>   |

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|                                 | <p>The BOT, as a prudential regulator, directly supervises and monitors financial institutions. The BOT has the power to impose penalties on any financial institution that fails to comply with FIBA, BOT notifications, regulations, or rules prescribed under the Act (Section 125 of FIBA). BOT can levy a fine on any bank that fails to comply with BOT Notification No. FPG. 7/2559: Regulations on Acceptance of Deposits or Money from Customers, where such bank will be liable for a fine not exceeding THB 500,000 and a further fine not exceeding 5,000 Baht per day until the rectification has been made. Additionally, the BOT will implement preventive measures by requiring prompt corrections for any deficiencies related to internal audit and compliance before a violation or damage occurs. Besides the punishment in the form of fines, the BOT can take other actions such as removal of directors or authorized persons and proposing to the MOF revoking the bank license as well as requiring publishing information disclosing fines or BOT actions for violation or non-compliance with the BOT Notification No. SVG. 1/2561 Re: Regulations on Market Conduct on its website and such information should be the same as the disclosure of the BOT.</p> |
| <b>EC9</b>                      | <p>The supervisor determines that banks have:</p> <ul style="list-style-type: none"> <li>(a) Requirements for internal audit and/or external experts<sup>78</sup> to independently evaluate the relevant risk management policies, processes and controls. The supervisor has access to their reports.</li> <li>(b) Established policies and processes to designate compliance officers at the banks' management level, and appoint a relevant dedicated officer to whom potential abuses of the banks' financial services (including suspicious transactions) are reported.</li> <li>(c) Adequate screening policies and processes to ensure high ethical and professional standards when hiring staff; or when entering into an agency or outsourcing relationship.</li> <li>(d) Ongoing training programs for their staff, including on CDD and methods to monitor and detect criminal and suspicious activities.</li> </ul>  |
| Description and findings re EC9 | <p>Under Article 48 of MR CDD, financial institutions must have (i) an independent internal audit mechanism for monitoring and complying with the anti-money laundering law, (ii) procedures for recruiting staff and ongoing staff training to operate under effective AML/CFT policies or measures, and (iii) an executive officer to supervise compliance under the AML law.</p> <p>AMLO reviews the policies and procedures of financial institutions during offsite monitoring. During onsite inspection, AMLO officials conduct interviews with the management and relevant staff, including HR officer to evaluate implementation of the AML/CFT policies and procedures. AMLO also reviews the internal audit reports and</p>  |

<sup>78</sup> These could be external auditors or other qualified parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions.

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|             | <p>external auditor's reports regarding AML/CFT issues. Moreover, staff training programs are reviewed to ensure that they follow AML/CFT requirements (Section 21/3 AMLA and Article 6 of Ordinance on Organizing Training Dated 15 March 2016 require that the reporting entities under Section 13 and Section 16 are trained for a period of not less than 18 hours per year).</p> <p>As part of ongoing supervision, the BOT monitors performance of banks' internal audit and compliance from internal audit reports, data received from other regulators, and other relevant information. Onsite supervisors will assess quality and performance of the banks' compliance and internal audit as follows:</p> <ul style="list-style-type: none"> <li>(a) Review internal audit related to suitability of the scope of AML/CFT audit as well as independence of the internal audit unit. The BOT supervisors will check to ensure that an assessment is made on the adequacy of personnel, systems, and internal controls in preventing, inspecting, and reporting of noncompliance to regulators. Internal auditors should have an understanding of AML/CFT audit, equivalent to or greater than Compliance and have access to information for independent verification.</li> <li>(b) Evaluate roles of the Board and senior management to determine their involvement in setting policies, defining independent oversight function units from the business unit, determining the role of Compliance, assess sufficiency and appropriateness of the policies and procedures of internal audit function, and report to the Audit Committee in a timely manner.</li> <li>(c) Review outsourced activities; banks are required to have criteria for selecting an appropriate service provider before making or renewing the contract and are required to review information about the outsource service provider, such as technical ability, expertise and operational experience, financial stability, and business reputation (the BOT Notification No. FPG. 8/2557: Guidelines on Outsourcing of Financial Institutions). The BOT expects banks to screen the names of employees of agencies providing services and information on the agency fiscal position throughout their relationship to ensure that there is no financial support for terrorism, including donations to various charities outside the organization.</li> <li>(b) Review the communication process and training in banks and consider whether the banks have appropriate communication procedures to ensure that employees are effectively informed and adequately trained about AML/CFT and CDD matters including tracking and detecting suspicious transactions and preparation for handling emergencies.</li> </ul> <p>In 2016, the BOT conducted target exams on Compliance &amp; Internal Audit of all Thai banks to evaluate the practices of internal audit and compliance with relevant regulations and best practices. The findings were communicated with the banks along with the issues that should be improved for individual banks.</p> |
| <b>EC10</b> | <p>The supervisor determines that banks have and follow clear policies and processes for staff to report any problems related to the abuse of the banks' financial services to either local management or the relevant dedicated officer or to both. The supervisor also determines</p>  |

