

# BANGKOK BANK – UNDER SIEGE

For more than half a century, Bangkok Bank has ruled supreme in Thailand, dominating not only the lucrative overseas Chinese network but almost every other aspect of the financial system. Now that hold is under threat. What is to become of the country's premier financial institution and the dynasty that created it? Ben Davies investigates.

The views from Bangkok Bank's 30-storey head office on Silom Road are stunning. To the south runs Sathorn Road, a bristling skyline of high-rises that extends all the way to the Chao Phya River – the River of Kings. To the west lie the giant concrete pillars of the BMTA rail project, the new mass transport system designed to rid the city of its transport woes.

The panorama should lift the spirits of Bangkok Bank's harried board members, working late into the night to get



Bangkok Bank: Slow to come to terms with the rapid changes in the increasingly competitive Thai banking market.

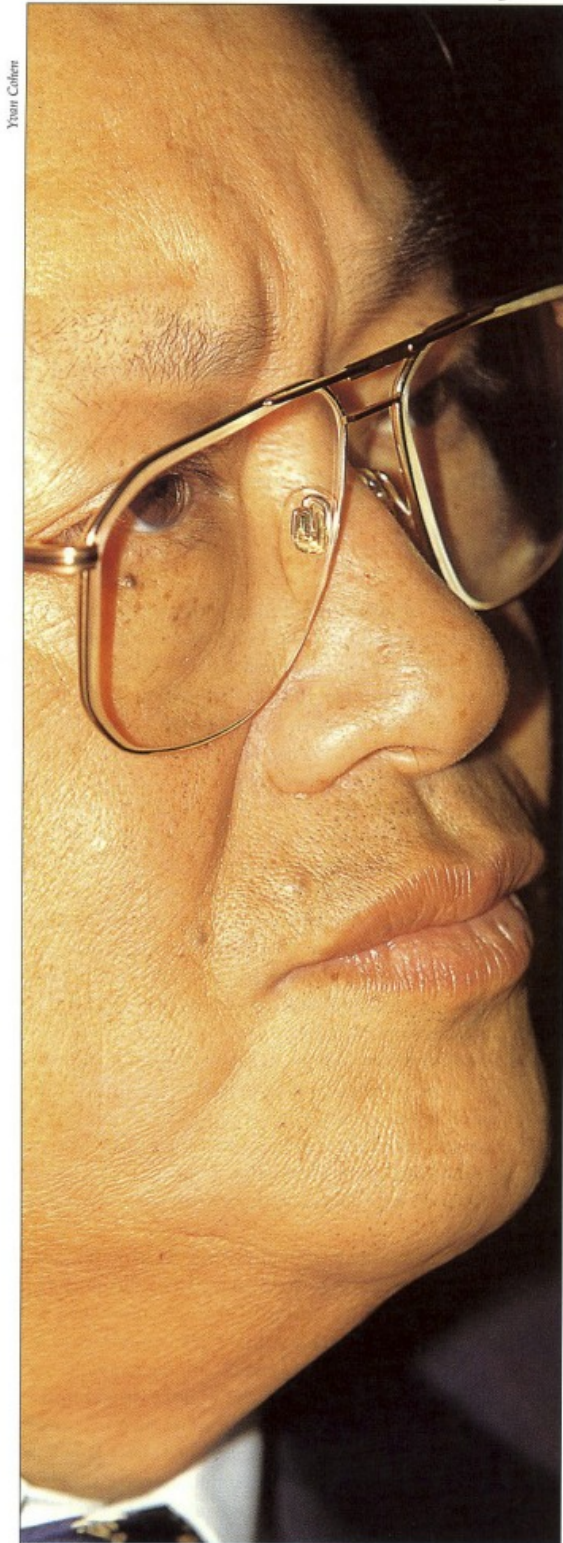
through their heavy workload. But, a closer inspection reveals a number of incongruities. The building directly opposite belongs to Citibank, widely acknowledged by Bangkok Bank staff to be the biggest threat to their domination of the Thai banking system. Many other buildings are vacant, silent reminders of the unprecedented financial downturn that is bleeding Bangkok Bank's balance sheet.

