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(Unofficial translation)*

31 March 1999

To Manager

All commercial banks registered in Thailand

All finance companies

BOT.X.(C) 1194/2542 Innovative capital instruments and their inclusion
in tier 1 capital.

On 27 October 1998 the Basle Committee on Banking Supervision issued an interpretation of the Basle Capital Accord and instruments that are eligible for inclusion in tier 1 capital. In accordance with the aforementioned interpretation, the Bank of Thailand is issuing this guideline to clarify the required characteristics and maximum amounts of innovative capital instruments (for example, structured preferred stock coupled with a subordinated debenture issue) that may be included in tier 1 capital. The requirements are as follows:

1. All preferred stock qualifying as tier 1 capital (both conventional preferred stock and preferred stock issued as part of an innovative capital instrument) must possess the following features:

- 1.1 the preferred stock must be issued and fully paid up
- 1.2 dividends must be non-cumulative
- 1.3 there must be no obligation to pay dividends with respect to years in which the financial institution has no distributable profits
- 1.4 in the event of liquidation, claims from preferred stockholders are junior to depositors, general creditors, and subordinated debt of the issuing financial institution
- 1.5 the preferred stock must be unsecured
- 1.6 the preferred stock can only be called at the initiative of the issuer and only after a minimum of five years after issuance and with the Bank of Thailand's prior approval. The issuing financial institution must follow all conditions set by the Bank of Thailand before the execution of the call option.

2. The inclusion in tier 1 capital of preferred stock issued in conjunction with subordinated debentures (together, deemed an innovative capital instrument) is limited to a maximum of one third (33.33%) of tier 1 capital, after issuance. Thus, the innovative preferred stock cannot exceed 33.33% of the sum of all conventional tier 1 capital instruments combined with the innovative preferred stock. Innovative preferred stocks must have the features described in 1.1-1.6.

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Commercial banks and finance companies which have received approval from the Bank of Thailand to issue innovative capital instruments (for example, SLIPS and CAPS) prior to the issuance of this Circular are not subject to the limitations set forth in the previous paragraph.

3. Preferred stock containing either of the following features, in addition to those specified in 1.1 – 1.6, is considered innovative,

3.1 conditions, other than a call option as specified in 1.6, that may lead to the early redemption of the preferred stock, or

3.2 the possibility of a single, moderate step-up in the preferred stock's dividend, but only after year 10. Innovative preferred stock may be included in tier 1 capital, up to a maximum of 15% of the tier 1 capital when combined with the issuing preferred stock, at issuance.

4. Financial institutions must disclose in their financial statements the composition of their tier 1 capital. The disclosure must include the type and amount of each tier 1 capital element, including any innovative capital instruments.

Please be informed, and observe.

Regards,

M.R. Chatu Mongol Sonakul
Governor
Bank of Thailand

* This translation is for convenience of those who are not familiar with Thai language. For official purpose, only Thai text will be relevant.