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|                                  | <p>that banks have and utilize adequate management information systems to provide the banks' Boards, management and the dedicated officers with timely and appropriate information on such activities.</p>   |
| Description and findings re EC10 | <p>Article 48 of MR CDD requires banks to appoint a compliance officer to supervise observance of AML laws and regulation. During onsite inspections, AMLO will evaluate bank reporting process to ensure that it has adequately utilized the MIS to provide the Board, senior management and relevant officers with timely and appropriate information on such activities, including the escalation process of suspicious activities for senior management approval to file STR to AMLO in a timely manner.</p> <p>During onsite examination, supervisors review AML/CFT policies, framework and reports to determine whether the bank is compliant with relevant laws and regulations. The BOT supervisors will also evaluate adequacy and effectiveness of operational risk management on prevention of money laundering and terrorist financing. Supervisors determine whether the management information system provides timely, accurate, and adequate information to enable them to identify suspicious transactions. Supervisors also assess adequacy of reports to senior management on AML/CFT compliance framework, including number of STRs reported, significant weaknesses in AML/CFT controls, new IT platforms introduced to monitor suspicious transactions, significant changes in regulations, and other pertinent risk issues.</p> <p>As part of ongoing supervision, the BOT supervisors will review adequacy of reporting by the Internal Audit Department to the Audit Committee, the Board and CEO through reporting lines to notify any irregularities that may cause serious damage to the banks' financial status and performance. These include, for example, unlawful acts, abnormal transactions, errors, inefficiencies, losses, conflicts of interest, and vulnerabilities that could lead to internal control failures. The BOT supervisors will assess the process and quality of compliance reports relating to compliance risk assessment, root cause analysis and corrective measures for non-compliance issues to ensure that banks have effective and efficient reporting process to the Board and senior management for taking preventive and corrective actions in a timely manner.</p> |
| <b>EC11</b>                      | <p>Laws provide that a member of a bank's staff who reports suspicious activity in good faith either internally or directly to the relevant authority cannot be held liable.</p>   |
| Description and findings re EC11 | <p>According to Section 19 of AMLA, if a report submitted in accordance Section 13-16 of AMLA in good faith by an individual to any supervisory authority appears to cause injury to any person, the reporter shall not be responsible for any damage arising out of the disclosure. Section 11 of CTPF Act stipulates that a person shall be excluded from liability for the loss or claim resulting from performing the action under Section 8, unless gross negligence is proven. Furthermore, Section 155 (4) of FIBA stipulates that any person that acquires confidential information because of being an officer or manager shall not disclose or reveal such information, except to meet regulatory requirements.</p>  |

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| <b>EC12</b>                      | The supervisor, directly or indirectly, cooperates with the relevant domestic and foreign financial sector supervisory authorities or shares with them information related to suspected or actual criminal activities where this information is for supervisory purposes.  |
| Description and findings re EC12 | <p>AMLO has been designated as the AML/CFT supervisory authority and has continuously cooperated with relevant domestic and foreign authorities under AMLA, related laws, and MOUs with other counterparties. Under Section 24 of AMLA, there are 6 Qualified Expert Committees and 9 Ex-officio Committees which include representatives from the MOF, MFA, BOT, SEC, and other supervisory authorities. Section 25 of AMLA gives these Committees power to suggest measures, opinions and recommendations related to AML/CFT.</p> <p>Under AMLA, the 9 Sub-Committees are set up for several purposes such as policy, law enforcement, supervision, and other AML/CFT issues. Meetings are arranged at least quarterly. The Committee for Consideration of the Results of Supervision is set up to evaluate the results from AML/CFT examinations conducted.</p> <p>In addition, Section 40 (3) of AMLA Act prescribes that AMLO has the authority to coordinate or exchange any information with international agencies concerning AML/CFT. The International Cooperation Division of AMLO is responsible for the coordination and exchange of information with foreign agencies.</p> <p>Under Section 154 (4) of FIBA, the BOT may disclose or share any information with authorities within the country and with foreign countries for regulating financial institutions or financial businesses. According to the MOU between the BOT and AMLO dated April 10, 2015, the BOT may share and exchange any examination information during pre-examination, onsite examination and examination findings and notices. The BOT and AMLO shall discuss, share any information or follow-up on issues from onsite examinations related to criminal activities and include these issues in the scope of the examinations. This will continuously encourage the safety and soundness of the financial institutions, especially on AML/CFT issues. The BOT collaborates with AMLO and other supervisory authorities through several channels, such as the BOT and AMLO semi-annual information sharing meetings or e-mail follow-ups on relevant AML/CFT issues found during ongoing monitoring and examination.</p> <p>Additionally, bilateral cross-border supervisory coordination arrangements in the form of Exchange letters and MOUs are made. Since 2006, the BOT has collaborated with other supervisors in countries where Thai commercial banks conduct cross-border transactions. An MOU to exchange supervisory information provides a basis for supervisory cooperation during licensing and ongoing supervision process, which helps to strengthen bilateral collaboration in safeguarding resilience of the banking system and encourage cooperation to promote governance in the banking system, both domestic and overseas. This includes information sharing and supervisory coordination related to AML/CFT. Meanwhile, the principle of confidentiality of information exchanged is emphasized under such arrangements. Currently, the BOT has signed MOUs with several supervisory authorities, including FSA Japan, CBRC China, HKMA Hong Kong, State Bank of Vietnam, MAS</p> |