Last year the bank lost \$1.3 billion. Its classified loans have soared to 48%, considerably higher than the level recorded by most Latin American banks during the darkest period of their crisis. Its name has been connected with a stream of high-profile financial collapses and debt restructurings, ranging from Alphatec Electronics to Thai Petrochemical Industries. Even its activities in the finance and securities sector have suffered with the recent closure of Union Asia Finance, in which the bank formerly held a stake.

It's a record that must depress the young Chatsiri Sophonpanich, scion of Thailand's most powerful banking family, now president of the country's pre-eminent bank. "The extent of the economic downturn has been very significant," he says, during a meeting squeezed into his busy schedule. "But thanks to the actions we have taken, we have been able to weather the storm."

Bangkok Bank is not alone in its turmoil. But for Bangkok Bank – widely seen as the greatest financial establishment in Thailand – the fall comes especially hard. For more than 50 years, it has played an integral role in the Thai economy, dominating not only the lucrative overseas Chinese network, but much of the financial system. Last year alone, it accounted for 22% of total bank deposits. That is more than five times the size of Citigroup's market share in the United States. Bangkok Bank's network of 545 branches and 11 million account holders is also larger than any other private bank in Thailand and possibly even the whole of Southeast Asia.

The superlatives extend to its founding family. The Sophon-



Yuan Cui/Corbis

Keeping a watchful eye: Patriach Chatri Sophonpanich.

## Revenge of the technocrats?

Most Sundays, Chatsiri Sophonpanich, president of Bangkok Bank, takes his family to eat at one of the city's finest *dim sum* restaurants. Such is his renown and that of the family that he represents, that on the family's arrival many diners put their palms together and *wai* in a sign of reverence.

For decades, such banking dynasties wielded unprecedented influence with Thailand's politicians and military, in many ways eclipsing the once vaunted role of the technocrats. Using their money and business acumen, they were able to build enormously profitable empires as well as a network of protectors that, in most cases, guaranteed their survival for successive generations.

But on 1 July, 1997, following the devaluation of the baht, their empires began to fall apart. In January 1998, the Tejapaibul family's 48-year reign at Bangkok Metropolitan Bank (BMB) came to a sudden end when the Financial Institutions Development Fund stepped in to take a 99% stake in the bank. Months later, the Cholvijarns' of Union Bank and the Chansrichawlas' of Laem Thong Bank also suffered a heavy write-down of their equity as the government stepped in to avert almost certain collapse. Now the Wanglee family, who founded Nakornthon Bank in 1933, are likely to see their stake cut to just 2% to 3%, if a proposed recapitalisation plan goes through.

"The finance ministry's plan is to break the backs of the families to make this a more dynamic and effective financial system," says one foreign banker. "An economy cannot grow if it is being stifled by the big banks, which are taking too much out of the system."

These days, only the Lamsam and the Sophonpanich families have maintained a significant hold on their banks, together with the Ratanaraks' of Bank of Ayudhaya, who are fighting to maintain control. But even these families have seen their holdings reduced. "It's the revenge of the technocrats," says the head of research at one finance company. "For so long, the big families displayed too much power and arrogance. Now they are getting their comeuppance."

panich directly and indirectly hold major equity stakes not only in Bangkok Bank but in the insurance, real estate, petrochemical and textile sectors. Their power and wealth outshadow Thailand's other great family dynasties, such as the Lamsam of Thai Farmers Bank or the Tejapaibul of Bangkok Metropolitan Bank.

When Bangkok Bank celebrated its 50th anniversary, there were rumours that it was to fly in Whitney Houston to give a concert for employees and VIP guests. In the end, the bank more modestly opted to contribute \$2 million to a leading charitable foundation.

