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Measures to strengthen soundness of financial institutions

The Ministry of Finance and the Bank of Thailand have jointly viewed that the slowdown in some sectors of the real estate market, has the possibility to affect financial institutions. This may lead to lack of confidence in some institutions, and may also extend to the Stock Exchange of Thailand.

To prevent the problem of asset quality from casting doubts on financial institutions and to further strengthen the overall health of the financial sector, The Ministry of Finance and the Bank of Thailand decided to introduce the following measures:

- 1) Financial institutions will be required to make full provision against possible loan losses.
- 2) Bank of Thailand with the approval of the Ministry of Finance will order those financial institutions with insufficient liquidity to immediately increase their capitals. Should any institutions be unable to increase capital by themselves, the Financial Institutions Development Fund will step in to purchase the increased shares.

The details of the measures are as follows;

1. The measure to require reserve for sub-standard assets

1.1 The Bank of Thailand will order all financial institutions to reserve against sub-standard assets, which includes all problem real estate loans, at the rate of 15% for commercial bank and 20% for finance company and credit foncier company, starting from the half year period ending 30 June 1997. Financial institutions are required to meet the reserve requirement as soon as possible, within 2 years, with at least half of the requirement by the first year.

1.2 Previous practice in Thailand only required financial institutions to reserve 100% for doubtful debts, but not for substandard debts. However, the international standards do require reserve for substandard debts. Therefore, this measure will raise the standard of supervision

in Thailand to be in line with that of the international level, and will strengthen Thai financial system.

1.3 It is estimated that financial institutions (excluding Bangkok Bank of Commerce) will have to set additional reserve of 50 billion baht in total within 2 years limit, 24 billion baht by commercial banks, and 26 billion baht by finance companies and credit foncier companies to comply with the new requirement.

2. Measures to increase capital

2.1 To enable financial institutions to continue business with strengths and full confidence from the public, the Bank of Thailand has examined and analyzed financial conditions of each institution in detail.

2.2 From the analysis The Bank of Thailand found that there are some financial institutions with asset quality problem, and insufficient liquidity. And therefore, 10 financial institutions will be ordered to increase their capitals to fully cover weak real estate loans, margin loans, and still have additional capitals for further growth. This includes 9 finance and finance and securities companies, and 1 credit foncier company.

2.3 The Bank of Thailand will order these institutions to increase their capitals within the briefest period allowed by the law. Any institutions that are unable to increase capital within the time frame will have to sell shares to the Financial Institutions Development Fund. The Fund will stand ready to buy shares for capital increase of all institutions on required.

2.4 After the Fund becomes shareholders, it will ensure that all institutions improve their management to ensure the problem of weakness does not repeat. The possibility for some institutions to merge in the future will also be considered.

2.5 Apart from the 10 institutions mentioned, other financial institutions are in the position to increase their capitals by themselves.

Incidentally, the merging between Thai Danu Bank and Finance One Company is initiated by the two parties, for their mutual business benefits. The combined strength will increase their competitive advantages. The Ministry of Finance and the Bank of Thailand have agreed to support the merger.

The authority wishes to assure that the merger will not impose adverse affect on their depositors and creditors in any way.

The Ministry of Finance and the Bank of Thailand are confident that their measures will strengthen the health of all financial institutions up to the international standards and build up public confidence effectively. The Authority, specifically, the Bank of Thailand and the Fund will stand to provide liquidity to the system to the fullest extent.

Bank of Thailand

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