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|                                  | Singapore, National Bank of Cambodia, Bank of India, Bank Negara Malaysia, and the Banko Sentral ng Pilipinas.  |
| <b>EC13</b>                      | Unless done by another authority, the supervisor has in-house resources with specialist expertise for addressing criminal activities. In this case, the supervisor regularly provides information on risks of money laundering and the financing of terrorism to the banks.   |
| Description and findings re EC13 | <p>AMLO has been designated as the AML/CFT main supervisory authority since the amendment of AMLA in 2013. AMLO has its own in-house investigative and intelligence resource divisions and specialists, namely:</p> <ul style="list-style-type: none"> <li>• Financial Intelligence Division whose task is to conduct financial investigation and analysis of suspicious activities.</li> <li>• Litigation Division which is responsible for freezing, seizing, and forfeiting assets under AMLA.</li> <li>• Supervision and Examination Division.</li> </ul> <p>AMLO officials act as AML/CFT specialists. They have both direct and indirect experience in AML/CFT through supervising and examining financial institutions as well as evaluating the risks from anti-money laundering and financial terrorism. They conduct offsite and onsite examinations following the risk-based approach. Furthermore, AMLO conducts regular in-house training to ensure that specialists have the expertise to address criminal activities. AMLO officials attend training and workshops on financial investigation and crime suppression both domestically and internationally. AMLO also publishes the National Risk Assessment (NRA) on the AMLO website and shares the results with relevant parties including the reporting entities. Furthermore, AMLO conducts seminars to share ML/TF risks regularly, as well as publications on emerging ML trends, strategic analysis, and typology report, including red flag indicators to reporting entities.</p> <p>BOT conducts in-house training to update supervisors' knowledge and ensure that specialists have the expertise to address criminal activities. The BOT hosts seminars for both domestic and international agencies, such as the seminar on "Compliance with AMLA" (AMLO), "International Best Practices on Supervision of AML/CFT" (AMLO), "Workshop on AML/CFT National Strategic Planning" (AMLO), "Cyber Crime &amp; Security" (BOT), "Combating Money Laundering" (Deutsche Bundesbank), "AML/CFT Regulatory &amp; Supervisory Workshop" (APG), "FATF/APG Joint Experts' Meeting on Typologies", and "APG Technical Seminars" (FATF/APG), etc.</p> <p>The Supervision Group has set up the AML/CFT working group consisting of the representatives from each department to develop AML/CFT examination guidance and to effectively coordinate AML/CFT examinations within the BOT and other agencies. Moreover, there are AML/CFT specialist supervisors who have in-depth experience in AML/CFT examination and undergone the AML/CFT intensive courses, at the same time, all supervisors would be continuously communicated and regularly trained on AML/CFT matters from both in-house and public agencies.</p> |

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|                                   | <p>The BOT and AMLO hold information sharing meetings to follow-up on issues, share AML/CFT knowledge, and discuss examination guidelines. Regular meetings are held at least twice a year, along with ad hoc meetings to enable more effective and appropriate examination and supervision. For instance, the BOT held a knowledge sharing session on the topic of "Knowledge about laws and regulations related to AML/CFT" in 2017 to inform/update AMLO about the BOT's examination guidelines and exchange findings on AML/CFT risk assessment. The collaboration between the BOT and AMLO on AML/CFT supervision helps to enhance effectiveness of AML/CFT preventive measures of banks and supports them to meet a high level of AML/CFT framework and standards.</p> <p>The BOT shares information with the banks on the risks of ML/FT found from onsite examinations and ongoing supervision through notices and the examination report. Indirectly, the BOT Governor or senior executive may give announcements to the public regarding any concerns/risks in the banking system to inform banks' directors and management about the concerns/risks to raise awareness and give recommendations to prevent/manage the risks. For instance, in June 2017, the Governor gave a speech about the Role of FinTech in the Thai financial system to inform banks of significant changes with regards to FinTech, upcoming risks, and preventive measures for Thai banks.</p> |
| <b>Assessment of Principle 29</b> | Largely Compliant   |
| Comments                          | <p>Substantial resources are applied to AML/CFT work, and an AML/CFT strategy (2017–2021) to continue enhancing supervision has been adopted. In 2017 Thailand underwent a MER by the Asia Pacific Group on Money Laundering. The MER identified gaps in the AML/CFT standards. For example, identification of beneficial owner is not always required to be identified, there is no explicit requirement for PEP source of wealth to be identified, and originator and beneficiary information for wire transfers is not required for transactions originated by non-customers of the bank. Amendments to AMLA and Ministerial Regulation are in-process that address these issues.</p>  |

