Chapter 3

Bangkok Bank Public Company Limited
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The first commercial bank in Thailand was established by the British in 1888 and by the end of 1941 there were 12 commercial banks, seven of them of foreigners and only five of Thai nationals of the seven foreign banks, three were British and one French, one Japanese and two Chinese. The first of the five Thai banks had been founded in 1906. Thus, all the commercial bank operations that were necessary to facilitate finance and trade of business organizations were fully controlled by British and French. Only these banks provided facilities for financing international market for securing funds at low costs. At that time Thai commercial banks were relatively smaller and hence were not capable to play any significant role in Thai business activities. They played only a role of depositories of valuables and assets of royalties and the rich families in Thailand. Thai banks had to depend on expatriates to manage banking activities for them as Thais were not skilled enough to manage their banking activities efficiently and effectively.

When war was declared in 1942, Thailand supported Japan against the Allies, the government confiscated the property of enemy nationals according to Universal custom, and all foreign banks were declared closed, except the Japanese Bank.
The Thai government appointed a committee to inspect the assets and the accounts keeping systems of these foreign banks. As a result Thai inspectors gained knowledge about commercial bank systems and their various aspects of operations. The closure of foreign banks operations provided opportunities for Thai banks to develop their commercial banking activities. At the same time the war gave rise to a boom both, in internal and external trade that enriched Thai merchants and many Chinese businessmen of local origin who had remained with Thailand’s prosperity. Within a short period of time during 1942 to 1945, five Thai owned commercial banks were set up; one of them was Bangkok Bank.

In the past, several Thai businessmen were not able to get proper services from the foreign banks because foreign banks preferred foreigners than Thai merchants and businessmen. But for carrying out foreign trade commercial banks were necessary for meeting the financial needs of imports and exports Thai entrepreneurs were lacking in the knowledge and experience in foreign trade. So a Thai commercial bank known as Bangkok Bank was established in the year 1944 with the aims of providing essential services and facilities to Thai businessmen and entrepreneurs. Thai bank became popular in a very short period of time. Commenting on the operations of the bank in those early days Mr. Chin Sophonpanich president of the bank stated that “Banks are the very heart and soul of foreign trade. Without them it is next to impossible. In those days Thai traders received little or no attention from the
foreign banks, as the latter were only interested in financing their own national endeavors. In case of imports, if a European firm wanted to open a letter of credit (L/C) his European banker would not require cash payment in advance. As soon as the goods arrived, the bank would issue a Trust Receipt and the foreign trader would pass the goods on to his agent. If the agent were Thai or Chinese the firm would pick up the discount and pass it to the bank. On the other hand if one of us asked to open an L/C with one of the European banks, we would be required to make a 100 percent margin deposit, then we would have to wait two to three months for the ship to arrive. By the time we had got our goods, through customs, distributed them and collected payment, a long, long time had passed. Thus, none of us could hope to import on our own behalf. Without that deposit-free L/C and the Trust receipt the best we could hope for, was to act as agent or sub agent for a European firm. In respect to exports, when a foreign company sold rice or certain native products abroad, the buyer opened an L/C which the foreign company submitted to obtain packing credit from the foreign bank, which in turn paid the full 100 percent. This was used to buy goods which were loaded on ships. Then, when the bill of lading was obtained it was given to the foreign bank. On the contrary, a Thai merchant found it impossible, as he was denied this privilege and was not trusted. Consequently concerning both exports and imports we were at a disadvantage with no opportunity to make a profit. We could at best act as a selling or buying agent getting a small profit. I
therefore, perceived that, as long as banking was in the hands of foreigners, Thais would not be able to import or export goods directly. As a consequence we decided to open a bank to service follow Thai nationals in the same manner that foreign banks did foreign companies”.

Thus, the Bangkok Bank made commercial banking facilities available to Thai businessmen so as to enable them to carry out their import and export activities smoothly and efficiently. The bank expanded its services to serve the public at large. Soon the bank became popular on account of its efficient services. Thus during the last six decades the bank contributed significantly towards development of Thai economy not only expanding in activities but also serving the Thai economy in various areas which may be summarized as follows.

“Further research into the background of the establishment of commercial banks by Thais reveals another factor over and above the contribution of World War II. In those days’ merchants in Bangkok’s business districts, Songwat and Yaowarat, found difficulties in their dealings with foreign owned banks. These banks were much more interested in serving the needs of foreign business concerns than in encouraging Thai owned enterprises and facilitating their operations”. But banking services were essential for the smooth function of businesses especially the import and export trade. During the wartime there was boom, hence it was only natural that should try to fill up the gap with their own wealth and enterprise.
In mid 1944 hostilities reached a height and Japan had lost several major battles leading to the resignation of General Tojo’s government. Soon afterwards the Thai government under Field Marshal Pibulsongkhram resigned and Parliament elected Mr. Luang Athaiwong as Prime Minister in his place. At the same time, Luang Roprukit, who was retired from the Department of Railways and Mr. Thawil Misomklin, Manager of Khao Thai Thawipol Company, both being well known and trusted in business circles, tried to awaken the interest of their friends and their acquaintances, such as retired government officials, businessmen and others in equity participation for the formation of a bank. One of the participants, Mr. Fuen Suphanasan was trusted with the duty of registering an application on July 1944 at the Ministry of Economic Affairs, for permission to set up a company named the Bangkok Bank Company Limited. In the prospectus of the Bank, it was specified that initial registered was to be Baht 4 million divided into 40,000 shares each valued at Baht 100. Out of this 25 percent was paid up that valued Baht on million. When the process of registration was completed, in November 1944 the Bank promoters applied at the Ministry of Finance for permission to conduct commercial banking functions. The permission was granted on the 1st December 1944, and the first Board of Directors was appointed. General Chao Phraya Ramrakhop, formerly aide-de-camp to King Rama VI, was appointed as its first chairman and Luang Roprukit as first manager. The Bank then started recruiting
people with banking skills and experience so as to start necessary operations. The original staff was 23 persons all of them were men.

3.1 First Period (1944-1951)

The Bangkok Bank Ltd started its business on 1\textsuperscript{st} December 1944, in rented premises. The opening ceremony was performed by then Prime Minister Khuang Aphaiwong which was attended by a large number of Thai and Chinese traders and businessmen. As it was wartime, no souvenirs were distributed nor were photographs taken. During those days the bank remained open for business only for a short time after the ceremony. At the end of the first day, deposits valued over Baht 9 million, which was a very large amount during those days. Most of the first customers were known to the founders of the Bank, and they brought along with them their friends. Most of them were from the nearby Saphan Han and Phahurat cloth and clothing markets, which led the Bank’s active participation in the development of the textile industry in Thailand.

During the year 1944, war time conditions prevailed, which made most of consumer goods very dear and there was scarcity the government introduced rationing for daily use consumption goods such as rice, sugar, matches and clothing. On account of shortage of petrol, there was very little traffic. The buses were using charcoal and trams were running up to 6 p.m. The work of Bank was frequently stopped by the arrival of allied bombers, over the city, seeking strategic targets. The staff members were compelled to take
their meals provided by the Bank by taking refuge under desks and tables. The staff members had to use informal dress on account of scarcity and dearness of cloth. The staff salaries ranged from Baht 50 to Baht 250 per month, according to qualifications and responsibility. In those days equipment used were very simple. The ledger clerk used two pens, a blue one for deposits and a red one for withdrawals. The ledgers were thick of six inches and accounts were not numbered, so the clerks had to memorize where the name of a particular customer occurred in the volume. A plate of glass was placed at the counter, which was divided into teller booths, one for pay out and the rest for pay in. Tall stools were used as seats for counter staff, while the other staff sat on metal and wooden chairs having no backs. Documents were delivered by bicycles and the cleaning of cheques took place at the Bank of Thailand in Bang Khun Phrom. The bank was working during 8.30 to 15.30 with a half day’s work on Saturday and Sunday was holiday for the Bank, and other holidays determined by the Ministry of Finance. The Bank tried to do everything for its customers just as the foreign banks were doing for their customers. This provided motivation to the Thai traders and they entered into direct foreign trade with a great enthusiasm. As a result their dependence on foreign bank and western intermediaries, declined significantly.

Another characteristic of banking, in those days, was the use of the comprador system, which was extensively used by foreign banks, operating in underdeveloped countries. “As the management of these
banks had no knowledge of local language, conditions and business practices. So they employed a local businessman of known wealth and prestige and having wide contacts, who would bring in business, smooth over difficulties with the local authorities and to act as a guarantor. The comprador received salary from the bank and commission from the customers introduced by him."

This system was very convenient and useful for foreign banks, so in early days the new locally incorporated banks adopted the system, as the comprador performed valuable marketing services. Later on it was observed that some compradors were offering excessive rates of interest in order to attract depositors and demanding such high recompense from borrowers. As a result the borrowers had to pay higher interest on their loans than the law permitted. So the Ministry of Finance and the Bank of Thailand decided to discourage the comprador system. At the same time commercial banks were modernizing their operations and hence the comprador system was gradually phased out.

The first comprador appointed the Bangkok Bank was Mr. Songpu Saekue, who was later on replaced by Mr. Chin Sophonpanich, one of the Bank’s founding shareholders and board members. As the office of comprador was still of vital importance for banking operations, in those days. Mr. Chin Sophonpanich acted as a driving force to contribute towards early growth of the Bangkok Bank, As a result the Bangkok made much progress as compared to other new locally incorporated banks.
“During the three years following the end of World War II in August 1945, Thailand experience political and economic upheavals which deeply affected commercial banking in Thailand.”

During the short period of time of three years the changes in government took place, and the negotiations between the succeeding Thai governments and the victorious Allies remained inconclusive, economic uncertainly prevailed. Inflation was the most pressing problem on account of monetary reasons. The supply of money in circulation was much in excess than the availability of goods and services. The national budgets were deficit budget the nation was recovered. The banknotes printed by Japanese occupation forces were in circulation and the reserves were seriously depleted. Foreign currencies became scarce and the bottom had fallen out of yen which Japan owned to Thailand gold that has been deposited in Japan, was unrecoverable. Thailand’s gold deposited in USA and sterling assets and currency had been frozen against war reparations. As a result the value of Baht had deteriorated so badly that, at the end of hostilities, it was worth less than a tenth of its prewar value. The government had to institute a number of measures to stabilize the currency. The thousand baht note ceased to be legal tender and the holders of these notes had to surrender them to the Bank of Thailand in exchange for savings bonds bearing interest of one percent per annum. The redemption period was one year. This measure was adopted to mop up the inflated currency and to remove it from the system.
The commercial Banking Act was passed in April 1946, and the government fixed the value of baht at 0.09029 of pure gold. Baht 40 to the pound sterling, Baht 100 to US $ 10.075. The prior or value of the baht was eleven to the pound. The exchange regulation were tightened so as draw more foreign exchange ratio into the Bank of Thailand, so that its use might be controlled.

In addition to monetary measure, there was a diplomatic drive to improve relations with the Allies especially Britain and United States, and “because of the fact that during the war, many prominent Thais had cooperated closely with Allies under the aegis of the Free Thai Movement, this drive produced several concessions,” For example instead of providing the Allies with 1.2 million tons of rice free of charge in reparation as required by formal agreement, Thailand was permitted to sell it at 12.145 per ton. Negotiation for the freeing of Thailand’s assets and currency frozen in Britain and United States were also carried out successfully. These and other efforts taken for revival of the nation gradually led to an improvement in monetary, financial and general economic conditions in Thailand.

By the end of the war, commercial banks were adversely affected. Thailand had to return the frozen assets of the Allies, which included banking businesses, which enabled foreign banks to resume their operations in Thailand.
As the national reconstruction programme attained progress, Thais and foreigners sought to enter the banking sector especially during the second half of 1947, when the government permitted the opening of two foreign owned banks. This made the beginning of a lively competition among banks which has continued even today.

3.1.1 Progress of the Bangkok Bank:

As a result of too much money in circulation and the rapid revival of business sector during the postwar period, the operations of the Bangkok bank increased significantly. Deposits increased from Baht 17.9 million at the end of 1945 to Baht 46.8 million at the end of 1946. Similarly credit extension also increased from Baht 4.5 million to 15.1 million during the same period. This enabled the bank to increase its capital for the first time from one million to 2 million baht. This shows that in spite of political and economic uncertainties the Bangkok Bank made significant progress. Rapid growth in its deposits indicated not only its progress but also its capacity and willingness to play a significant role in helping the nation to solve economic and financial problems, with deposits three times more than the loans, the bank was successful in removing some of the excess money in circulation.