## Baptism of fire

Entering the exalted offices of Bangkok Bank's president is an uplifting experience. Advisers and secretaries scurry around preparing for the arrival of the great man. Tea is served in fine china cups. A public relations officer lurks in the background.

The focus of all this attention is a soft-spoken and charming 40-year old. The first thing that strikes you about Chartsiri Sophonpanich, president of Thailand's largest private bank, is his humble demeanour. Dressed in a dark suit with a red tie, he exudes a simple charm and warmth that belies his status as heir to the Sophonpanich fortunes.

The second thing that strikes you about Chartsiri is what a bum deal he got when at the tender age of 35 he was catapulted into the job of guiding Bangkok Bank through one of the most troubled periods in its history.

Yet the masters graduate from Massachusetts Institute of Technology has few regrets. "It's quite a good experience and it has given us the opportunity to restructure the bank," he told *Asiamoney*. "There are a lot of senior management, so it was not just one person making the decisions."

Chartsiri joined Bangkok Bank in February 1986, spending close to a decade under the tutelage of Vichit Surapongchai, Piti Sithi-Amnuai and his father Chatri before gradually working his way to the top. Former classmates remember Chartsiri as shy and extremely hardworking. "He was quiet and polite and one of the top students," says one classmate. Born in May 1959, Chartsiri attended the prestigious Assumption College in Bangkok, along with the cream of

Thailand's financial community. Vorawee Wanglee, executive chairman of Nakornthon Bank was a student there. So, too, was Somchai Sakulsurarat, president of Bangkok Metropolitan Bank.

Hard work and modesty are traits that the young president still maintains. "He burns the midnight oil," claims the head of one institution, who regularly receives phone calls from him long after most bank presidents have gone home.

The ability to delegate is another of Chartsiri's great strengths. He recruited Pisit Leeahtam from the central bank to head up Bangkok Bank's financial management. He has also quietly set up an asset restructuring team over the last 18 months made up of veteran expatriates to prepare the bank for the next step in its development. But the challenge of keeping Bangkok Bank at the top is likely to prove as demanding as any faced by his distinguished predecessors. "I do my best," says Chartsiri. "I am concentrating all my efforts to ensure that the bank will be in a healthy and premium position both in Thailand and internationally."



Wiruf Thongchuan

**Chartsiri Sophonpanich: "I am concentrating all my efforts to ensure the bank will be in a healthy position."**

Those heady days have long since gone. Today, Bangkok Bank is under virtual siege. Its traditional lucrative stronghold at home is under threat, while its expansion overseas has been put on hold. The bank is being forced to come to terms with an environment for which it is ill-prepared. And while nobody suggests that Bangkok Bank will go down, many bankers are now questioning whether the bank's days of domination could soon be over.

### The starting point

Bangkok Bank was established on 1 December, 1944 in a modest row of shophouses in Chinatown, with an initial staff of 23 and Bt1 million in paid-up capital. From these humble beginnings, founder Chin Sophonpanich rapidly laid the foundations for what was to become the largest bank in ASEAN.

Relying on its strong Chinese connections (Chin was a Chiuchow – part of an extended clan from southern China that includes many influential Asians) and its unrivalled political and military contacts, Bangkok Bank initially targeted areas traditionally controlled by the European banks. It was quick to move into the import export business, cornering the market for rice, tin, teak and gold. It also

extended loans to Thailand's embryonic manufacturing sector and pioneered agricultural credit.

On other fronts, too, Bangkok Bank broke new ground. In 1969, it entered into a joint venture to establish Bangkok First Investment and Trust Co in order to engage in the capital market activities that were then barred to commercial banks. Within 20 years, Bangkok Bank held stakes in at least four finance and securities companies with direct and indirect involvement in virtually every sector of the Thai economy.

By the time Chatri Sophonpanich took over the reins of the bank in 1988 following the death of his father, Bangkok Bank had established a personality that remains intact today. It had a lock grip on domestic retail banking, a stronghold in large and medium-scale corporate lending and a respected role in the fields of international banking and trade finance.