## SUMMARY COMPLIANCE WITH THE BASEL CORE PRINCIPLES

| Table 2. Thailand: Summary Compliance with the Basel Core Principles |       |   |
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| Core Principle   | Grade | Comments  |
| 1. Responsibilities, objectives, and powers                          | C     | <p>The BOT has objectives and the necessary legal powers to conduct ongoing supervision, address compliance with laws and undertake timely corrective actions to address safety and soundness concerns for banks. In the areas where the MOF decides based on recommendation of the BOT (licensing of a bank, revoking a license and approving non-Thai shareholders and directors), there have been no instances where the MOF has not followed the BOT's recommendations.</p> <p>Although, the BOT has been delegated statutory power in supervising SFIs according to section 120 of FIBA and three supervisory authorities have agreed to develop framework for responsibilities of each party, there still have a mix of roles in practice. Furthermore, the BOT is empowered to issue SFIs' regulations with approval of the MOF but not corresponding powers to take corrective action against problems in SFIs. This incomplete transfer of responsibilities exposes the BOT to reputational risk especially for the case that SFI encounter the problem. This is resulting from a misperception of its supervisory role in the banking system since the BOT may be perceived as having full supervisory powers over the SFIs.</p> <p>Thai banks have not challenged the non-binding nature of the BOT's guidance and have complied with all recommendations imposed by the BOT examiners based on this guidance. Banks also expressed overall satisfaction to the assessors with the consultation process and timelines.</p> |

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| <p>2. Independence, accountability, resourcing and legal protection for supervisors</p> | <p>LC</p> | <p>The process for the appointment and removal of the governor and the members of the FIPC is transparent, and the BOT has adequate resources for the conduct of effective supervision and appropriate training plans. Discussions with supervisors and banks confirmed that BOT staff has credibility based on their professionalism and integrity. The BOT regularly benchmarks its salary scales to the market and has sufficient funding to cover overseas inspections and training. The legal framework for banking supervision includes adequate legal protection for the supervisors.</p> <p>While the assessors have not observed any objective evidence of lack of independence of the BOT, there are some factors that have the potential to interfere with the BOT's operational independence:</p> <ul style="list-style-type: none"> <li>- First, the permanent presence of the Director General of the Fiscal Policy office (FPO) on the FIPC is not in accordance with international good practice. The FIPC is a decision-making body. The BOT clarified that the presence of the Director General of the FPO contributes to checks and balances and facilitates BOT's actions during a crisis. The assessors agree that there is an obligation to explain to the government the impact of the BOT's activities (external accountability), but there are other mechanisms than participation in a decision-making body to achieve this objective. A well-designed system of accountability supports independence. The assessors consider that the membership of the FIPC could be expanded during crisis situations or if the FPO needs to be involved, or other coordinating structures could be used.</li> <li>- Second, the presence of the Secretary-General of the Insurance Commission and the Secretary-General of the Securities and Exchange on the FIPC, and their participation in decisions also compromises operational independence and dilutes accountability. The</li> </ul> |
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|  |  | <p>assessors understand that this was decided to ensure better coordination between the agencies. Yet, the direct involvement of officials from other agencies in BoT decision making is not good practice.</p> <ul style="list-style-type: none"> <li>- Third, Section 42 of the BOT Act affects the independence of the BOT, risks political interference in the BOT and implies government underwriting of ELA. It requires that when a financial institution faces a liquidity problem, which may seriously endanger the stability of the economic and monetary system, the BOT, after approval of the FIPC and the Cabinet may approve the granting of a loan or financial assistance to that financial institution. Section 42 is likely to be used if a D-SIB requires ELA.</li> <li>- Fourth, the BOT needs to inform the Minister in case Prompt Preventive Action or Prompt Corrective Action is taken. (see Principle 11).</li> <li>- Finally, the BOT has had negative net worth for several years; the assessors confirm that the BOT has continued to adequately discharge its duties for many years despite its weak financial position. Nevertheless, a weak financial position further exacerbates the risks to the BOT's, reputation, independence and vulnerability to political interference outlined above.</li> </ul> <p>The BOT also supervises SFIs. There are eight SFIs in Thailand, each with a different mandate assigned by its founding law. Four SFIs are deposit taking institutions and three comply with the definition of a commercial bank in accordance with FIBA. The SFIs are regulated and supervised by the BOT with extensive involvement of the State Enterprise Policy Office (SEPO) as owner and the Fiscal Policy Office (FPO) as policy maker. This involvement affects the independence of the BOT in the regulation and supervision of the SFIs. It also poses a reputational risk, as explained in CP 1.</p> |
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|                                      |    | <p>In terms of governance, the SFIs are supervised by a separate department, the Specialized Financial Institutions Supervision and Examination Department, but this department reports to the Assistant Governor of the Supervision Group, just like the commercial bank supervision departments. The assessors were also informed that the supervisory governance and decision-making for commercial banks and SFIs is the same. In other words, the members of the Financial Institution Examination Development Sub Committee and the Financial Institutions Policy subcommittee must decide both on commercial banks and SFIs regulatory and supervisory actions, considering their divergent degrees of independence. It is not unlikely that contamination seeps through and that matters arising in the SFI area spill over to the commercial bank decision making process, particularly because some commercial banks also have state ownership.</p> |
| 3. Cooperation and collaboration     | C  | <p>The assessors discussed domestic and cross border cooperation with the relevant supervisors. They reviewed the MOUs as well as agendas of supervisory colleges held. They obtained evidence that cooperation between and information sharing with domestic and international authorities is effective.</p>   |
| 4. Permissible activities            | LC | <p>Law lists permissible activities and bank definition. Through subsidiaries, banks may issue securities and insurance products. Supervision of deposit-taking SFIs under commercial banking standards is undergoing implementation.</p>   |
| 5. Licensing criteria                | C  | <p>Applications for new banks are only accepted in pre-determined periods. Application process well documented.</p>   |
| 6. Transfer of significant ownership | C  | <p>Since 2017 two significant ownership change applications were approved and two denied.</p>   |

