



BANK OF THAILAND NEWS

Communications and Relations Office, Management Assistance Department
Tel. 0-2283-5016-7 FAX 0-2281-5648 www.bot.or.th

No. 36 /2004

Re: Permission for Commercial Banks to Engage in Hire Purchase, Leasing, and Factoring Businesses

The Bank of Thailand issued the Notification Re: Permission for Commercial Banks to Engage in Hire Purchase and Leasing Businesses, and the Notification Re: Permission for Commercial Banks to Engage in Factoring Business, by virtue of the provisions of Section 9 bis of the Commercial Banking Act B.E. 2505 and as amended thereafter. The purposes of the notifications are to enhance commercial banks' business scope so that they can better provide their financial services to consumers and businesses. Also, the notifications aim to facilitate the forthcoming merger and acquisitions between commercial banks and their finance companies or credit foncier companies, in accordance with the One Presence policy stipulated in the Ministry of Finance and the Bank of Thailand's Financial Master Plan.

Commercial banks who intend to engage in the businesses must possess good financial and operational conditions, and cooperate with supervisory authorities in complying with the One Presence policy. The commercial banks must also submit letters of intention approved by their board of directors. A commercial bank who is obliged to comply with the One Presence policy must submit a plan detailing the procedures regarding the merger, acquisition, sale of assets, return of licenses, and acceptance of transfer of assets and liabilities from other financial institutions in the same business group. Also, the letter of intention submitted to the Bank of Thailand must clearly state the commitment to comply with the One Presence policy.

Prevailing rules and regulations pertaining to the engagement in the hire purchase and leasing businesses are as follows:

1. Commercial banks must have written business plans approved by the commercial banks' board of directors.

2. Only movable assets are allowed in the hire purchase and leasing transactions.

Moreover, leasing transactions must be in the form of financial lease.

3. Commercial banks must provide written hire purchase or leasing contracts detailing such items as type of asset, term of hire purchase/lease, down payment, term payment, insurance coverage, fees and charges, and etc.

4. The hire purchased or leased assets must be covered by insurance, which entitles commercial banks to receive the insurance benefits throughout the term of hire purchase/lease contracts.

5. Commercial banks can engage in the sale and lease back transaction provided that the lessee must be legal entities, and that assets in the transaction must not be personal cars.

Commercial banks who intend to engage in the factoring business must have clearly-written business policies as well as risk management procedures in place. Also, such commercial banks must arrange for written factoring contracts, one copy of which must be delivered to and kept with customers. The factoring contracts must cover such details as credit limit, methods used in calculation of interest rate and payments. In addition, commercial banks must inform their customers prior to changing interest rates, payments, and charges.

Commercial banks must also comply with the Bank of Thailand's regulations concerning the single lending limit; the maintenance of capital adequacy ratio; the accounting procedures for the recognition of interest income; the classification and provisioning of assets and foreclosed assets; and the review of credit extensions and liabilities and related report forms.

Both notifications have been published in the Royal Gazette (General Issue) Vol. 121 Special part 108 Ngor dated 29 September 2004, and have come into effect from 30 September 2004 onwards.

Bank of Thailand

7 October 2004