The increase in competition can be judged from its operations in 1947. As foreign banks along with two new banks established in the second half of 1947, the deposits had declined from the Baht 46.8 million in 1946 to only 19.4 million by the end of 1947. Similarly
cash on hand also decreased from Baht 19.4 million to 17.9 million from midyear 1947 to the end of the year, still having the excess credit of Baht 3 million outstanding at the end of 1946.

In order to overcome this challenge the management of the Bank started consolidating its relations with the majority of local businessmen, ensuring them of the best services. In addition the managerial skill of chin Sophonpanich, the comprador helped the bank to be successful under competitive conditions and by the end of 1948 its deposits increased to Baht 28.2 million.

On account of increase in the Bank’s activities the old premises became over crowded, so the Bank acquired, across the road, four adjacent two storied shops houses on rental basis, on 16th of August 1948. A separate department was set up to handle foreign operations. Even the staff was increased.

In the second half of 1948 the Bangkok Bank had to suffer from adversity by local events. There was a run upon another Thai owned bank whose customers had lost faith in its financial status. As the panic spread, other banks were also affected. How the Bank overcame this panic in described by a then staff member in following words.

“This sort of thing had happened to us before. A local newspaper had headlined – A Bank in Bangkok to go Broke”. Seeing to word Bangkok, people thought that we were meant. Next day they hastened to withdraw their cash. We withdrew masses of notes from
the Bank of Thailand and stacked them in bundles on the counter. When the customer saw that, we had more cash than they had ever thought of withdrawing their panic subsided and by the afternoon no one was coming to withdraw any more. Next day we carted all that cash back to the Bank of Thailand.

This time round we used the same technique customers were welcomed to withdraw as much as they wished. There was the cash and it was paid out. On demand without hesitation, so next day the crowd thinned out considerably as public confidence in the Bank returned. Actually most of the withdrawals were by small customers. A few big withdrawals in hundreds of thousands of baht made us jump, because in those days a hundred thousand baht was a very large sum of money. But our senior officers did a very good job, visiting big customers, explaining the situation and reinforcing their confidence, so in the end it all blew over.\textsuperscript{16} This operation was so successful that, faith in the financial stability of the Bank increased, its good will increased and by the end of 1948 deposits had increased to Baht 35.0 million from Baht 28.2 million in only six months.

3.1.2 Korean War

In 1949 Korean War began although on a Limited scale, involving few countries including Thailand. The government with Prime Minister Field Marshal Pibulsongkhram was formed on 8\textsuperscript{th} April 40, replace that of Mr. Khuang Aphaiwong, sent a Thai contingent to join the United Nations Force in Korea. However, the
effects of this war on Thai economy and commercial banking system proved that war not only as destroyer but also a creator. Thailand had to provide for strategic supplies including rubber, tin, rice and other agricultural products which had a restorative effect on the economy, especially in exports. Thus the Korean War boom gave rise to further rapid expansion of commercial banking activities in Thailand.

In 1949, four other commercial banks came into existence, of which two banks were foreign and the other two were locally owned, which affected the Bangkok Bank slightly, so that the deposits by the end of December 1949 dropped to Baht 31.9 million, a drop of only 3 million Baht as compared with the previous year. To overcome this challenge the Bangkok Bank Ltd set a new target, of expanding its operations to tap sources of capital in the provinces, so as to bring these saving into the banking system, by war of expanding its banking services into areas outside the capital city Bangkok.

The first provincial branch was set up in Ubon Ratchathani province because of its size, second only to Bangkok and its wealth derived from the production of such commodities which had increasing demand. The branch was opened on 12th May 1950 with Mr. Vira Ramyarupa as branch manager. The opening ceremony was well attended by local businessmen and local landlords. The operations of this branch were managed those lines as followed by the Head Office, which gave satisfactory results in a short time. The services provided by the branch became very popular among local inhabitants and businessmen especially for domestic transfers of
funds by means of demand drafts, as it was quite safe and convenient to tradesmen who were able to receive payment much speedily than before.

On account of this successful venture, the Bangkok Bank was motivated to open an another branch in Chiang Mai in October 1950 and two months later a third branch at Lampany as these two northern cities were centres of trade in timber, minerals and agricultural products. In May 1951, another branch was opened at Sup Tui in Chiang Mai.

3.1.3 Summary of Operations of The Bank First Period (1944 – 1951)

“The Bank’s first seven years (1944 – 1951) were a time of steady progress. Deposits had grown from Baht 9 million on opening day to Baht 53.9 million at 1951 year’s end and assets from Baht 11.2 million in the first balance sheet dated June 1945 to Baht 84.7 million. Four branches had been opened, registered capital remained at Baht 4 million, but paid up capital had been increased from Baht 1 to 2 million in 1947, and credit had expanded from Baht 3.1 million in the first balance sheet to Baht 56.1 at the end of 1951. One aspect of the Bank’s credit structure in those days is particularly interesting, namely that as of 1950, over half of all credits were in the form of discount and rediscount bills. Since then the Bank has placed considerable emphasis on the important service to the trading sector, which the Bank had originated have and excelled at.
As the bank approached the end of its initial period it faced a serious liquidity problem which was to cause great change in the ensuing years.\footnote{7}

3.2 Second Period (1952 – 1960)

The bank had developed as a considerable force in the Thai economy and for attaining further growth, major internal changes were introduced.

3.2.1 Changes in the Economy:

The Korean was (1949 – 1952) led to the end of the war boom by the end of 1952. This affected several nations including Thailand, as its agricultural economy was highly export oriented, and there were few items that were exported to a few major markets. Hence it became difficult for Thailand to export its rice, rubber, teak and tin as the demand for these products at the international level had decreased substantially. International agreements hindered sales of strategic materials, like rubber and tin, while lower purchasing power and increase in competition from Burma and Malaya reduced Thailand’s market share substantially.

On account of decline in exports and uncontrolled imports there was trade deficit of Baht 905.7 million in 1952 and such deficits continued in coming years. The Thai government was forced to adopt several measures such as limiting imports and promoting export marketing of rice, restrict foreign exchange movements,
increase industrial production etc. In order to control imports the government implemented direct controls on 16th November 1953 which required that all the imports should have prior approval of the Ministry of Economic Affairs. At the same time the Bank of Thailand employed monetary measures, limiting number of import items for which it will sell foreign exchange at free rates. The imports of certain items were qualified such as fuel oil milk products, pharmaceuticals, textiles, cotton yarn. By way of further restrictions on such items being placed and the dollar rate for payment was increased to Baht 16.07. As a result of these measures sales of foreign currency for imports ceased completely.

During this period, the government’s policy to promote local industrial production for meeting domestic demand and the policy of import – substitution resulted in rapid development of industries where the commercial banks played continuously increasing role.

3.2.2 Change within the Bank:

The recession that followed the Korean War was the major obstacle in smooth functioning of the bank. Since 1951 the bank was facing the problem of liquidity which worsened in early 1952. The Bank management had invested part of the Bank’s funds in real estate. Thus the value of land now was sufficient to cover loans; hence there was no net loss. But during the period the real estate business was very slow, hence the funds got tied up and the Bank suffered from shortage of working capital. The shareholders
evaluated the situation and decided to bring about change in the management. So the comprador Chin Sophonpanich was appointed as General Manager. As soon as he was appointed to this post, he left his comprador activities and devoted fully to bring about structural changes in the Bank so as to establish stability with growth.

As the administrative and accounting systems needed to be made more efficient, Mr. Khun Prashit, the owner of the law firm providing accounting services, was invited but he brought in Khun Boonchu Rojanastien an expert in accountancy and who was appointed as internal auditor in 1952 and was empowered to restructure banking operations. He took certain measures to retrieve misinvested funds. Next he was successful in increasing the Bank’s capital from Baht 4 million to 20 million which eased the Bank’s liquidity problem and laid not only solid foundation for further expansion but also increased confidence of management and faith of public in the institution.

In order to overcome the recession problem he innovated a scheme of a fixed deposit account with a passbook, at 3 percent interest per month payable monthly, was launched, which became very popular and it resulted in significant increase in deposits. The scheme not only helped to mobilize funds from public but also helped in developing the habit of saving among Thai population.

The Bank increased its capital for second time on 28\textsuperscript{th} July 1953, from Baht 20 million to 50 million, to ensure stability and
expanding its activities. In the process the Ministry of Economic Affairs become a major shareholder of the Bangkok Bank.

As the government became a major shareholder of the Bank, Gen. Siri Siriyodhin the Deputy Ministry Economic Affairs as also of Agriculture, was employed to replace Gen. Chao Phraya Ramrakhop, as Chairman of the Bank’s Board of Directors. At the same time, in 1953 Boonchu Rajanastien was promoted from Auditor to Chief Accountant.

The Bank initiated a programme of reforming its operational procedures. The new scheme of internal control was introduced, responsibilities were redefined and delegated, accounting machines were introduced to replace manual accounts keeping procedure and accounts were divided into Business Accounts and Personal Accounts.

According to the Annual Report of 1953, “In 1953 much change took place in the Bank’s administrative structure and improvements were effected in all work units. Control and Communications in particular, were upgraded. The staff grows in size by one third and nine new accounting machines were installed. A fifth domestic branch was opened in Sungaikolok.”

In 1953 several divisions were set up to handle the various operations of the Bank, namely the Central, Cash, Foreign, Current Accounts, Special Accounts, Relations with the central Bank, and Branch Administration.
In 1954 this framework was reorganized which gave rise to Accounting, Foreign, and Cash Departments, Secretarial, Audit, Provincial Branch Administration, Statistics and Research, Foreign Exchange, and General Affairs Divisions™.

Additional staff members were appointed having University degrees, having special skills and experience in banking and accountancy and also those having knowledge about business activities.

As accounting machines were used, it accepted in balancing the books daily instead of every week or two weeks as in the past.

As the Bank received strong support of the government, it contributed significantly to wards promotion of industrialization in response to the post Korean was recession.” By the end of 1954, the tenth year of Bank’s existence, loans extended to industrial units reached the level of 17 percent of the total loans and overdrafts granted.

“After importing and exporting for years, our merchants became more confident of their overall skills and sought to set up manufacturing plants of their own. The great expense incurred in setting up is, of course, the purchase of machinery. As the Bank’s Credit was good abroad, we were able to secure suppliers credit of 5, 8 to 10 years, we provided letters of guarantee and credit and the entrepreneur paid for his machinery, plant and land over a period of years.”
According to Boonchu Rojanasatien, “Right from the beginning we had to compete with foreign banks in delivering banking services and in particular providing international trade financing. For this reason we sought experienced hands to help us.”

### 3.2.3 Expansion Abroad:

The idea of opening new branches abroad emerged during the period of increasing competition among banks, each bank was eager to open branches in other areas for mobilizing more funds from Thai saving community. The Bangkok bank decided to open branches abroad for mobilizing funds so as to promote industrialization in the country. The management of the Bank felt that, as the war was over and there was break up of old colonial empires, trade will become increasingly internationalized. Hence the first foreign branch was opened on 24th June 1954 in Hong Kong, with a staff of 24 employees.

According to Dr. Serm Vinitchaikul in his message stated that, “To open a foreign branch, skill and expertise in marketing are very necessary together with a thorough knowledge of the environment that pertains in the host country. A bank branch established abroad, if thus endowed, can do much towards the expansion of business; seek out markets and increase exports, a vital element in the development of our nation’s economy.”

As the bank was making good progress, the Thai political environment was changing. After the World War II, political power
was in the authoritarian hands of Field Marshal Pibulsongkhram, although the bank was not involved in politics. By 1957 popularity of this authoritarian government decreased. The election of his party and his appointment as Prime Minister were widely criticized as dishonest. Under these circumstances, in September 1957, General Sarit Thanarat, the Minister of Defense and Commander-in-chief of the army staged a coup d'etat. Effective power remained in the hands of General Sarit, who was appointed as Military Governor of Bangkok. Under these circumstances, a member of the Bangkok Bank’s Board of Directors, Air Vice-Marshall Chaloemkiet Wathanangkur proposed himself as the Chairman of the Board, as he had intimate relationship with General Sarit. In order to preserve the independence of the Bank and to avoid over-involvement in a highly unpredictable to accept the Chairmanship of the Bank. The Bank selected him as he was a powerful personality, with a distinctive political role, although he was not much popular like General Sarit. General Prapas officially became Chairman of the Bangkok Bank on 4th December 1957 and remained for next 16 years. He never permitted his political role to be confused with his honest service to the Bank.