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| 7. Major acquisitions                                | C  | Cases reviewed denote that most applications are routine as they involve investing in financial business only and many are auxiliary functions such as Fintech subsidiaries. One denial involved an application to establish and FBG, but the applicant was unable to provide sound reasoning for the establishment and prove of sufficient financial resources. |
| 8. Supervisory approach                              | C  | The BOT has established a supervisory process that supports the risk-based supervisory approach. Further linking of benchmarks, and analysis results to scope of supervisory activities for individual banks would continue development of risk-focused supervision.   |
| 9. Supervisory techniques and tools                  | C  | Offsite and onsite reviews are performed by the same supervisory teams under a relationship manager and results in ongoing monitoring.   |
| 10. Supervisory reporting                            | C  | BOT collects financial reports on a regular basis and has authority to collect supplemental information as warranted.  |
| 11. Corrective and sanctioning powers of supervisors | LC | Internal enforcement action guideline should be amended to expand circumstances for applying the Chapter 5 measures.   |
| 12. Consolidated supervision                         | C  | The BOT supervises FBGs, including holding companies, on a consolidated basis. BOT can request all information required for proper supervision and performs fit-and-proper on significant shareholders, directors and management.  |
| 13. Home-host relationships                          | C  | As a host supervisor the BOT has attended four supervisory colleges in 2017 and two in 2018. As a home supervisor the BOT has organized one supervisory college in 2018 and two in 2016. In view of the small exposure of the foreign operations, this is considered adequate.   |
| 14. Corporate governance                             | C  | The assessors reviewed several inspection reports, corrective orders, recommendations, and supporting supervisory documents and determined that the BOT comprehensively assesses if financial institutions have robust corporate governance  |

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|  | <p>policies and processes that are commensurate with the risk profile and systemic importance of the financial institution.</p> <p>The corpus of regulations, guidelines, and the supervisory manual in corporate governance is comprehensive , enforceable, and in line with international good practice. At the assessment date, the BOT notification with regards to corporate governance of financial institutions at solo basis and consolidated basis were effective since June 2018 and April 2017 respectively.</p> <p>The BOT has issued a new notification on “Regulations on Risk Supervision of Financial Business Group” which will be effective in June 2019. That notification aims to further strengthen corporate governance of financial institutions on a consolidated basis with the objective to strengthen oversight of the group’s governance framework, the Board’s annual performance assessment, remuneration structure, management of conflict of interests, and effective control, oversight and audit mechanisms. Moreover, the regulation introduces a Board performance assessment.</p> <p>Also, the following requirements of the BOT Notification No FPG 10/2561 “Corporate Governance of Financial Institutions” are still subject to transitional and grandfathering measures and are not yet enforced at the assessment date.</p> <ul style="list-style-type: none"> <li>• The 9-year renewal requirement of independent directors will become effective on 1 May 2022.</li> <li>• Independent directors who have been appointed before Clause 5.2.3. came in to force can are grandfathered until May 1, 2022. Seventy four percent of directors of locally incorporated banks are already in compliance with this requirement. Clause 5.2.3. covers the 9-year director renewal period. It also covers the 2-year waiting period for taking up a position as independent director after being</li> </ul> |
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|                                    |          | <p>discharged from a non-independent director, manager, person with power of management, advisor, or staff position from the relevant financial institution. Finally, Clause 5.2.4 (2). limits the number of appointments as director of companies listed on the domestic and overseas stock exchanges to 5 for directors, managers, persons with power of management and advisors. All directors are already in compliance with this requirement.</p> <ul style="list-style-type: none"> <li>• The requirement for a risk oversight committee in accordance with Clause 5.4.2. comes into effect on May 1, 2019. Five out of 15 domestic banks have already set up a risk oversight committee. Two banks will establish 1 by December 2018 and the remaining 8 banks will be in full compliance by May 2019.</li> </ul> <p>The 2-year waiting period after being discharged of their functions for non independent directors, managers, persons with power of management, advisors or staff members of financial institutions before they can be appointed as independent directors is at the shorter end of the spectrum.</p> <p>The pilot on behavior &amp; culture (B&amp;C) assessment in four large financial institutions is at the cutting edge of good practice.</p> |
| <p>15. Risk management process</p> | <p>C</p> | <p>The assessors reviewed examination reports, risk assessments, and supporting supervisory documents in risk management. They found that the BOT supervisors assess the financial institutions' policies, procedures, and practices in sufficient depth and scope across the risk categories.</p> <p>The assessors recommend that the BOT better articulate its supervisory expectations by publishing best practice guides, for example after thematic reviews or when a range of practice is observed on topics, for example risk management and governance. This will also contribute to the international standing of the BOT as a world class prudential supervisor.</p>  |