But, for all its talent, Bangkok Bank failed to put in place the necessary structure to cope with the rapidly changing financial landscape. During the late 1980s and early 1990s, with compound growth averaging more than 40% a year, long-term goals were sacrificed for short-term profit and communication lines became stretched. Despite talk of imminent liberalisation, the bank was slow to invest in new technology and risk-management systems.



Wirat Thongchero

**Banthoon Lamsam: Thai Farmers Bank's dynamic young president has taken the bank in a new direction.**

Part of the blame for the bank's current woes can be placed squarely on the shoulders of the regulators. With Thailand's financial system protected from outside competition, the local banks were allowed to operate a virtual cartel. As a result, the true capacity of the bank to withstand competition was never put to the test.

"With the capital inflows, Thai banks were not concerned with the quality of assets," says Somboon Chinsawanon, executive vice president at Thai Farmers Bank. "The emphasis was on growth. It became an obsession."

Under Vichit Surapongchai, who took over the presidency of Bangkok Bank in November 1992, moves were made to ready the bank for the new era of competition by instilling more professional risk management systems, as well as improving internal communications and boosting the bank's notoriously poor investor relations.

That experiment ended when Vichit abruptly handed in his resignation in January 1994. Insiders claim that Vichit was angered by the lack of support from Chatri and Damrong Krishnamara, one of Chatri's most trusted lieutenants. Following Vichit's departure, Chatri's son Chartsiri was appointed president. The old guard, however, continued to make many of the strategic decisions. Until earlier this year when he stepped down, the bank's chairman was 83-year-old Prasit Kanchanawat, one of the pioneers of the bank.

"There was a very strong culture and that came from having the older generation at the helm," says one banking analyst. "It meant that Bangkok Bank was slower to come to terms with the changing environment."

That culture contrasted markedly with the more progressive style of management at Thai Farmers Bank. When Banthoon Lamsam, the charismatic young president took the reins of TFB in 1992, he pointed the bank in a new direction. Under

his tutelage, TFB implemented the first large scale re-engineering of its branch network. More recently, it was TFB that launched the first non-cumulative preferred share issue and TFB that swooped down on the international capital markets with the first major share placement.

In contrast, Bangkok Bank appeared conservative, slow moving and less easy to comprehend. "Investors have typically preferred Thai Farmers Bank's style because they are more open," says an analyst at Jardine Fleming Thanakom Securities. "Bangkok Bank is bad at investor relations."

Yet, Bangkok Bank's leaders had great plans for the 1990s. Buoyed by the vision of Thailand as a newly industrialised economy, the bank moved into a new gear, identifying those sectors that it believed would spearhead the country's next stage of development.

While TFB concentrated on small- and medium-sized companies, Bangkok Bank lent heavily to the petrochemical sector and to the cement industry. It made a big push on the Eastern Seaboard, touted to become the new industrial hub of Thailand. And it channelled funds into the electronics sector through Alphatec Electronics, heralded as the first of a new generation of high growth, value-added companies.

"It was an intelligent strategy," says an analyst at Morgan Stanley Dean Witter. "But when the bottom fell out of the market, everything collapsed."

### Family ties

Long-standing family relationships may also have influenced the bank's lending decisions. Many of Bangkok Bank's customers date back to the early days when Chin provided loans to small-time entrepreneurs. A large number of the bank's original customers became leading names in their field. But, the close nature of the relationships may have blinded senior management. While Bangkok Bank undoubtedly followed strict lending criteria, established family links made them more vulnerable. As of December 1997, more than 10% of the bank's top 20 outstanding loans were made to companies or parties related to the Sophonpanich family.

When the economy went into a tailspin, it rocked the very foundations of the bank. Non-performing loans leapt from 3.9% at the end of 1995 to 15.3% in December 1997. By late last year, NPLs were estimated to have reached 40%, with classified loans officially put at 48%.