The Bank’s programme of opening branches in foreign countries was continued in spite of political pressure impinging on the Bank. In the year 1957 the Bank opened two new foreign branches one at Singapore and the other in London. In a short period
of time the Singapore branch prospered and grew with its host country.

The London branch was opened on 24th June 1957 with the aim of acting as a clearing house for the Bank’s sterling transactions and to obtain credit facilities in this important money market-centre. This step enabled the Bank to change its role from trade and business finances to a fully fledged participant in the international money market.

The Bank’s foreign branch network was helpful for the Bank to cover not only Southeast Asia, but also to dominate in the world’s major financial and trading centres.

In January 1959 the Kuala Lumpur branch was opened in the heart of Malayan capital’s business district and it also made good progress in a short time. In 1960 a second branch office was opened in Hong Kong. Thus the Bank’s progress and lead was assured. According to Boonchu Rojanastien, “The policy of the Singapore Branch was that every time any occasion occurred for financing Thai Singapore trade or trade between any countries in the ASEAN region, they were to treat it as a priority. This was because it was the principle of ours to support the aspirations of the region with regard to trade promotion. Our bank was to be a tool in the realization of such ideals.”

As the President Chin Sophonpanich had to spend a long time between 1958 to 1963 abroad for forging the way and guiding the
growth of the foreign branch network, in his absence his deputy Boonchu Rojanasatien had to manage the Bangkok Bank and its domestic operations on sound lines. During this period the Bank’s credit policy was made more sophisticated. Earlier adequate collateral was the absolute criteria for deciding to extend loan. But now the feasibility of the project and the record of the entrepreneur were given more weight for sanctioning credit and loan facilities.

During the years 1959 and 1960, at the national level the basis was laid down for promoting future economic development. Agricultural production was promoted and the principles were laid down for encouraging foreign investment. Essential ground work was prepared for economic planning in Thailand. The First National Economic Development Plan was implemented in 1961. The Bangkok bank also aligned its operations so as to contribute towards achievement of the objectives laid down in the plan. The Bank mobilized huge funds from domestic and foreign sources and made them easily available for investment in almost all the sectors of the economy. The Bank continued to play ever increasing role not only in production activities but also in promoting social services, especially in the areas of education and public health. It started publishing “The Bangkok Bank Monthly Review” in English to report and analysis its economic and financial movements.

During 1958 and 1960 the domestic branch network was expanded especially in Bangkok seven branch offices were opened at various strategic points. In the year 1959 a new six storey annex was
completed at the head office to accommodate expanding staff and its growing volume of business.

During the interview on 15th September 1978, Boonchu Rajanastien said that, “In those days we saw the need was greater technical competence, so to advise the management. This also improved the quality of our publications, particularly Annual Reports and enabled us to put out the Monthly Review which proved a reliable source of information on Thailand for bankers and business executives throughout the world. The publication served to spread the good name of the Bangkok Bank, especially among major banks abroad which rated our credit standing very highly as a result of our proven professionalism and expertise of international standard.”

3.2.4 The summary of operations – second period:

“In its second period (1952-1960) the Bank showed strong growth in all aspects of its operations. The total assets had surpassed Baht 100 million in 1953 to Baht 1000 million in 1959 and at end of 1960 they stood at Baht 1,352.5 million. Deposits reached Baht 1000 million in mid 1953 and by end of 1960 had increased almost tenfold to Baht 995.8 million. Loans and advances (including overdrafts and bills discounted) reached Baht 100 million in mid 1953 and Baht 887.5 million at the end of 1960. After opening of the Bank’s second foreign branch in Tokyo in 1955, the Bank’s borrowings passed the Baht 100 million marks. By 1960 branches numbered 25, 19 domestic and 6 foreign and the staff had grown to 839.
Thailand had been preparing itself for faster economic growth in the years ahead and the Bank too had prepared itself to keep in step with the progress to come.¹⁶

3.3 Third Period (1961-1970): Innovation:

During this period the world was changing fast. Great technological progress took place. Thailand’s economy was developing fast and the Bank too made significant progress through innovation in every field.

Under the authoritarian leadership of Field Marshall Sarit Thanarat, the First National Development Plan was initiated with the following main objectives.

1) To increase growth in GNP and per capital GNP by 5 and 3 percent respectively.
2) To keep the rate of capital formation at an average of 15 percent to GNP.
3) To raise agricultural productivity by 3 percent per year.
4) To increase the value of industrial production from 10 to 12 percent of GNP.
5) To increase value of exports and imports by 4 percent per year.
6) To promote socio economic services especially transport and communications, public health education and power production.

7) To increase budgetary expenditure by Baht 100 million per year and

8) The economic development allotment from 20 percent in 1961 to 29 percent in 1966.

The main emphasis was on the development of infrastructure by the public sector, believing that:

The Bank also started taking steps to promote the capital market and to familiarize the public with its workings so that they can participate in this process to contribute to economic development of the nation.

In order to maintain healthy industrial relations the Bank opened a large staff club fully equipped with staff clinic. A large number of seminars were arranged for branch managers and divisional chiefs so that their experiences could be shared and problems be solved through exchange of ideas.

In 1963 five more branches were opened including that on Silom Road which later became city’s chief financial district.

On June 9th, 1964 the Bank opened a special branch for women, at Ratchathevi Circle, staffed entirely by women employees,
which was the first of its kind in Southeast Asia. This step helped the Bank to make it popular among women community. It also made a significant progress.

As the Thrift Account became popular among Thais a further step in this direction was taken by the establishment of the “Home Building Saving Account.” Under this account, after making regular deposit over a period of time, a customer can get a loan on easy no’s considered as creditworthy as they have no other collateral security except their crops commercial banks do not take risk by sanctioning loans to them. The Bangkok Bank persuaded Thai farmers to form groups to take joint responsibility for their loans. This scheme became popular among the farmers and the Bank started extending credit facilities to the formers, it was only in 1975 The Bank of Thailand made it obligatory to commercial banks to allocate funds for agricultural credit extension. Thus the Bank played a pioneer role in providing credit to Thai farmer community.

In 1962 the Bank’s branch network was further expanded by opening new branch offices in Bangkok and six in the provinces. One foreign branch was also opened in Saigon in Cholon district.

In 1963 the Bank decided to serve a man on the street through implementing a campaign to draw customer from the men on the street, rather than providing credit to big industrialists and financing important government development projects such as electricity generation, irrigation and road and rail transport. The campaign was
carried out on two fronts: deposits and credits. On the deposit side the Bank set up “Thrift Accounts” for customers to make regular deposits so as acquire the saving habit. This account also became popular soon. At the same time the Bank instituted a new service “personal loans” to help fixed income earners to obtain funds for major purchases. This will stimulate private sector investment so as to achieve higher rate of economic growth.

The government’s monetary and fiscal policies were redesigned to serve the plan objectives and to ensure economic stability. It was also become necessary to review the Commercial Banking Act of 1945 and the Commercial Banking Act, 1962 was enacted with the three chief objectives. These were:

1) To protect the interests of the public and to promote public faith in the banking system.

2) To promote the growth of the banking system by ensuring its stability and efficiency and by providing commercial bank’s with a defined role in the economic development of the nation.

3) To provide the government with the means to ensure monetary stability.

The Commercial Banking Act of 1962, proved to be extremely effective and contributed towards providing sound basis for the rapid progress of the commercial banks in the years to come.
The Bangkok Bank continued making progress as a leader and innovator among commercial banks in Thailand. In 1961, five new provincial branches were opened and two foreign branches were opened in Hong Kong and Saigon. Thus the Bank was successful in expanding its activities over wider areas. As the accounting activities increased, they were mechanized in 1961.

In the year 1962 the Bank introduced several major innovations such as establishing the Research and Planning Department, the Business Department, The Agricultural Credit Department.

Regarding the Research and Planning Department Annual Report 1962 stated that, “In order to ensure that the growth in our operations should be in keeping with the changing conditions about us, and to serve the nation’s economy, the Bank sought to study these conditions to determine how and why change takes place. All the aspects of the economy and has used the results of the study to determine what moves should be made. The duties of gathering information, evaluating it and laying down plans have now placed in one unit which was set up this year.”

Business Department was established to supervise the Bank’s extensions of credit in systematic manner the credit offices in the Department studied how deeply the Bank has been involved in foreign trade and to study its involvement in local business. The
Department was empowered to grant credit and guide its extension in keeping with the Bank's credit policy.

Taking into consideration the importance of agriculture in the nation’s economy and in keeping with the government’s policy of rural development, the Bank in November 1962 created the Agricultural Credit Department. As Thai agriculture mainly depends upon weather conditions, the farmers are terms for the purchase of assets like land and house. This scheme was launched at such a time that there was a beginning of the boom in Thailand's housing activities.

In 1964 the Bank opened Thailand's first “drive-in” bank in Bangkok's prosperous Bangkapi district. It also became very popular soon.

In order to educate the public in economic matters, a regular column was provided by the Bank in a popular Siam Rate Weekly Review. Later on the house paper entitled “Economic News” began to appear for the information of the staff, which later became “The Bangkok Bank Monthly Review”. It was published in Thai, English and later on in Chinese versions and was distributed throughout the world.

The Bank’s efforts of opening foreign branches were effective in promoting activities in other countries such as in Malaysia. While mentioning the contribution of the Bank, the Prime Minister of Malaysia, Tunku Abdul Rahman said, “the opening of this branch is
a single event, for our two countries are closely linked by trade, in particular in rice and without this Bank trade would be much less convenient than it is. The opening of this branch office will certainly do much to aid the expansion of trade between us. With its cable management the Bank has gained the trust not only of the Thai government by my government too."19

In 1965 the Vietnam was reach the peak of ferocity and most of Indochina the battlefield for the Communist and Free world camps. But Thailand remained neutral and stable, and the process of economic development remained making steady progress in spite of grave imbalances in the development efforts. The Bank was successful, under such conditions in maintaining faith in the security of the nation, along with its staff, depositors and shareholder and continued on its steady path of the progress. In order to meet expanding its operations the Bank increased its capital to 200 million Baht.

In 1965, on 5th November the Bank’s representative office was opened in New York, as a result of growing closeness between the Bank and its correspondent Banks in the USA and also by the Bank’s increasing role in financing foreign trade. It also opened a new opportunity for the Bank to mobilize funds from this important money market and helped the Bank in playing a role of public relations of Thailand. It reflected stability in this troubled region.
As a result of the efforts of expansion the Bank’s staff increased to 2473 by the end of 1965, hence to manage the staff effectively the personnel Department was set up in July 1965. The staff was also encouraged to participate in the ownership of the Bank by way of allocating a part of each staff member’s provident fund for purchasing the shares of the Bank at par value. As Chatri Sophonpanich the President of the Bangkok Bank said, “This move of the Bank was to recreate the zeal of the Bank’s early days when all those involved felt they had a stake in the success of the institution.”

In 1965 the first Domestic Branch Management Seminar was held, which proved to be useful and it became a regular biennial event in the following period. In the same year the Bank’s library was established with rich and up to date reference material on economics, finance, banking and other related areas.

During 1966 American involvement in the Vietnam War increased and hostility also became more serious which affected Thai economy adversely. It discourages foreign investors even though Thailand remained stable and secure. During this period the Bank had to play a dual role of making up for the loss in economic activities and of creating proper understanding among foreign investors regarding the real environment in Thailand. In an effort in this direction, the Bank published the Book on “Facts and Figures-and Investor’s Guide to Thailand” which was distributed in a “Seminar on Investment in Thailand” organized by the Asia Society,
Supported by the Bangkok Bank at the first ASEAN International Trade Fair.

In 1966 the Bank started a new service for encouraging economic activities, known as “Credit for Small Businesses.” The scheme was useful for trading service and Industrial enterprises especially run by Thais, who had contributed to national economic activities. The scheme helped these organizations to expand and modernize their undertakings. As a result there was increase in production and generation of employment opportunities.

The Bank, with a view to improve its services to the public, opened a “Foreign Exchange Bank.” The Bank also introduced a punch card system and IBM’s electronic accounting machine No 6400 was useful in faster processing of deposit and withdrawals, to the satisfaction of the customers. This step led to the computerization in future.

In 1966 it was noticed that the adding activities of the Bank had increased significantly, which were performed by a division in the secretarial Department. So it was decided to set up a special Department having scope and authority to audit the operations of other departments and all the branches of the Bank. So the Audit Department was established with Damrong Krishnamara as its first manager.
Under the staff Benefit scheme which was introduced in 1966, the Bank made available plots on 80 rai land in the suburbs for Staff members to construct homes for them.