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| 16. Capital adequacy                         | C  | <p>The assessors reviewed the BOT regulations for compliance with the Basel standards. The assessors also reviewed an ICAAP and the BOT assessment of the ICAAP and concluded that the BOT's assessment and analysis was thorough and consistent. The assessors discussed the approval, application and BOT review processes for advanced IRB and other modeling approaches with the Head of the modelling unit and reviewed supporting documents.</p> <p>The BOT sets prudent and appropriate capital adequacy requirements for banks that reflects the risks undertaken by banks in the market in which it operated. The components of capital absorb losses and the capital requirements are not less than the Basel standards.</p>  |
| 17. Credit risk                              | C  | No comments.  |
| 18. Problem assets, provisions, and reserves | LC | <p>The assessors reviewed several examination reports and risk assessments for asset classification and provisioning. They found that the examinations were comprehensive and in sufficient depth to cover the implementation of BOT laws and regulations. The findings of the thematic examinations were reviewed and discussed with the relevant examination teams.</p> <p>The BOT ensures that banks have adequate policies and processes for the early identification and management of problem assets, and the maintenance of adequate provisions and reserves. BOT supervisors closely monitor the asset quality at a very granular level in individual banks and at the level of the banking system. The assessors were shown trends in cure rates and migration rates for restructured and defaulted exposures, at individual bank level and for the banking system. These trends inform the intensity of supervision of asset quality during the annual inspections.</p> |

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|  |   | <p>Provision coverage is also high. It stands at 140 percent (total provisions/total NPLs) and 170 percent (total provisions/required provisions). The BOT regulations and practices are in line with all the ECs of this CP. There are areas that should be revised to align them with the most recent Basel guidelines (“Prudential Treatment of Problem Assets—Definitions of NPLs and Forbearance—April 2017”).</p> <p>The BOT has issued a revised Asset Classification. After TFRS 9 becomes effective in 2020, asset classification, provisioning and write off shall be in accordance with the TFRS 9, considering economic, business, and financial conditions of the debtors. That is, the asset will be classified into 3 classes: performing, under-performing and nonperforming. For assets classified as performing, provision shall be set against expected credit loss over 12-month period while assets classified as under-performing and nonperforming shall be set against expected credit loss over the expected life. The revised regulation was not in force at the time of the assessment but is likely to address most of the assessor’s recommendations.</p> |
| 19. Concentration risk and large exposure limits | C | The assessors reviewed examination reports, risks assessments and a Pillar 2 assessment and concluded that the BOT supervisors review concentration risks adequately.  |
| 20. Transactions with related parties            | C | Except for credit cards, directors, bank management and persons with the power of management are not permitted to borrow from the bank. Related transactions are closely monitored by BOT.   |
| 21. Country and transfer risks                   | C | Cross-border activities, including onsite presence are increasing. Examiners visit cross-border offices as warranted.  |
| 22. Market risk                                  | C | Market risk is considered low and is monitored through onsite and offsite activities.  |

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| 23. Interest rate risk in the banking book | C  | No comments.   |
| 24. Liquidity risk                         | C  | Liquidity is monitored through gap analysis and is mainly derived from deposits.   |
| 25. Operational risk                       | C  | The assessors reviewed inspection reports and risk assessments. They concluded that the BOT examiners assess the operational risk management framework comprehensively and in sufficient depth.  |
| 26. Internal control and audit             | C  | No comments.   |
| 27. Financial reporting and external audit | C  | <p>At the assessment date, the Thai accounting standards are generally in line with IFRS. The BOT's asset classification and provisioning standards for CL/PIL are more conservative standards for provisioning than IAS 39. Quantitative impact studies have revealed that the quantitative outcomes are closer to IFRS 9.</p> <p>In 2020, once TFRS 9 comes into force, the financial statements of Thai banks will be fully aligned with widely accepted international standards.</p> |
| 28. Disclosure and transparency            | C  | No comments.   |
| 29. Abuse of financial services            | LC | The AML Act was amended to strengthen requirements on banks. There is a significant improvement in AML/CFT supervision regime. MER identified gaps in the AML/CFT standards that are in-process of being addressed.  |

