

August 30, 2004

**BANKING SECTOR****NEW : NEUTRAL**  
**PREVIOUS : NEUTRAL****Central bank tightens provisioning rules on NPLs**

The Bank of Thailand (BOT) has tightened provisioning requirements on doubtful loans in an effort to speed up banks' resolution of NPLs. The new measures require banks to make 100% provisioning for doubtful debts that are more than a year old.

For doubtful restructured loans, banks can deduct only half of the value of a loan's collateral from the value of doubtful loan before setting aside a provision on the difference. This rule also applies in cases where the collateral has not been reappraised for more than a year.

For loans that have not been serviced for 2-3 years, banks need to set aside an additional provision of 25% of the collateral value. In cases where loans have not been serviced for 3-4 years, banks will need to set aside 50% of the collateral value. The full amount of the collateral value must be set aside in provisions for loans not serviced for more than four years.

We believe that the new BOT measures will have minimal impact on the banking industry as nearly all older NPLs are already the subject of legal action. Moreover, the central bank signalled early this year that it would introduce tougher provisioning requirements, giving banks plenty of time to speed up legal action against bad debtors.

Accordingly, we believe that the new regulations will have little impact on banks' provisioning levels or their capital bases. The measures, however, provide yet another incentive for banks to clean up their balance sheets and reduce the number of their NPLs.

The government, meanwhile, is also trying to improve the efficiency of the financial system and encourage loan growth by drafting a law that will allow AMC's to buy banks' NPLs and NPAs. An amendment to laws governing AMC's is currently under review of the Council of State.

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