The second Economic and Social Economic and Social (1967-1971) set the target at achievement of social economic growth at 8.5 percent per annum and emphasized the role of private sector in development of industry trade and services, whereas the First Plan had emphasis on development of public sector.

In recognition of the outstanding performance of the Bangkok Bank and its contribution towards national development, H.M the king graciously bestowed upon it the right of displaying the royal Garuda symbol.

In 1967 the Bank initiated its Advisory Service for Education Abroad for Thai parents having desire to send their children for education abroad, who were facing difficulties in selecting countries, schools, accommodation and travel. The Bank also undertook this task and provided guidance and financial transactions required. This service became popular in following years. By the end of 1967 the assets of the Bank increased to Baht 6,200 million. As the Second Five year plan launched, it stimulated business activities in the private sector, which increased demand for capital for investments. So the Bank’s management decided to increase the capital fund of the Bank from Baht 200 million to 400 million on 6th March 1968. The Bank made 100,000 shares available to staff members so as to
increase their participation in the ownership of the Bank.

On 24th June 1968, a foreign branch was opened in Jakarta, which was 12th foreign branch office. It was for the first time that an Asian incorporated bank was granted permission to operate in Indonesia.

In the year 1968 two new services were introduced, namely “Loans for the Purchase of Machinery” and “Night Deposits.” The basis of the Loans for the Purchase of Machinery Service was the efforts of the Bank to acquire credit abroad at lower rate of interest, on the basis of confidence and trust that was built up over the years by the Bank. The Bank approached the Export – Import Bank of the USA, which extended an initial export credit line of Baht 20 million for the purchase of capital goods from the United States. These loans were repayable in ten years and carried a low rate of interest of 7 percent per annum. The Bank also acquired further credit from the Import Bank focusing construction.

The Night Deposit service was first introduced at the Pratunam branch situated near Bangkok’s famous all night market. This operated during night hours to deposit their takings safely when they closed, without waiting for the banks to open on the following day.

As the loans were the chief source of the Bank’s income, training courses for credit officers were initiated in April 1968.
The Bank decided to take a further step in direction of computerization, on 11th June 1969, IBM's system 360 Model 30 was installed at a cost of 40 million. Although it was a risk at that time, it proved much useful and paved the way for more technological innovation that helped the Bank to achieve progress of banking technology in tune with the Banks in developed countries of the world.

The Bank had the investment Bureau which was taking part in the capital market, but as the commercial banks were prohibited in undertaking such activities, the Bangkok’s First Investment and Trust Company Ltd was set up in 1969.

In 1970, it was observed that the trade relations between Japan and Thailand increased, hence the Bank decided to open a branch in Osaka, through which most of Thai Japanese trade passed. The services of the Bank could be made available at the place away from Tokyo branch at about 550 miles away. The Osaka branch was opened on 13th April 1970 which the 14th foreign branch office of the Bank. The administrative were Thais and the desk staff Japanese at this branch office.

In 1970 the Bank became a public company and its shares were freely traded. Thus the Bank tried to maintain stability with popularity as a “blue chip”. Investment contributed towards promoting stock exchange in Thailand.
3.4 Fourth period (1971-1995)

After making significant progress and laying down sound foundation, the Bank continued its contribution in various sectors to promote economic development of the nation, which may be summarized as follows.

3.4.1 Industrial production:

The Bank’s role in promoting industrialization led to the expansion and diversification of the manufacturing sector. Originally only unsophisticated industries such as rice mills and saw mills were in operation, later on sugar manufacture, match manufacture, import substitution industries such as paper, steel rods, metal tools, sanitary ware, canned food, animal feed electrical appliances etc. were set up, it was followed by export oriented industries were developed, including textiles, agro industries, computers and parts and integrated circuits. Soon exports of these products steadily increased which have become Thailand’s principal export items at present; Bangkok Bank has played a significant role in promoting the expansion and diversification of the manufacturing sector in terms of production volume and product variety. Most of the Bank’s customers of early period have become large and important manufacturers at present.
3.4.2 Agricultural and Rural Development:

Agriculture has been the backbone of the Thai economy as majority of Thais depended on agriculture, which had to face severe problems in respect of production transportation, storage and marketing. As a result they were living in utter poverty without having any investable funds. Bangkok bank was aware about these problems; hence the agricultural credit service was launched for providing financial assistance to these farmers by way of forming their groups. This scheme was appreciated by the Bank of Thailand and in 1975 it made obligatory to all the commercial banks to allocate part of their total funds for agricultural credit extension. On account of pioneering efforts of the Bangkok Bank, majority of Thai population depending on agriculture has been benefited significantly. Even today all commercial banks are required to provide these credit facilities under the scheme of “rural credits.”

In order to promote rapid progress in agricultural development, the Bangkok provided a package of assistance to farmers which included not only credit but also technological, management and marketing assistance, so as to make them cost effective and more efficient. The Bank continued providing a series of such packages in later period which are contributing towards improving the welfare of farmer community.

The Bangkok Bank responded fully to the government policy of distributing progress to the rural areas by allocating funds for rural
credit extension in a proportion specified by the Bank of Thailand. The Bank restructured its Agricultural Credit Department for extending credit facilities directly to farmers and also to agribusiness and even to small scale industries along with the integrated projects. In order to promote rural development the Bank cooperated with the government and provided funds for investment to pilot projects in rural areas of Ubon Ratchathani and Sisaket provinces along with implementation of the rural business development project. They also provided support to government policy of distributing progress to the rural areas by giving high priority to its credit extension in Zone-3.

3.4.3 Development of small scale Enterprises:

In the process of distribution of locally produced or imported goods, wholesalers and retailers play an important role in marketing these products to consumers. Retailers, who are small entrepreneurs, are widely scattered throughout the country servicing customers directly. In order to help this section of the society the Bank had introduced “credit services for small-sized business” since 1966. The scheme has become popular, which had made it possible for the Bank to provide financial services to the public more widely. Under the scheme now financial assistance is provided to Thai entrepreneurs, small industrialists, and new small sized ventures for improving their performance. Thus the Bank has played a key role in improving the standard of living of the masses and increasing employment opportunities in the economy.
3.4.4 Mobilizing Domestic savings:

The Bangkok Bank has played an effective role as intermediary in the process of mobilizing domestic saving for making them available to investors on acceptable terms. Under saving mobilization campaign the Bank had introduced various types of deposit schemes, of which the special saving account or “Sinn Matthaya” scheme was much popular. It also helped in creating discipline for savings and stimulating the desire to save of the general public.

Bank also was successful in tapping sources of funds from major foreign markets through its foreign branch network.

3.4.5 Providing Speedy Financial Services:

As the convenience and speed are said to be a key for running business organizations successfully, The Bank had taken several steps such as development of network of 5 its branches, providing facilities for transferring funds for payments, using modern computer technology and telecommunication systems etc to serve its customers in the best possible ways. Its new services such as international transfer of funds through the satellite system, 247 ATM services, an online computerized deposit system covering the country as a whole, the teletrade system, the office banking system and other information services through the communication link between the Bank and customers’ offices, global communication network connecting
computer networks of overseas branches with those of the Head Office and domestic branches, on line computerized export-import serving centre etc. Thus the Bank tried to improve quality and efficiency of its international trade services to enhance the capabilities of Thai traders and the country as a whole to survive successfully in the modern era of liberalization and globalization.

3.4.6 Promoting Infrastructural Facilities:

In order to achieve the objectives mentioned, in the First National Economic Development Plan (1961-1965) which included raising per capita income, increasing agricultural and industrial production, accelerating exports and strengthening economic stability etc. it was necessary to make huge investment in developing infrastructural services such as transport and communication, water supply irrigation projects, electricity etc. It was also necessary to stimulate private investment in the economy. Thai plans are pursuing their objectives over several Development plans that are being implemented. The Bangkok Bank has supplied financial assistance from initial stages if planning esp. for Yanhee hydro-electricity project, several irrigation projects, Expressway Project, mass transit electric train project etc.

3.4.7 Development of Capital Market:

Bangkok Bank has played a pioneering role in development of capital market in Thailand. It has been successful in making
activities of capital market popular among the public and motivating them to actively participate in the process of economic development through investing in shares and debentures in the capital market. The Bank had established the Fiduciary Section to advise and induce people to realize the value and benefits from investment in securities. Thus the Bank has been successful in obtaining public support for invest mental efforts of the government. Since 1969 the Bank has cooperated with a foreign bank in pioneering a new market by establishing bank in pioneering a new market by establishing Bangkok First Investment and Trust Company Ltd. As the Bank was not allowed to participate directly in capital market activities, it has contributed significantly to the development of capital market indirectly through inducing the public to participate in it. Thus the Bank has played an important role to start a new era for the finance and securities company business which thrived rapidly in the following years.

3.4.8 Addressing Economic and Financial Problems:

The Bangkok Bank has also taken a lead in providing assistance and cooperation from the private sector during trouble and difficult times. For example, in mid 1979 a crisis took place in local financial system due to severe liquidity problem faced by a large financial and securities company as a result of mismanagement. It led to the crisis in the finance and security company industry and Stock Exchange of Thailand. The Bank of Thailand adopted several
measures to increase liquidity and restore stability, and to regain investor's confidence in the stock market. It also solicited cooperation from Thai Bankers' Association to establish the 1000 million Capital Market Development Fund, where the Bangkok Bank played a leading role.

In October 1983 another crisis developed and several finance and securities companies were caught up in severe shortage of liquidity, which made them impossible to repay loans and promissory notes dues. To overcome the problem, the monetary authorities adopted several measures; one of them was a request to 16 Thai commercial banks to contribute Baht 5000 million Liquidity Fund for Financial Institutions. The Bangkok Bank promptly contributed its share in fall.

The Bank also assisted Thailand to develop into financial centre for Indochina

3.4.9 Promotion of Education:

As quality manpower is essential for achieving rapid economic progress of a nation, The Bank since long has taken lead in promoting education on priority basis. Since 1963 scholarships are given to students annually at all levels of education and special scholarships for students attending medicine, who are ready to work in rural areas and in nursing, who will work as nurses in crown Prince Hospitals. Scholarships are also given for those who want to pursue post graduate studies abroad. In addition the Bank has been
participating in construction school building in rural areas in cooperation with the Ministry of Interior.

3.4.10 Dissemination of Knowledge and Information:

The Bangkok Bank has also taken initiative by way of launching various programmes to disseminate knowledge and information to the public at large on regular basis. For this purpose a variety of media including radio, television, newspapers etc are used extensively. The Bank also regularly publishes “Bangkok Bank Monthly Review” in English and Chinese, consisting of articles on economic, financial and industrial developments in Thailand and abroad. Annual-Reports published by the Bank since 1953, provide relevant information to the shareholders, customers and other related parties, about various activities undertaken by the Bank along with its Balance sheets and Profit and Loss Accounts. Thus the Bank has taken care to maintain transparency in its financial transactions.

3.4.11 Preservation of Arts and Culture:

In order to meet its social responsibility the Bank has undertaken several steps to preserve and propagate Thai arts and culture. In the field of language and literature, the Bank arranges contests on Thai literature, essay competition, books competition, to win Bua Luang prize for books for children and youths.

In the field of music and dance, the Bank has established the “Musical Art Centre” with an objective of preserving, promoting and
propagating Thai culture by stimulating development of Thai music and dance, various activities is arranged on weekly basis in this respect.

The Bank also arranges exhibitions of native arts, open to public free of charge, and arranges competitions in this field also. Thus the Bank is contributing significantly towards development of socio economic development of Thai society. "This institution has metamorphosed from a small and insignificant business entity into a leading finance house that now operations in a world of change, intensifying competition and becoming borderless. However the Bank continues to take far into the future with full confidence and hope and is firmly determined to execute its duties as a bank of the general public to the maximum extent. It is prepared to make full use of its resources to render services to the public in the decades to come."

On account of the Bank's contribution to the process of economic development and efficient financial management, the Bank was successful in maintaining public confidence and face challenges generated by severe economic crisis faced by the Thai economy in the following years.

