



BANK OF THAILAND NEWS

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Instruments qualified as Tier 2 Capital

The Bank of Thailand issued the Notifications regarding the instruments qualified as tier 2 capital for both commercial banks and finance companies. This is to allow financial institutions another alternative in raising their tier 2 capital.

The instruments qualified as tier 2 capital must be unsecured and subordinated with the minimum maturity of at least 10 years. Unlike the subordinated debt, the hybrid debt capital instruments are not subject to the limit of 50% of the tier 1 Capital; therefore, they must have the characteristics close to that of equity instrument. The issuing financial institutions have the option to defer interest payment if there is no profit and are unable to make dividend payment to common and preferred shares. Furthermore, the issuing financial institutions must defer the principle and interest payment on hybrid debt capital instruments if such payment will result in negative capital or if the Bank of Thailand has intervened by ordering capital write down and recapitalization.

The guidelines on the hybrid debt capital instruments or generally known as upper tier 2 under this Notification are in line with the BIS standards and the central banks of other countries.

The guidelines on the hybrid debt capital instruments will introduce the new alternative in raising capital to the financial institutions especially for those who have already included subordinated debt amounted to 50% of tier 1 capital. However, the aggregate amount of all types of the tier 2 capital must not exceed tier 1 capital as stated in the current regulation.

Bank of Thailand

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