## RECOMMENDED ACTIONS AND AUTHORITIES' COMMENTS

### A. Recommended Actions

Table 3 below lists the suggested actions for improving compliance with the BCPs and the effectiveness of the regulatory and supervisory frameworks.

| <b>Reference Principle</b> | <b>Recommended Action</b>   |
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| Principle 1                | Where appropriate, the BOT should publish response papers to consultations on important notifications instead of, or in addition to, attaching questions and answers to the notification. This would give the BOT an opportunity to better explain its policy positions in writing. It would also further strengthen the international standing of the BOT in the regulatory community and clarify BOT policy positions.  |
| Principle 2                | <ul style="list-style-type: none"> <li>- The composition of the FIPC should not include the Director General of the Fiscal Policy office (FPO) on a permanent basis, but he/she could be added in crisis times.</li> <li>- The Secretary-General of the Insurance Commission and the Secretary-General of the Securities and Exchange should be removed from the FIPC.</li> <li>- Rotations among supervisory staff assigned to individual institutions appear to occur as a matter of practice. Rotations should be formalized in a policy and enforced within the supervision groups to ensure renewal in supervisory staff. Relationship managers should be rotated to other roles after 3–5 years of supervising the same institution/banking group. While there should be room for flexibility in the rotation policy, a maximum period that any supervisor can be assigned to the same institution should also be established.</li> </ul> |
| Principle 4                | Continue reforms to supervise deposit-taking SFIs under the same standards as commercial banks.   |
| Principle 8                | Further linking of benchmarks, and analysis results to scope of supervisory activities for individual banks would continue the development of risk-focused supervision.   |
| Principle 9                | Continue to augment emphasis on qualitative factors, such as the adequacy of board policies and risk management when evaluating bank condition.   |
| Principle 11               | 1. Amend Guideline to advance PPA application prior to Weak bank status.  |

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|              | <ol style="list-style-type: none"> <li>2. Align FIBA, Guideline and BOT operational views on the application of FIBA Chapter 5.</li> <li>3. Medium-term, work with MOF to narrow definition of public damage in FIBA to reflect actions to be taken in cases of serious deterioration that may lead to possible resolution such a 5-rated bank), and that require MOF involvement.</li> <li>4. Raise expectation for more formal supervisory action and PPA to banks at the "3" rating level and establish other early financial triggers and qualitative benchmarks for supervisory action.</li> </ol>  |
| Principle 14 | To continue to raise awareness of governance and risk culture, the assessors recommend the BOT incorporates regular meetings with independent directors as part of its supervisory process.  |
| Principle 15 | The assessors recommend that the BOT better articulate its supervisory expectations by publishing best practice guides, for example after thematic reviews or when a range of practice is observed on topics, for example in the area of risk management and governance. This will also contribute to the international standing of the BOT as a world class prudential supervisor.  |
| Principle 16 | The assessors recommend that the BOT build a more integrated approach towards Pillar 2, starting by developing a methodology to set individual bank capital ratios as part of its risk based supervisory framework.  |
| Principle 18 | <p>The following areas should be revised to align the BoT regulations and practices with the most recent Basel guidelines ("Prudential Treatment of Problem Assets—Definitions of NPLs and Forbearance—April 2017"):</p> <ul style="list-style-type: none"> <li>• Banks should be required to include a list of indicators to determine the qualitative criterion of unlikeliness to pay in their policies. While the assessors were shown evidence that at least one Thai bank has a list of indicators of unlikeliness to pay, it is recommended the BOT regulations explicitly require banks to do so.</li> <li>• The BOT definition of restructuring and rescheduling should be aligned with the definition of forbearance in international good practice; it should refer to financial difficulty of the borrower and it should not be conditional on the bank making a loss.</li> <li>• The probation period for non-performing restructured exposures to be upgraded to performing exposures is currently 3 months. International good practice requires it to be a minimum of 1 year.</li> <li>• No upgrade of the exposure should take place when restructuring is granted (BOT Notification FPG 5/2559 Regulations on Asset Classification and Provisioning of Financial Institutions paragraph 5.2.3 (2)). Upgrades should be allowed only after the debtor has successfully completed the probation period.</li> </ul> |

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|              | <ul style="list-style-type: none"> <li>More detailed guidance should be given in the BOT regulation on the level of application of the asset classification (borrower or transaction level). The BOT provided evidence that at least one bank applies the definition at the borrower level, but the regulation should be more explicit.</li> </ul> |
| Principle 21 | Country risk manual should be enhanced by providing best practices examples on strategic risk analysis of banks expanding cross-border and linking back to corporate customers that they are serving.  |
| Principle 29 | Implement amendments to AMLA and Ministerial Regulation once approved by legislature.  |

## B. Authorities' Response to the Assessment<sup>79</sup>

**54. The Thai authorities appreciate the comprehensive and positive assessments and the constructive dialogues during the FSAP mission as Thailand's banking sector has continued to develop since the last assessment in 2008.**

**55. The Thai authorities note the assessors' observations on institutional arrangement, the recommendation on the composition of FIPC and the finding of no objective evidence of lack of independence of the BOT.** We would like to reiterate our view that there are merits to each institutional arrangement design and there is no one-size-fits-all in this matter, but rather a 'best suited' one, tailored to the jurisdiction's context and shaped through experiences. The current institutional arrangement in Thailand has been purposely designed based on our experiences, particularly by drawing upon lessons learned during the 1997 financial crisis. The FIPC members consist of three BOT ex-officio members, the Director of the FPO, the Secretary of the OIC, the Secretary of the SEC and five external experts, each with one voting right. As such, the three representatives from MOF and other regulatory agencies are outnumbered by external experts. This institutional framework has proven to be practical and effective, suitable for Thailand's context, while not compromising the independence of the BOT as the bank regulator.