3.5.1 Developments during 1995:

“The global scenario throughout 1995 continued to be fraught with conflicts, rivalry and friction. On the economic front many trade disputes remain unsolved. A degree of success was achieved by the International Community; however, as having brought the Uruguay Round of GATT to completion near the end of the previous year, it established the World Trade Organisation as a means to realize greater and free global trade. This in effect, provides a central forum and neutral platform for consultation and negotiation among the trading nations of the world. Despite this measure of progress, trade conflicts continue to be major cause of strain in international relations. This is especially true in case of the USA and East Asian powers including Japan, The People’s Republic of China and South Korea. The USA has leveled accusations against these countries of conducting unfair trade practices by employing non tariff and tariff barriers, while adopting a lax attitude towards intellectual property protection. The US has therefore applied pressure on the governments of these nations to urgently rectify this situation.”

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<td><strong>4. Current Account Balances</strong></td>
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(us$ bn.)

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Source – IMF World Economic Outlook December 1997

On the political and social front military conflicts were observed as nations contend for their ethnic and land rights in various regions of the world. In developing countries in Asia and the Middle East there were conflicts about the enhancement of their military strengths which reflected in an atmosphere of uncertainly and insecurity. There were conflicts among the large powerful countries among themselves. For example, the strong disagreement had developed between the government of the People’s Republic of China and that of the USA, over the opportunity granted by the USA to the President of Taiwan to visit that country and in respect of
other issues. Inspire of worldwide protests the French nuclear bomb testing continued.

In spite of these developments, the world economy, during 1995 continued to grow at 3.8 percent, which was marginally slower than the proceeding year, on account of slower rate of growth among most of the industrial economics. The Japanese economy was under the pressure of negative effects of the strong yen and the recorded bad debt burden on the financial institutions. As a result other countries in Asia experienced slower growth in their economics.23

In spite of these developments “The Thai economy continued its vibrant growth of about 8.6 percent, although there were various difficulties from both, within and outside the country, such as volatility of the foreign exchange markets, the depreciation of the value of American dollar, the domestic inflationary pressure leading to a tight money policy by the Bank of Thailand. In addition extensive flooded during September to November, causing huge damage to properties and huge financial loss.”

The economic growth rate of 8.6 percent was the result of several factors, both local and overseas. These include significant growth in exports at 25 percent as rice and rubber and other agricultural products performed very well, as important competitors had to face problems like natural calamities. Industrial exports also performed better. Thai exporters could expand their markets in ASEAN countries. There was significant progress in domestic
consumer market, and there was rise in prices for agricultural products. In addition, there was rise in investment in government enterprises and in the private sector in those projects where concessions were granted by authorities. In spite of certain limitations the Thai economy could maintain its rate of growth at 8.6 percent.

In order to keep pace with the rapidly changing global economic and trade situation appropriate improvements were undertaken, especially formation of regional trade associations, the implementation of tariff restrictions in line with the GATT agreement since beginning at 1995.

These developments resulted into intense competition which affected several countries including Thailand as their economics were opened up and hence linked with those in the rest of the world. Under the GATT trade agreement of which Thailand was a signatory had to open up its markets to receive goods and services from industrial countries and had to provide greater protection to intellectual property Thailand had to open up market for services including financial services, insurance and communications etc which led to the increase in competition for the domestic players. Under the Bangkok International Banking Facilities (BIBF), twenty one new foreign banks opened up their offices in Thailand. According to the official financial system development plan, financial institutions are permitted to engage in more overlapping financial activities, while more local commercial banks were
established. Thus there was increase in competition not only in commercial banking sector but also in other sectors.

In order to develop competitive potential, The Bangkok Bank Public Company Limited, made efforts to improve its efficiency especially by providing better services to its clients and developing its personnel, improving its accounting system and also information system for decision making, introducing the latest technology and equipments to its work system. The Bank also tried to find new avenues for fee based income, through its investment banking activities and developing businesses relating to credit cards.

The Bangkok Bank prepared its long term policies and planned guidelines for its operations to maintain its status and role as a leading Asian book in future. Its plan aimed at the following achievements:

i) At the international level the Bank was to maintain its leadership role as one of the best managed banks in Asia and expand its activities thought the region. It was decided to exploit opportunities provided by the free market policy existing in Asia and the growing economics in East to expand its business. It also aimed at cooperating the government’s policy to develop Thailand as a regional financial centre.

ii) Domestically the Bank aimed at providing efficient financial services and making efforts to fulfill its role as a leading, modern and efficient bank. The Bank aimed at providing new service
facilities such as investment banking, credit card and mutual fund. The Bank also started adopting financial innovations to make available to its customers all suitable instruments and services.

The Bangkok Bank contributed significantly towards economic development of Thai economy, by way of providing advances for several activities that helped the economy to attain higher rate of growth rate at 8.6 percent during the year 1995.

The operations of the Bank during 1995 may be summarized as follows:

i) Assets at the end of year 1995, amount to Baht 1,035,448 million, an increase over the previous year by Baht 137,074 million indicating 15.3 percent. This was the first time in the Bank’s history that the total assets increased to the level of Baht 1,000,000 million. After tax profits were at 19702 million Baht, an increase over previous year by 13.5 percent.

ii) Deposits are considered as vital to banking operations. As there was higher increase in demand for credit as compared to the growth in deposits, The Bank launched a saving campaign from May-June 1995 under the caption “OUR BAHT” for mobilizing idle savings into deposits. As a result the total deposits stood at Baht 770423 million, indicating an increase by 17.2 percent over the previous year. Regarding credit facilities, the total among of credit extended was Baht 853559 million and increase of 15.1 percent over the preceding year.
iii) The process of development of Bank network reached at the level of 22 new domestic branches of which 3 were located in Bangkok Metropolitan area and 19 in provinces. In order to maintain the Bank’s profile as a leading regional bank, two new overseas offices were opened, as Manila branch in the Philippines and a Taichung sub branch in Taiwan, and the Hanoi representative office was up graded to a sub branch. By the end of 1995, the total number of local and overseas branches stood at 478 of which 133 were in the Bangkok Metropolitan area, 323 in the provincial areas and 22 abroad. The Bangkok Bank had three representative offices, one each in Beijing, Cheng du and Yangon and a fully owned subsidiary bank in Malaysia.

The Bangkok Bank also planned for constructing a large new head office complex on Rama 3 Road in Yannawa District, Bangkok.

3.5.2 Developments during 1996:

During the year 1996, the international environment was characterized by friction and rivalry as various countries in the world ware in conflict with each other on an account of differences on both economic and political matters. The year was also characterized by significant changes as elections took place in several countries, which brought about significant changes in both political and economic developments.

The global economic environment was characterized by the political and military conflicts. During the year there were pressures
from superpowers, especially the United States which led to significant changes in international economic system. Although free trade was professed, in practice restrictive policies became more common, which led to greater economic conflicts between the USA and China and Japan. “The US accused the Chinese of violating trademark and copyright laws and committing human rights abuses and of making nuclear technology available to Pakistan, while blaming Japan for not being willing to open its markets to American goods, especially the automobiles, computers and telecommunication equipment.” Some industrial countries used pressures to get different nations to open up their markets for industrial products, but developing countries opposed it as they consider themselves being placed in a disadvantageous position. Hence the developing nations were using the framework of the World Trade Organisation (WTO) to play for, as much time as possible, as a means to provide their business units with the opportunity to make necessary adjustments, as they know that it is very difficult to resist these major powers. Hence the meetings at the WTO between these two sides try to protect their own interests and ensure benefit only for themselves.

The world economy was growing at a rate of 3.8 percent on account of “better economic balance”. The US economy achieved its growth rate at about 2.4 percent, mostly due to the implementation of appropriate monetary policy which resulted in economic growth without significant inflationary pressure.
The Japanese economy was showing signs of recovery on account of increase in imports, which led to decline in surplus in respect both, trade and current account, thus reducing their trade imbalance with USA. This was the result of weakening of Yen.

The economic growth of European Union was not significant as the different governments tried to limit their budgetary expenditure as they suffered from large budgetary deficits over a long period of time. However, the major economies of the Union especially Germany, France, and UK had grown at a significant rate.

The developing countries could achieve steady economic progress on account of healthy growth rates of the countries in East Asia and ASEAN.

During 1996 the Thai economy was relatively sluggish due to a drastic reduction in exports as the major products exported to both, traditional and new markets decreased significantly. At the same time investment in the private sector declined as a result of various factors such as Thai exports had to face severe competition in the world market, raise in local production costs especially in the labour intensive industries as wages and salaries were rising in line with the growing economy. As a result Thai exports declined. At the same time, some of the importing countries used protectionist measures and made efforts to promote their intergroup trade at the cost of extra group trade. In addition, the Thai government adopted stringent financial policies to overcome the problem of domestic inflation and
growing current account deficit. These policy measures resulted in significant decrease in private investment, production and expenditure. As a result the Thai economy reflected decline in its growth rate at 6.7 percent, while inflation was running at a rate of 5.9 percent and the current account deficit accounted for 8.2 percent of the GDP. The export sector “The engine of economic growth” had lost its role while the property sector was also facing difficulties the service sector also slowed down. Thus the Thai economy, during 1996 had to face difficult downturn.

As the Bank of Thailand adopted, since 1995 restrictive monetary measures to control inflation and to reduce the deficit in the current account. One of these measures used was to limit the credit expansion of commercial banks, especially for non productive purposes. Another measure was to maintain high rates of interest for rest raining spending of the private sector.

3.5.3 Developments during 1997:

During the year 1997 the Thai economy was not able to take advantage from an expansion in the world economy and trade, on account of structural problems in both the real and the financial sectors and failure to overcome them in time. The chronic current account deficit, the failure to improve the exchange system, used since the end of 1984, in line with the changing conditions, slow growth of industries, rising wages etc resulted into huge borrowings from abroad. The Thai economy’s decade long growth rate created
high pressure on prices and external balances which increased the
dependence on external sources for short term funds.

Thailand’s bubble economy finally burst in May 1997, which
forced the Bank of Thailand to spend a large amount of international
reserves to defend Baht on 2 July 1997 the managed floatation of the
currency, was announced. On account of rapid deterioration of the
financial position the Thai government had to seek financial
assistance from the International Monetary Fund (IMF) of the order
of US $ 17.2 billion on conditions that the government has to follow
strictly the IMF’s monetary and fiscal policy prescription in order to
restore the economy, along with urgent restructuring of the economic
and financial institutional system. The Thai baht slide downwards
from an average of Baht 25.78 to Baht 45.29 in December 1997. In
spite of a highly unfavorable environment, The Bangkok bank
recorded operational result in a satisfactory way. The total assets of
the bank including those of its wholly owned subsidiaries at the end
of 1997 totaled Baht 1,416,435.0 million, indicating 21.9 percent
increase over the earlier year. Deposits and credits also improved. As
the economic recession was in progress the Bank paid special
attention towards maintaining stability and long term security which
are the key factors for conducting business operations. Hence the
Bank set aside reserves for doubtful accounts many times higher than
that in the preceding year, which affected profits, as they declined to
Baht 4,213.9 million i.e. decline of 79.8 percent.
The Bank continued to promote long term savings and fixed deposits, to stimulate domestic savings in line with the government drive. The Bank was also entrusted to manage employees' provided funds of several leading organizations, with combined total value of Baht 3239 million.

Interest rates on deposits were adjusted upwards during the year due to tight liquidity in the financial system and increase in competition among the banks. Thus interest rates were at 10 to 11.5 percent as compared to 8.75 to 9.75 percent at the end of 1996. The Bank’s ratio of liquid assets to deposits was 17.4 percent about 9 percent higher than at the end of 1996. On account of economic and financial crisis adversely affected the economy and business due to the floatation of the baht. Value added tax (VAT) was also raised from 7 percent to 10 percent which affected economic activities.

The Bank continued to expand its revenue base especially that for fee based income by way of underwriting state enterprise bonds so as to contribute to the national economic and social development.

In 1997 operating income of the Bank and its subsidiaries increased to 155,418.5 million Baht indicating 17.0 percent increase over the preceding year. The operating expenses were interest on deposits amounting to Baht 70,002 million, an increase by 4.4 percent over the preceding year, accounting for 43.3 percent total income. Interest and discounts on borrowings from foreign sources and the Bank of Thailand stood at Baht 17,583.0 million, an increase
by 1.3 times, which also was the result of the expansion of deposits and credits and high level of interest rates. In addition the slump in the securities market caused the bank to lose Baht 5,325.9 million on securities sales in 1997 as compared to Baht 89.8 million in 1996. A higher provision for possible losses for maintaining long term stability led to an increase in reserves against possible loan losses from Baht 5,704.6 million to Baht 28,368.2 million, a fourfold increase, accounting for 18.4 percent of total income. The Bank opened another 20 domestic branches so that the total number of branches by the end of 1997 was 521 branch offices.

