



ธนาคารแห่งประเทศไทย

สำนักผู้ว่าการ ธนาคารแห่งประเทศไทย โทร. ๒๕๒๖๖๔๘

No. 25/1998

Order to Write-down, Recapitalize and Change the Management of Ailing Finance Companies and Finance and Securities Companies

The persistent economic slowdown and liquidity shortage in the money market have caused the asset quality of financial institutions to deteriorate. In addition, the requirement for financial institutions to make provisions against problem loans in accordance with the official policy to raise loan classification and provisioning standards up to international best practices has resulted in many financial institutions, especially finance companies, experiencing losses and needing to recapitalize to strengthen their companies. Many financial institutions have been able to recapitalize and strengthen their positions. However, certain financial institutions -- with high volumes of non-performing loans and shareholders who could not raise enough capital in accordance with the agreed memorandum of understanding -- are not in a position to meet their obligations, i.e., they are insolvent. Moreover, many companies have had to borrow heavily from the Financial Institutions Development Fund (FIDF) to repay depositors and creditors whose confidence in the companies has deteriorated. Thus if these companies continue to operate with the problems left unsolved, this could be damaging to the public interest. With the agreement from the previous shareholders to allow the FIDF to become a major shareholder, the authorities deem it necessary to intervene to resolve this recapitalization problem urgently.

The Bank of Thailand, exercising its legal power under the amended Act on the Undertaking of Finance Business, Securities Business and Credit Foncier Business, B.E. 2522, section 26 paragraph 2, section 57 paragraph 1,

and section 57 ter paragraph 2 , has ordered seven ailing finance companies and finance and securities companies to write down capital and to reduce their value per share to one satang to eliminate the losses of the companies. They are Nava Finance Public Company Limited, Erawan Trust Company Limited, Mahatun Finance Company Limited, Bangkok Asian Finance Company Limited, Progressive Finance Company Limited, Union Asia Finance and Securities Public Company Limited, and Ksit Finance and Securities Public Company Limited. Thereafter, every company is to raise sufficient capital to bring its capital to risk assets ratio to at least 9 percent, with the new shares to be sold to the FIDF. Furthermore, the Bank of Thailand with the approval of the Ministry of Finance, by legal power under the same Act, section 57 bis paragraph 2, has ordered the removal of the present Board of Directors of the above mentioned companies and has appointed a new Board of Directors consisting of officials from the Bank of Thailand and executives from Krungthai Thanakit Public Company Limited (KTT) to oversee and manage these companies, as from 18 May 1998.

Krungthai Thanakit Public Company Limited, a finance and securities company with a state bank, Krung Thai Bank Public Company Limited as a majority shareholder of over 80 percent, will cooperate with the authorities in overseeing the management of each company as well as performing due diligence in order to evaluate their assets. Thereafter, KTT will purchase the assets and assume the liabilities of every company to combine with the existing assets and liabilities of KTT. After merging all the companies, KTT will be granted a commercial banking license. The FIDF will stand ready to purchase shares to recapitalize KTT which in turn will be converted to the shares of the commercial bank. These procedures will reduce damages to the FIDF because of potential profits on selling these shares to the private sector in the future.

The Bank of Thailand wishes to affirm that the above actions will not in any way affect the depositors or creditors of these finance companies as they will continue to operate normally. After the merger of each company into KTT, its depositors and creditors will be transferred to KTT.

The new Board of Directors will effectively oversee the management of each company. The former directors and executives some of which were appointed earlier by the authorities to temporarily manage the company have been ordered removed only by reason of the need to exercise the legal power to immediately appoint executives from KTT to manage the companies. However, in the case of former directors and managers, should any wrongdoings be found, they will be strictly prosecuted. The above measures do not bail out or support the owners of the companies since the capital write down will make the shareholders bear the cost of the damages.

The authorities will continue to closely monitor the recapitalization plan of other finance companies and finance and securities companies to ensure that each company has a stable position and sufficient capital funds. If there appears to be a company with a doubtful position which cannot recapitalize within a given time frame, the authorities will immediately intervene to swiftly solve the problem. This will strengthen Thailand's financial institution system and enhance its credibility with depositors and creditors, both local and foreign. The FIDF will continue to fully guarantee all depositors and creditors.

Bank of Thailand

18 May 1998

For further enquiries, please contact 283 6121-6 and 283 5825-8.

Write-down and Recapitalization of Ailing Finance Companies and Finance and Securities Companies

unit: million baht

	Companies	Registered and Paid-up Capital	Write-down (to 1 satang per share)	Remaining Share Value (baht)	Increased Capital	New Registered Capital	Capital to Risk Assets Ratio(%)
1	Union Asia Finance and Securities Public Company Limited	812.32	811.51	812,322.90	3,900.00	3,900.81	9.06
2	Nava Finance Public Company Limited	2,250.00	2,247.75	2,250,000.00	4,650.00	4,652.25	9.04
3	Mahatun Finance Company Limited	150.00	149.99	15,000.00	870.00	870.02	9.74
4	Bangkok Asian Finance Company Limited	540.00	539.90	54,000.00	410.00	410.05	9.02
5	Ksit Finance and Securities Public Company Limited	150.00	149.85	150,000.00	640.00	640.15	9.58
6	Erawan Trust Company Limited	325.00	324.87	130,000.00	375.00	375.13	9.84
7	Progressive Finance Company Limited	200.00	199.98	20,000.00	620.00	620.02	9.45
					11,465.00		