SCB first to receive state tier-1 assistance.

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SIAM Commercial Bank became the first financial institution to receive financial aid from the state in the tier-2 recapitalisation scheme after the Cabinet approved the proposal yesterday.

Apart from SCB, Thai Farmers Bank has also officially announced its intention to ask for assistance.

"SCB is the first. Two other banks are applying, and another has received approval," Deputy Finance Minister Pisit Lee-artham said.

Government spokesman Akapol Sorasuchart said after the Cabinet meeting yesterday that the Finance Ministry would issue bonds worth Bt1.665bn to SCB with the Bank of Thailand as the registrar and payment agent.

"The bonds will be transferable only when used by the holder as collateral for loans from the Financial Institutions Development Fund or as an investment in central-bonds," he said.

The government bonds will take 10 years to mature and will carry 5% in annual coupons.

Olarn Chaipravat, president of SCB, said that the bank's subordinated bonds would be given to the Finance Ministry today in return for the government bonds. He hopes that in the next four weeks the Financial Restructuring Advisory Committee will decide if the bank should receive tier-1 capital support.

To open the way for further bond issues under the government financial-sector recapitalisation assistance programme, the Cabinet also agreed that the Finance Ministry should be given autonomy in making decisions and distributing the remaining Bt293.34bn to any banks that file a proposal. The ministry will have to report to the Cabinet afterwards.

"The Finance Ministry will then be able to issue government bonds to help recapitalise other financial institutions that have applied for assistance, without Cabinet approval," Prasarn Trairatvorakul, deputy secretary-general of the Stock Exchange of Thailand and a member of the Financial Restructuring Advisory Committee's board, said.

The committee is in charge of bank recapitalisation to ensure the institutions' financial bases can handle the rising level of non-performing loans.

Finance Minister Tarrin Nimmanahaeminda said yesterday that several financial institutions, including Tisco Finance Plc, Bangkok Bank and Thai Military Bank, had asked for financial assistance under the government's tier-2 capital-raising scheme.

"They (the financial institutions) are expected to apply for the tier-1 capital project," he said.

Pisit said another bank had also been given the green light under the tier-2 capital project. He declined to name it.

Under the state programme, announced on Aug 14 last year, the Finance Ministry is authorised to issue bonds worth Bt100bn under the tier-2 capital support scheme and another Bt200bn under tier-1 capital support. Under the tier-2 programme, bonds will be swapped for debentures issued by financial institutions receiving bonds. In the tier-1 programme, the government swaps its bonds for preferred shares.

Tier-1 capital is mainly shareholders' equity, while tier-2 capital includes certain types of subordinated debentures and general reserves. To be eligible for the support, financial institutions need to restructure non-performing loans and extend new loans.
The Bt300-billion programme is designed to help banks recapitalise now that investors are unwilling to subscribe for new shares issued by Thai commercial banks owing to the soaring loan defaults, which causes difficulties in raising funds. The authorities expected Thai banks’ non-performing loans to peak at 40% of all lendings at the end of 1998. As of October they were 38%.

To help the government raise funds to finance the programme, the Securities and Exchange Commission will allow the government to issue derivative warrants on bank shares it acquires during the recapitalisation of ailing finance companies, an SEC spokeswoman said yesterday.

Nataya Niyamanusorn told Dow Jones Newswires yesterday that the issue of warrants would give the Finance Ministry and the Bank of Thailand further means to quickly raise much-needed capital in its bid to support the country's debt-ridden banks.

Foreign investors who buy shares in Thai banks will also have the right to increase their stakes in the future through the warrants, Nataya said.

Derivative warrants are debt instruments backed by existing shares in a company. Warrants can be bought in the expectation that the company's share price will rise, which will also boost the attraction of the warrants. Buyers can exercise warrants to existing shares or receive cash equivalent from issuers at maturity.

Currently, since the country's derivatives secondary market is not yet in place, the SEC only allows large shareholders of Thai companies to issue derivative warrants, as general investors are assumed to be unable to counter the immense risks of the activity. Only authorised securities companies are allowed to do so.

James Moss, head of research at Nava Vickers Ballas Securities Co, said the government warrants, should they be issued, would offer investors a speculative play but with the same risks as holding shares directly, given uncertainties surrounding the banking system.

The government now needs a huge sum of money to recapitalise four of its wholly owned banks, First Bangkok City Bank, Krung Thai Bank, Radhanasin Bank and BankThai. The remaining three, Bangkok Metropolitan Bank, Siam City Bank and Bangkok Bank of Commerce, will be either liquidated or shut-down.

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