The profits before tax of the Bank and its subsidiaries totaled 8663.9 million decrease by 72.2 percent. The total taxes paid were Baht 9,532.6 million lower by 35.1 percent or about 6.2 percent of total income.

The Bank continued its efforts to improve its efficiency of its services to its customers. Staff training to ensure customer satisfaction, marketing strategy to expand its deposit base, etc measures were also adopted.

Regarding technological progress the Bank expanded its ATM terminals and several other new services were introduced such as image technology system was introduced that enables to withdraw cheques from other branches, automated cheque clearing system of the Bank of Thailand through development of the Bank’s cheque processing centre, establishment of a new computer centre
developing information network etc. The credit card business was making progress. The bank also made progress in providing community services in the field of education, religion, art and culture, supporting agricultural inventions, blood donation camps etc.  

3.5.4 Developments during 1998:

In 1998 the Thai economy continued to suffer from recession. The economic situation over the past year changed from one affected by the baht crisis to one destabilized by an imbalance and severe liquidity shortage later on. The shortage of liquidity was the result of huge debts of the Financial Institutions Development Fund which increased during the process of providing cheque to the finance companies and commercial banks faced with the ‘bank-run’ and non-performing loan (NPL) problems, during the later part of the year. Due to the scarcity of liquidity, interest rates on deposits and credits rose sharply. Several commercial banks faced the problem of insufficient capital funds and in ability to recapitalize; hence the Bank of Thailand had to intervene. Nonperforming loans in the commercial banking sector increased from 8 percent of outstanding credits by the end of 1997 to 20 percent in mid 1998 and 43.9 percent at the end of 1998. This was the result of severe economic recession and of the change in the requirements for provisioning to cover NPLs from a 12 month to 6 month and finally to a 3 month interest nonaccrual basis.
The main problem faced by financial sector included recession in the real economic sector and domestic demand, as a result of increase in unemployment from 0.6 million to 1.3 billion in 1998. Those employed had to accept cuts in their salaries and bonuses. Business suffered heavy losses about 12000 operating units were closed down. Public was not ready to spend money and consumption expenditure was reduced. There were excess production capacities in many industries and also excess supply of homes. This led to a fall in private sector investment expenditure.

"The economic and financial crisis resulted in significant damage to the commercial banking sector. In addition the banks were required to comply with new rules and regulations, enforce stricter standards on debt classification, income recognition and loan loss reserves”

As a result the Bangkok Bank and its subsidiaries posted net loss of Baht 49,863.0 million. The total assets at the end of 1998 decreased by 16.4 percent i.e. Baht 855396.1 million, while deposits increased by 2.4 percent to Baht 975,037.9 million. Shareholder’s equity decreased by 2.6 percent to Baht 101,145.2 million. At the end of the year, loan loss reserves totaled Baht 102,954.6 million indicating increase of 77.1 percent over the preceding year. It was aimed at achieving the confidence of investor’s shareholders and customers.
The operating fund of Bangkok Bank and its subsidiaries by the end of 1998 decreased by 8.3 percent to 1,240,793.4 million Baht. Deposits stood at Baht 975,037.9 million, accounting for 78.6 percent of the operating fund. Borrowings reached to Baht 60,790.8 million indicating increase of 4.5 percent. The Bank’s shares at the end of 1998 showed increase of 465 million shares which indicates better performance in recapitalization of the Bank.

During the second half of the year liquidity was restored, hence time deposit interest rates for 3 months deposit dropped from 11.50 percent in 1997 to 6 percent by the end of 1998. Interest rates on saving as declined from 5.00 percent to 4.50 percent Bank’s deposits continued to increase in spite of economic crisis. The increase in deposits recorded 2.5 percent to reach Baht 975,037.9 million and the ratio of liquid assets to deposits equaled 26.4 percent as compared to 18.4 percent at the end of the previous year.

The problem of nonperforming loans (NPL) deteriorated as the economy remained sluggish. Commercial banks had to comply more stringent rules on provisioning for possible loan losses. Thus the losses suffered by banks since second half of 1997 weakened the capital base. In order to maintain acceptable capital adequacy ratio, loan growth had to be controlled.

At the end of 1998, net outstanding credits of the Bank and its subsidiaries totaled Baht 855,396.1 million, while credits extended
by the Bangkok Bank decreased by 16.3 percent as compared to the previous year.

In 1998 the consolidated operating income of the Bank and its subsidiaries totaled Baht 133,781.5 million indicating decline of 13.9 percent over the previous year. The consolidated operating expenses reached at Baht 183,644.5 million representing increase of 25.1 percent.

Interest and dividends from investments increased by 199.9 percent but total noninterest income decreased by 6.7 percent on account of decline of 16.6 percent in fees and service charges. Profits from sale of debt instruments also declined by 66.0 percent due to economic recession.

Operating expenses of the Bank in 1998 stood at 182,567.7 million reflecting an increase of 25.0 percent and main expenses were interest on deposits which increased by 29.2 percent, that accounted for 67.9 percent of total income of the Bank.

For the year the combined loss of the Bank and its subsidiaries amounted to Baht 49,863.0 million, as against a net profit of Baht 4,213.9 million. The Bangkok Bank suffered a loss of Baht 49,489.4 million in 1998.

Although the Bank’s operations were affected by the financial and economic crisis, confidence in the Bank continued to be positive. “The Banker magazine ranked the Bangkok Bank, in terms of Tier 1
capital as the 155th largest of the world’s leading commercial Banks and the 16th largest among commercial banks in Asia. The Global custodian journal ranked the bank as “top rated” for excellence in custodial service in emerging stock markets.

“The Bank’s operations policy continued to place strong emphasis on excellence in customer service and on improving efficiency of operations. It also aimed at developing the quality of the personnel and technological and business efficiency.”

The Bank continued its progress in the field of technology and customer services and community services.

3.5.5 Developments during 1999:

In 1999 the Thai economy started recovering and the economy expanded at about 4 percent mainly due to higher level of government spending, the recovery of exports and improved economic stability. The rate of inflation remained low and trading activities expanded and there was increase in the current account surplus. The baht remained stable.

Regarding fiscal policy, budgetary expenditure was lower but non budgetary expenditure increased as compared to the preceding year, as the government disbursed funds as a part of the project to reduce the social impact of the crisis. Reduction in value added tax and personal income tax resulted in increase in the purchasing power of the public.
Exports increased by 7.3 percent in spite of strengthening of Baht, still balance of payment remained in the black. Foreign exchange reserved increased to US $ 32.33 billion, about double of the short term borrowings.

The economic crisis which began in mid 1997 severely affected the operations of Thai commercial banks. The banks strictly followed the regulations of the Bank of Thailand regarding debt classification, the recognition of income and full provision for doubtful accounts by the end of 2000.

Bangkok Bank and its subsidiaries suffered total loss of Baht 59,829.1 million. Total assets by the end of December amounted to Baht 1,181,685.4 million which was 7 percent lower than the previous year. Credits decreased by 11.3 percent to Baht 758,570.9 million, and deposits decreased by 1.4 percent, totaled at Baht 961,458.9 million. The reserves set aside for doubtful debts increased by 63.1 percent and reached at Baht 167,918 million.

Operating funds of the Bangkok Bank and its subsidiaries totaled in 1999 at Baht 1,156,794.4 million which was lower by 6.8 percent than the previous year. Deposits amounted to Baht 961,458.9 million accounting for 83.1 percent of operating funds. Borrowings were at Baht 85,783.3 which was higher by 41.1 percent than the previous year.

As the commercial banks were unable to extend credits for fear of NPL problem and the low demand of private sector credits
resulted in a highly liquid financial system during 1999, hence there banks had to lower deposit interest rates. The Bank of Thailand reduced its standard interest rates.

The credits extended by the Bank of Bangkok excluding interbank and money market items, totaled Baht 754,898.3 million indicating decrease of 11.2 percent. To support the government policy to stimulate the economy. The bank extended credit at lower rate of interest to housing, small and medium industries and arranged several exhibitions.  

3.5.6 Developments during 2000:

During the year 2000 the Thai economy registered growth rate at 4.2 percent. The process of recovery stated due to the recovery of domestic demand and exports which led to industrial expansion. Investment in private sector improved as a result of increase in production in some export related industries.

Fiscal policy continued to play an important role in the economy. Public sector expenditure continued to stimulate economic expansion by way of incurring expenditure of about Baht 15 million. During the monetary policy also aimed at stimulating the private borrowings.

In 2000 top priority was given to reduce Non Performing Loans (NPLs) by all the banks which was a great obstacle for new lending. The strong recovery of the economics of the Southeast
Asian region and the expansion of Japanese economy favoured Thai economy to overcome the crisis situation. Exports increased by 5.5 percent and imports by 12 percent. As a result there was decline in the trade and current account surpluses in 2000.

During the year the manufacturing sector continued to expand especially export, oriented industries, such as vehicles, construction materials, computer parts and accessories. Private sector expenditure increased by 3.2 percent during the year. Restructuring of various organizations started taking place to face the challenges of globalization.

On account of increased investment in export sectors private sector investment also increased significantly by 2.3 percent during the year.

During fiscal year 2000 the government continued its budget deficit to stimulate the economy. The revenue was at Baht 750 million a decrease by 6.3 percent on account of the reduction of personal income tax and value added tax. Budget expenditure was Baht 860 billion, indicating an increase of 4.2 percent over the previous year. Capital outlay also decreased by 6.1 percent as compared to the previous year.

Economic recovery attracted foreign funds, both in the form of direct investment and portfolio investment, with the focus on takeovers and joint ventures in large private businesses and financial institutions. At the same time repayment of foreign debt also
increased. Balance of payments situation remained surplus. However inflation rate recorded 3 percent increase due to strengthening of domestic aggregate demand and rise in oil prices.

In the financial sector liquidity during the year 2000 remained higher in spite of the expansion of the economy at 4 percent. The banking sector however was not still able to expand credit, credit rapidly due to the high level of NPLs and the banks’ need to increase reserves for bad debts.

The Bank of Thailand continued its expansionary policy by keeping interest rates at a low level.

The Bangkok Bank and its subsidiaries recorded a net loss of Baht 18.7 million, due to provisioning of Baht 24.3 billion against bad and doubtful debts.

The total assets of the Bank and its subsidiaries stood at 1,240,210 million Baht, while loans and advances (net of 100m loss provisions) stood at 731,748 million Baht. Total deposits (excluding interbank and money market items) stood at 1,039,321 million Baht, whereas liabilities amounted at Baht 1,206,231 million in 2000. Total income was at 84,698 million Baht, and total loss amounted Baht, 18687 million.

3.5.7 Developments during 2001:

The Thai economy in 2001 recorded growth around 1.5 percent as a result of rise in domestic demand stimulated by
government expenditure Economic stability remained satisfactory as inflation rate lowered at 1.6 percent and the trade balance and current account remained in surplus, though lower than the previous year. The surplus was lower on account of decline in exports, which was adversely affected by the world economic recession. The capital continued to flow out due to old debt repayments, although slowed down as compared to the last year. Hence, the balance of payments recorded a surplus as compared to deficit in 2000. It led to an improvement in the stability of Baht and also increased in official reserves.

During 2001, liquidity in the money market remained high, with deposit growth exceeding lending growth. This resulted in a reduction in the average bank deposit and lending rates from the previous year. The amount of credits extended by commercial banks rose slightly, and profitability of commercial banks started improving in 2001.

The government’s response to the downturn was to stimulate the economy through fiscal measures. The budget deficit was Baht 105 million.

The Bangkok Bank and its subsidiary companies recorded a net profit of Baht 6.5 billion in 2001, as compared to the loss of Baht 18.7 billion in 2000, due to provisioning of Baht 24.3 billion against bad and doubtful debts. But in 2001, requirements for additional
reserves declined significantly as the provisions were reduced to Baht 5.5 million only.

The combined income of the Bank and its subsidiary companies amounted to Baht 72.8 billion in 2001 indicating decreases by 14.0 percent due to the decrease in interest and dividend income, fall in non interest income and net income from investments abroad and decline in profit from foreign exchange transactions.

The total expenses of the Bank and its subsidiaries amounted to Baht 61.2 billion in 2001 indicating decline of 10.4 percent as compared to the year 2000, due to declining interest rates, decrease in noninterest expenses, etc.

The operating profit for the year 2001, before tax and provisions of the Bank and its subsidiary companies amounted to 11.6 billion, a decline from Baht16.4 billion in the previous year due to a reduction in the net income from investments.