**56. With the increased interconnectedness among banking, securities and insurance sectors, the MOF and other financial regulatory agencies' participation in the decision-making process of the FIPC are useful in ensuring an effective oversight of financial stability.** Their knowledge and understanding in financial system and real economy has brought in broader perspective and helped formulate recommendations that take into consideration potential impacts on the overall economy. In the complex financial landscape, it became rather challenging to find a knowledgeable and well-experienced individuals to serve in the FIPC that have no involvement in the financial sector and no conflict of interest. The existing arrangement gives due regards to the followings:

<sup>79</sup> If no such response is provided within a reasonable time frame, the assessors should note this explicitly and provide a brief summary of the authorities' initial response provided during the discussion between the authorities and the assessors at the end of the assessment mission ("wrap-up meeting").

- **timely engagement of the authorities** to promote effective and efficient coordination in policy-making and crisis management.
- **appropriate check and balance** and due consideration of overall economy and financial stability.
- **capitalization on synergy among authorities and harmonization of regulations across sectors through cross-directorships** with appropriate arrangement to safeguard operational independence. This model should support policy harmonization better than a consulting forum.

**57. The FIPC's institutional credibility and commitment to ensure financial stability have contributed to strategic decision-making and effectiveness of supervisory and regulatory framework.** The authorities are of the view that macroprudential policy decision should not be the sole responsibility of the FIPC, but should also involve the MPC in order to have a holistic macroeconomic view and can deploy other policy tools to help safeguard the overall financial stability. The mandates of MPC and FIPC are stipulated in the BOT Act, for which the primary objective of the MPC is price stability and that of the FIPC is financial institution system stability. Effective policy decisions could leverage on the complementarity between monetary and macroprudential policies, while separating monetary policy and financial stability decisions could be sub-optimal.

**58. Accountability of the FIPC can be assured with various measures, including submitting the biannual report to the cabinet through the Finance Minister as required by the BOT Act, disseminating data to the public, and engaging with third party/independent stakeholders on performance evaluation of the Committee.** Additionally, the BOT has actively engaged with the committees and subcommittees under national legislative body who oversee economic and financial stability and policy issues.

**59. SFIs supervisory framework is undergoing a major reform with an aim to implement supervisory standards for deposit-taking SFIs in a comparable manner to commercial banks.** Since 2015, the BOT has strengthened the supervisory and regulatory actions of SFIs in various aspects, such as governance, credit process, accounting and information disclosure, etc. As part of the screening process, SFI examination results have to go through the BOT subcommittee. The final examination report will be submitted to both the MOF and SFI's Board. It is worth noting that the regulatory formulation process for SFIs is separated from that of commercial banks, whereby the draft of SFIs regulations are reported to FIPC only for acknowledgement before submitting to the MOF for approval.

**60. The authorities share the view of the recommended action to continue reforms to supervise deposit-taking SFIs with the same standards as commercial banks.** However, we would like to stress that such reform efforts should take into account: (1) the SFIs' respective mandates to fulfill financial gap and foster economic development; (2) capability and readiness of the SFIs; and (3) mutual understanding/agreement among relevant authorities.

**61. To further strengthen cooperation, coordination and information sharing among key regulatory agencies, an existing 3-Regulator Steering Committee (3RSC) serves as a platform for regular exchange of information and coordination in respect of all financial sector surveillance and regulatory policy issues.** 3RSC has been established as a non-statutory body outside of the BOT, comprising the BOT Governor, the SEC, and the OIC Secretary-Generals as well as high-level executives of these regulatory agencies. The 3RSC meets at least quarterly to discuss policy-related issues, share information, and coordinate their regulatory policies. The MOF also attends the 3RSC meeting on a regular basis. The newly established 3RSC working group on crisis preparedness includes other relevant agencies such as DPA and FIDF. Currently, the Thai authorities are discussing the possibility of setting up an overarching and advisory body with respect to financial stability risks.

**62. The Thai authorities welcome the assessors' recommendations, which are in line with our action plan, such as enhancing clarity of internal guidelines for preventive actions, PPA/PCA and revising regulation on asset classification to be implemented in 2020 once IFRS 9 becomes effective. We aim to continue to strengthen our supervisory framework in line with international best practice, and to further promote stability and development of the banking sector in Thailand.**