Total assets of the Bank and its subsidiary companies at the end of 2001 amounted to Baht 1,252.5 billion, an increase of 1.0 percent as compared to the last year. Important assets included loans, interbank and money market assets and investments in securities.

Total lending by the bank and its subsidiary companies dropped by 8.8 percent to Baht 723.8 billion as new lending did not keep pace with loan repayments. The Bank also transferred Baht
22.5 billion in nonperforming loans to the Thai Asset Management Corporation.

Investment in securities by the Bank increased by 49.9 percent over the year 2000, to reach at Baht 265.0 billion in 2001. Most of the investments were in government and state enterprise securities and in debt instruments. The ratio of securities investments to total assets increased from 14.3 percent to 21.2 percent, due to the high level of liquidity.

Interbank and money transactions also increased by 3.4 percent to Baht 210.0 billion, which accounted for 16.8 percent in the preceding year.

Regarding liabilities for the Bank, and subsidiary companies, include deposits, interbank and money market liabilities and borrowings. The Bank and its subsidiaries had total deposit of Baht 1079.6 billion at the end of 2001, which was higher by 3.9 percent compared to the year 2000 despite declining interest rates.

Borrowing of the Bank and its subsidiary companies totaled Baht 44.0 billion in 2001 indicating decline by 23.9 percent from the previous year, mainly due to the redemption of US $ 350 million convertible bonds. Long term borrowings amounted to Baht 39.7 billion, indicating 90.1 percent of total borrowings.
Interbank and money market liabilities totaled at Baht 23.9 billion, a decrease of 40.9 percent over the earlier year, due to decline in overseas borrowings as a result of high level of liquidity.

The contingent liabilities of the Bank and its subsidiary companies in 2001 declined due to economic conditions guarantees of loans, immature import bills of exchange, liabilities under letters of credit and other contingent liabilities.

The composition of loans include about 61 percent of loans to the manufacturing and commercial sectors, 11.0 percent to the public utilities and services sector and 10.7 percent to property and construction sectors, 8.6 percent for housing and 2.6 percent to agricultural and mining sectors. The bank retains collateral as a means for reducing risk of loss if the borrowers fail to repay obligations. However the value of collateral pledged as guarantee for loans at the end of 2001 calculated according to the criteria of the Bank of Thailand accounted for 60.8 percent of the Bank’s total outstanding loans.

The Bank successfully restructured loans to a value of Baht 139.5 billion during 2001. Its nonperforming loans decreased by 27.6 percent to 106.1 billion accounting 14.7 percent of the total loans by the end of 2001.

The total loans of the Bank and its subsidiaries amounted to Baht 725.7 billion a decrease by 8.8 percent over the year 2000.
At the end of 2001, reserves for bad debts totaled Baht 58.1 billion, indicating increase of 10.6 percent. The ratio of reserves for bad debts to non performing loans increased to 54.8 percent from 35.9 percent in 2000.

At the end of 2001, net investments in securities by the Bank and its subsidiary companies stood at Baht 265.0 billion, an increase of 49.9 percent over the year 2000, mainly due to investments in government securities and state enterprise securities and in debt instruments.

In 2001 the Bangkok Bank continued to play an active role in the community development by providing a wide range of supporting activities including welfare assistance, sponsorship of the arts and education support etc.29

3.5.8 Developments during 2002:

"In 2002 the Thai economy bounced back, growing by 5.2 percent compared with 1.9 percent the previous year. Exports and domestic consumption were the driving forces of economic growth, in line with the government’s dual track policy of encouraging these sectors”.

Private sector spending and consumption expenditure increased significantly while government spending decreased in some quarters. There was a broad based recovery especially in manufacturing sector where production increased in 35 out of 44
industries. On account of rapid growth in domestic demand and also in the manufacturing sector resulted in a reduction of the unemployment rate which decreased to 2.4 percent, the lowest level since the outbreak of the economic crisis.

Key financial measures introduced by the government last year included a low-interest policy and encouragement of increased lending by state owned and specific special financial institutions. This included loans for small and medium sized enterprise (SMEs), housing loans, and loans for low income earners under the Peoples Bank Project. The government also introduced several measures to stimulate the economy at the grass root level such as the “Village Fund” programme and the “One Tambon One project” along with other steps to strengthen and revive the property sector and the stock market.

Lower rates of interest and rising consumer confidence contributed significantly to a recovery in demand of the private sector in both, consumption and investment. At the same time higher prices of agricultural products contributed to about 11.3 percent increase in the earnings of the farm community which stimulated growth in consumption expenditure and increase in the effective demand in the economy as a whole.

In case of exports, in dollar terms, growth was at the level of 5.8 percent in the year 2002, a reversal in the trend as compared to the previous year when total exports were decreased by 6.9 percent.
Thai exports increased in 2002 mainly due to growing demand for major trading partners especially in ASEAN region which increased by 19.7 percent of the total trade.

During the period Baht remained relatively steady. Foreign debt decreased to US $ 60 billion and short term foreign debt was at US $ 14.1 billion. Thailand’s official international reserves totaled US $ 38.9 billion and the current account surplus indicated 6.2 percent of the Gross Domestic Product (GDP) in 2002. The rate of inflation and unemployment remained as low as 0.7 percent and 2.4 percent respectively.

On account of changing business and economic environment, all banks in Thailand were busy in making necessary adjustments in their business strategies. The Bangkok Bank worked out the policy “to grow with our customers and work with them as business partners with long standing and successful relationships.” Many small scale new enterprises could achieve outstanding success with the Bank’s financial and managerial support. Many of them become conglomerates and continued as the distinguished customers of the Bank.

The Bangkok Bank started with major organizational restructuring project in order to improve its services to all types of customers. New business units were established which focused on four types of major customer groups corporate, commercial, small business and consumer. Based on the feedback of the customers’ of
the Bank necessary in the banking services were made to maximize satisfaction of the consumers. Under the condition of increase in competition among various commercial Banks and state owned financial institutions, attempts were made by the Bank to build up strong customer base.

The Bangkok Bank also introduced new financial products such as cash management to add value to the business of corporate customers and also improved its phone banking service. In addition a variety of financial products were offered such as “Bualuang Puengjai” housing loan, which became popular on account of its prompt approval process. The Bank also cooperated with cooperates and developers in offering loans to home buyers.

As small and medium industries played a vital role in the process of recovery of Thai economy the Bank gave priority to these units while sanctioning financial assistance. These units not only supported the export sector but also were successful in absorbing displaced employees as large corporations restructured their operations and reduced number of staff members. As a result there was significant increase in the amount of loans, provided by the Bank to the small and medium enterprises through the schemes of “Bualuang loan for SMEs” and “Ruamjai Pattana SMEs loan”.

In addition to financial support the Bangkok Bank also provided technical support to SMEs by way of conducting training and workshop seminars. The Bank’s training course for SMEs
“Bualuang SME business Planning and Bualuang Financial and Cost Management” started since last four years became popular. The Bank also took initiative in developing network of Business centres to provide specialized services to the SMEs.

As Thailand is a major agricultural process products producer, accounting for 11.8 percent of export earnings. The Bangkok Bank initiated the “Modern Agriculture project” in 2000, to offer courses and seminars for farmers in the field of using of advanced agricultural techniques.

The Bangkok Bank continued its all round efforts to promote the economy under increasing competition to make it a leader in Asia.

The Bangkok Bank and its subsidiary companies recorded a net profit of Baht 6.3 billion in 2002. The non interest income increased by 22.8 percent along with increased in noninterest expenses of the order of 10.1 percent.

The total assets of the Bank and its subsidiary companies in 2002 amounted to Baht 1251.0 billion a decrease of 0.1 percent as compared to the preceding year.

In 2002 net loans increased by Baht 21.1 billion indicating increase of 15.8 percent to 837.9 billion, due to the write back of Baht 88.1 billion according to the amendment of regulation by the Bank of Thailand.
Net investments by the Bank and its subsidiary companies amounted to Baht 323.3 billion in 2002, indicating an increase of 22.0 percent as compared to 2001. Due to high level of liquidity in the financial system, the Bank increased its investment in government and state enterprise securities.

The major categories of liabilities of the Bank and its subsidiary companies totaled Baht 1070.7 billion at the end of 2002 which included deposits, interbank and money market liabilities and borrowings. The total deposits were 1070.7 billion and as compared to preceding year they were lower by 0.8 percent, due to a shift in some deposits towards the purchase of the long term bonds issued by the Financial Institutions Development Fund (FIDF). The Bank participated in the distribution of bonds in support of the government policy.

Borrowings by the Bank and its subsidiary companies stood at Baht 44.3 billion at the end of 2002, indicating increase of 0.5 percent over the year 2001 and the long term borrowings accounted for 90.2 percent of the total borrowings.

Interbank and money market liabilities totaled Baht 21.3 billion, a decrease by 10.9 percent over the preceding year due to reduced borrowings from domestic financial institutions.

The shareholders equity of the Bank and its subsidiary companies, at the end of 2002 increased by 28.5 percent to Baht 55.7
billion as compared to the preceding year, mainly due to the profits during the year.

The total contingent liabilities of the bank and its subsidiary companies included avails to bills and guarantees of loans which declined by 22.2 percent to Baht 21.0 billion. About 61.6 percent of loans of the Bank were extended to the manufacturing and commercial sectors while the loans classified as doubtful-of-loss amounted to 17.7 billion Baht increase over 2001 by 69.6 percent as compared to it in 2001, mainly due to the write back of the doubtful-of-loss loans.

The Bangkok Bank also continued its participation in community services on an increasing scale in order to meet its social responsibility.30

3.5.9 Developments during 2003:

The Thai economy expanded in 2003 at a rate of 6.7 percent which was higher than that of 5.4 percent in 2002. During the first half of the year, uncertainties about US Iraqi War and the outbreak of Severe Acute Respiratory Syndrome (SARS) affected in the postponement of some investment projects and reduction in tourism related income. As these problems started disappearing in the third quarter of the year, the Thai economy started developing rapidly “confirming its strong economic fundamentals and resiliency to external shocks”
The main stimulus to economic growth of the economy came from continued increases in private consumption and exports, which recorded growth rate at 5.1 percent and 18.6 percent respectively. Private investment Index expounded by 13.2 percent, which contributed towards strengthening of the economy. At the same time the government implemented “Duar Track Policy” that focused on stimulating domestic private sector activities by providing financial assistance to small and medium scale enterprises and increasing foreign exchange income through the establishment of regional trade associations and the exploration of new export markets.

During the fiscal year 2003 the government revenue increased by 13.6 percent and government spending by 3.5 percent on account of maintaining fiscal discipline and strengthening recovery of the private sector.

Economic stability remained sound during the year, inflation remained at a low level of 1.8 percent, and public debt declined to below 50 percent of GDP. On the external front the current account balance continued to be surplus due to surpluses in both the trade and service accounts.

During the year 2003 the Bangkok Bank strengthened its business fundamentals and its competitiveness in readiness for future economic and industrial growth. The Bank extended the geographic distribution of its electronic channel network in support of all customer groups.
The Bank and its subsidiary companies recorded a net profit of Baht 11.4 billion in 2003 indicating an increase of 81.1 percent compared to their net profit in 2002. Non interest income increased by Baht 7.0 billion or 46.1 percent, together with an increase in net interest and dividend income of Baht 2.1 billion or 9.2 percent. Noninterest expenses also increased by Baht 3.3 million or 12.2 percent.

The Bank and its subsidiaries recorded net provisions for bad debt and provisions for loss on debt restructuring totaling Baht 4.8 million an increase of Baht 509 million.

In December 2003 the Bank increased its capital base by issuing 422 million ordinary shares making total number of issue ordinary shares to 1,908.5 million shares.

In 2003, the Bank and its subsidiaries earned a pretax operating profit before provisions for bad debt and for loss on debt restructuring of Baht 16.3 billion, an increase of 54.3 percent as compare to for the year 2002, as a result of an increase in net interest and dividend income and noninterest income.

Interest and dividend income for the year was Baht 48.2 billion, lower by 8.2 percent than the previous year due to a decline in interest income from interbank and money market facilities. During the year 2003, interest expenses amounted to Baht 23.7 billion, lower by 21.3 percent due to fall in deposit interest rates due declining deposit interest rates in domestic market. Similarly interest
expenses incurred from interbank and money market facilities declined by 44.6 percent due to a decline in interbank interest rates. However interest expenses on the Bank’s borrowings increased by 1.2 percent as a result of higher interest rates in offshore markets.

Non interest income of the Bank and its subsidiaries amounted to Baht 22.0 billion an increase of 46.1 percent on account of increase in net profits from investments and sale of investments in debt instruments and equities. Income of fees and services also increased by 12.0 percent due to increase in the business volume of credit cards, debit cards and ATM card services, etc.

Non interest expenses of the Bank and its subsidiaries increased by Baht 3.3 billion or 12.2 percent to Baht 30.3 billion due to increase in other expenses and for provisions of foreclosed assets of Baht 1.1 billion. Fees and service expenses increased by 54.4 percent to Baht 3.0 billion as the Bank incurred expenses for capital raising exercise in 2003, in addition to increase in personnel expenses for provisions for early retirement.

The total assets of the Bank and its subsidiary companies by the end of 2003 amounted So Baht 1,363 billion, an increase by 9.0 percent as compared to 2002.

Total lending also increased by 1.7 percent to Baht 851.9 billion, hence the Bank’s loan to total asset ratio decreased from 67.0 percent to 62.5 percent as a result of the Bank’s strong liquidity position and its prudent lending policy. The surplus liquidity was
invested in the repurchase market. Net total loans and accrued interest receivable by the end of 2003 amounted to Baht due to increase in loans and decline in allowance for doubtful accounts and debt restructuring.

Net investment in securities by the Bank and its subsidiaries, at the end of 2003 amounted to Baht 354.3 billion, an increase of 9.6 percent as compared to 2002 as a result of a shift from interbank and money market to the investment portfolio which yielded a higher rate of return. Thus the ratio of investments to total assets increased from 25.8 percent to 26.0 percent in 2003.

Regarding liabilities of the Bank and its subsidiaries, the main sources of funds are deposits, interbank and money market facilities and capital market borrowings.

Although there was continuous decline in deposit interest rates, deposits in the Bank and its subsidiaries continued to increase so as to reach Baht 1,123.3 billion at the end of 2003, indicating an increase by 4.9 percent compared with the previous year.

Borrowings by the Bank and its subsidiaries include the issue of debentures in domestic and foreign markets. By the end of 2003, total borrowings totaled Baht 77.6 billion by the end of 2003, a decrease by 1.5 percent as compared to the previous year.

The contingent liabilities of the bank and its subsidiaries included exchange contracts loan guarantees, letters of credit,
currency and interest rate swaps, over draft credit lines and other unutilized obligations. At the end of 2003, the Bank’s contingent liabilities were at 633.0 billion.$^1$

Thus the Bangkok Bank continued to make a good progress during the year 2003.

3.5.10 Developments during 2004:

The Thai economy recorded the growth rate of 6.1 percent in 2004, which was lower from 2.9 percent growth in 2003, due to the decrease in domestic demand especially in private consumption and investment. External demand remained satisfactory as export value attained record levels. The main stimulus for economic growth was provided by significant progress of private investment and exports. The private investment indicator increased by 12.8 percent and export increased by 23% during the year 2004.

The private consumption Index increased by 3.7 percent in 2004 as compared to 5.4 percent in 2003. It was the result of weakening of consumer confidence. The risk factors included high world oil prices, unrest in southernmost provinces and the outbreak of avian flu in poultry.

Government expenditure increased by 17.8 percent as there was increase in both, consumption expenditure and investment. At the same time the government revenue expanded by 17.1 percent in the financial year 2004, in the line with continued economic
expansion and strong corporate profits. As a result the government achieved a cash surplus of the amount of Baht 817.2 billion.

As there was fall in domestic demand, it led to slow down of domestic supply. The manufacturing sector reflected lower rate of growth at 8.1 percent as compared to it at 12.3 percent in 2003 especially due to the decrease in production of food and beverage for domestic consumption and export goods such as block rubber, integrated circuits etc.

In case of agricultural sector it was observed that, droughts reduced output growth of main crops decreased from 10.5 percent in 2003 to 1.2 percent in 2004. However on account of rising prices of Jasmine rice and rubber hence farm income continued to expand at 15.4 percent.

In respect of service sector, the number of foreign tourists increased by 16.5 percent in 2004 in spite of adverse impact of the outbreak of avian flu and unrest in three southernmost provinces. In addition the economic impact of the natural disaster that beset the six provinces on the Andaman Coast during the last week of the year 2004 did not significantly affect the overall economic growth of Thai economy during 2004.

On account of rise in private sector investment there was expansion of manufacturing and construction sectors and expansion of service sector also contributed to 6 percent increase in non agricultural employment.
Short term interest rates in the money market increased due to the adjustment to the policy of the Bank of Thailand, during the latter half of the year. However the liquidity in the financial sector remained high and hence the interest rates on the loans and deposits of large commercial banks remained unchanged. The commercial bank credit to both, the corporate and household sectors continued to expand favorably.

The baht strengthen during the year and averaged at 40.28 baht per US dollar appreciating by 3.0 percent from the previous year average, in spite of adverse effect on baht of the outbreak of avian flu. Still the baht appreciated due to appreciation of regional currencies on account of diminished confidence in US dollar, upwards adjustment of the Bank of Thailand’s policy rate and rise in foreign investment into the Thai stock market and rumors on adjustment in the value of the Chinese remind.

Overall economic stability continued to be satisfactory in spite of rise in inflation at 2.7 percent due to rise in the prices of row food and energy. Core inflation rate remained at 0.4 percent compared to 0.2 percent in the previous year. Public debt remained low at 47.8 percent of the GDP. As far external stability the current account continued to be surplus in terms of both the trade balance, services and transfers balance. External debt declined during the year 2004. At the end of the year the foreign reserve position remained strong at US $ 49.8 billion which was four times of short term foreign debt.
3.6 Progress of the Bangkok Bank:

The Bangkok bank and its subsidiaries recorded net profit of Baht 17.6 billion in 2004 indicating an increase of 55.2 percent over the year in 2003, due to an increase in net interest and dividend income of the order of 34.4 percent, although noninterest income declined by 11.3 percent as compared to the year 2003.

The net provisions for doubtful and bad loans were recorded at Baht 4.2 billion, a decrease of Baht 615 million.

The net profit per share for Bangkok Bank and its subsidiary companies stood at Baht 9.23 an increase of Baht 1.54 or 20 percent as compared with Baht 7.69 in 2003.

Operating profit of the Bank and its subsidiaries recorded pretax preprovisions at Baht 22.0 billion which was 34.9 percent higher than that in 2003. The rise was the result of an increase in net interest and dividend income.

Interest and dividend income for the year 2004 was Baht 48.7 billion, higher by 1.1 percent over the preceding year, as a result of an increase in interest income on loans of Baht 2.8 billion. In spite of decline of about one percent in lending interest rates during 2004, the increase in income due to growth of loans remained higher. Dividend income on investments also declined by Baht 2.2 billion on account of sale of investments in some securities by the Bank.
During the year interest expenses amounted to Baht 15.7 billion, a decline of 33.4 percent mainly on account of decrease in deposit interest payments due to the fall in deposit interest rates in the domestic market. Interest rates on savings deposits and also for fixed deposits declined by 0.75 percent and 1.25 percent respectively.

Interest expenses on borrowings decreased by Baht 4.9 billion or 48.8 percent due to the partial redemption of Capital Augmented Preferred Securities (CAPS), restructuring of interest payment conditions on the remaining CAPS and the redemption of the subordinated convertible debentures reaching maturity.

Net interest and dividend income of the Bank and its subsidiaries totaled at Baht 33.0 billion, an increase of Baht 8.5 billion or 34.4 percent over the previous year. The increase was the result of the growth in loan volumes which led to an increase in net interest income of Baht 4.6 billion. At the same time, decline in interest rates helped to improve net investment income by Baht 3.9 billion.

Net interest and dividend income, after provisioning for bad debt and for loss on debt restructuring, totaled Baht 28.8 billion, an increase of 45.9 percent over the year 1993.

Non interest income of the Bank and its subsidiaries amounted to Baht 19.5 billion, a decrease of Baht 2.5 billion or 11.3 percent, as the net profits from investments decreased by 75.0 percent, due to
lower profits from the sale of investments in debt instruments and equities. Fees and service income stood at Baht 13.3 billion, increasing by 5.3 percent due to increases in the business volume of credit cards, debit cards and ATM card services along with other fee based services. Profits from the sale of assets also increased to Baht 932 million in the year 2004.

Other income in 2004 increased to 977 million, investment in subsidiaries and associated companies under the equity accounting method increased to 335 million, while net gains on currency exchange amounted to Baht 2.6 billion.

Non interest expenses increased to Baht 30.6 billion with increase in personnel expenses of 9.5 billion. Fees and Service expenses amounted Baht 3.3 billion due to increase in legal expenses. Other expenses totaled Baht 6.4 billion with provisions for impairment of foreclosed assets declined by Baht 996 million.

Total assets of the bank and its subsidiary companies, at the end of 2004, amounted to Baht 1,407.3 billion. Total lending increased to 934.4 billion, hence the proportion of loans to total assets increased from 62.5 percent to 66.4 percent. Net loans and accrued interest receivables at the end of 2004 amounted to Baht 825.9 billion, an increase of Baht 108.9 billion due to both, higher loan balances and a lower level of loan loss reserves.

Net investments in securities by the Bank and its subsidiaries, at the end of 2004 stood at 301.2 billion, a decrease of 15.0 percent,
compared with the end of 2003 due to a shift from investments in foreign debt instruments to the interbank and money market. Net investments in securities declined from 26.0 percent to 21.4 percent of total assets.

The value of interbank and money market assets, at the end of 2004 amounted to Baht 131.6 billion, increasing by 23.8 percent, representing 9.4 percent of total assets compared to 7.8 percent at the end of 2003.

Net foreclosed assets of the Bank and its subsidiaries at the end of 2004 stood at Baht 39.3 million, increase of 16.5 percent from 2003, with new transfer of net assets amounting to Baht 8.6 billion and deposits amounting to Baht 3.0 billion.

Regarding liabilities it may be noted that the main sources of funds for the Bank and its subsidiaries include deposits, interbank and money market facilities and capital market borrowings.

Although the deposit interest rates were low, deposits in the Bank and its subsidiaries continued to increase to total Baht 1,195.4 at the end of 2004, indicating increase by 6.4 percent due to the redemption of bank’s subordinated convertible debentures which matured in March 2004 and the partial redemption of Capital Augmented Preferred Securities (CAPS) in April 2004.
The ratio of loans to deposits of the Bank and its subsidiaries at the end of 2004 increased to 78.2 percent from 75.8 percent at the end of 2003 as loan volumes increased more than deposits.

Borrowings of the Bank and its subsidiaries including the issue of subordinated and senior debentures, in foreign and domestic market. At the end of 2004, total borrowings totaled at Baht 38.4 billion, decrease by 50.5 percent from the previous year. Short term borrowings were at Baht 1.1 billion or 2.8 percent of total borrowings, a decrease of 92.2 percent. Long term borrowings also declined by 17.2 percent, to Baht 24.2 billion, representing 62.9 percent of total borrowings. The decrease in borrowings was the result of partial redemption of Capital Augmented Preferred Securities (CAPS), restructuring of interest payments on remaining CAPS and revision of the return for preferred shares.

The value of interbank and money market liabilities of the Bank and its subsidiaries totaled at Baht 33.1 billion, an increase of 4.7 percent over the preceding year.

Net shareholders’ equity in the Bank and its subsidiaries rose to Baht 115.3 billion at the end of 2004, increasing by 12.6 percent over 2003. The increase was the result of the Bank’s net profit of Baht 17.6 billion in 2004 and a decline in net unrealized gain on investments.

At the end of 2004 the Bank had Baht 642.2 billion in contingent liabilities. These included avails to bills and guarantees of
loans which declined by 9.1 percent to Baht 13.0 billion, and other guarantees of Baht 69.5 billion increased to 6.8 billion. The liabilities under import bills, which have not yet matured increased to Baht 11.5 billion, while liabilities under letters of credit increased to Baht 29.8 billion. Liabilities under foreign exchange contracts and swaps amounted to Baht 397.4 billion.\(^3\)

The Bank has also recognized the role of good corporate governance which is a key factor for enhancing the efficiency of the Bank. The Bank has implemented several initiatives to ensure that its operations to be in line with the principle of good governance, which are foundations for a sustained growth.

The Bank has set up the Risk Management Committee which consists of members of the Board of Directors and/or executives who are assigned to establish and propose to the Board of Directors the policy for overall risk management and supervise and monitor the risk management in order to comply with the determined policy.\(^4\)
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