To be fair to Bangkok Bank, its mistakes were repeated in different ways by every bank in Thailand. Yet that does not entirely absolve management from responsibility. Many of the companies that Bangkok Bank lent to have no future in the post-crisis economic landscape. With surplus capacity in steel production and in key segments of the petrochemical sector, it can only be a matter of time before the bank is forced to accept major write-offs.

A report by the World Bank in September is deeply pessimistic about Thai banks' ability to position themselves for the future. "Banks are undergoing ownership and organisational changes as profound as those in Latin America during the 1980s or even in the United States in the 1930s," it claims.

## Papering over the cracks

Bangkok Bank's 25th floor meeting room resembles a classroom. Cheap swivel chairs are pulled up against a large table. At one end is a white board with red and blue felt-tip pens. The air-con units splutter incessantly.

Bangkok Bank senior vice president, Piyapan Tayanithi, has taken on a teaching role in recent months and years. As the man behind the bank's highly successful preferred share issue completed in March, he has been responsible for explaining it not only to the bank's key executives but also, in later stages, to the countless investors around Thailand who bought it.

"The reception was extremely good," says the suavely dressed senior vice president, brandishing the details of the issue like an over-zealous schoolmaster. "We made this more straightforward [than the Slips issues by Thai Farmers Bank]. Everything reads like an equation."

Known as CAPS (Capital Augmented Preferred Shares), the issue is split into two parts. Part one is a combination of preferred shares and subordinated bonds, while part two comprises 29 series of discounted subordinated bonds.

Such was the demand for the CAPS issue that Bangkok Bank decided to increase the size from Bt40 billion to Bt46 billion. Of this total, Bt34.5 billion qualifies as Tier 1 capital and Bt11.5 billion as Tier 2 capital.

Tayanithi has been applying his masterly touch to other fundraising. Last year, Bangkok Bank raised \$1.1 billion from foreign investors – the largest international placement ever by a Thai bank. In January, it also announced a \$750 million bond refinancing, which allowed the bank to boost its Tier 1 capital.

"It puts us in a position to weather the storm," says Tayanithi. "It will be a while before we see a strong recovery, but our capital level will enable us to take advantage of any improvement in the economy."

Not everyone is convinced that Bangkok Bank has got its sums right. Even after the latest CAPS issue, Dresdner Kleinwort Benson believes that Bangkok Bank may need to top up its capital by the end of next year, especially if the anticipated recovery is slower to materialise.

Others believe that the CAPS issue served an altogether different purpose. "The Sophonpanich family did not have the money to take up a further equity issue," claims a senior banker. "If they had diluted further, they would have diluted themselves into anonymity."

"Companies and banks may well emerge with less concentrated ownership . . . and greater discipline from competition in both product and capital markets."

In Thailand, the transformation has already begun. In early 1998, the Development Bank of Singapore (DBS) became the first foreign bank in decades to establish a branch network in Thailand when it acquired a 51% stake in Thai Danu Bank.

In July the same year, ABN Amro spent Bt7.5 billion acquiring a 75% stake in Bank of Asia. Now Standard Chartered looks set to join the fray by acquiring a controlling stake in Nakhon Bank.

At least three other nationalised banks are also up for grabs. According to the Bank of Thailand, Radanasin Bank, Bangkok Metropolitan Bank and Siam City Bank could be privatised before the end of the year. Given the scarcity of funds among local players, there seems every likelihood that they, too, will end up in the hands of foreign banks.

The new foreign banks entering Thailand are among the most successful in the world," says Sirichai Sakornratanakul, senior executive vice president at the Industrial Finance Corporation of Thailand. "They are aggressive. They have the technology. They have relatively clean balance sheets. And they are not bound to existing vested interests, such as family or workers."

### Chartsiri's response

Under Chartsiri, the bank has aggressively reduced the size of the balance sheet, with bank credits falling 16.4% in 1998. Last year, it launched the biggest global offering ever by a Thai bank, raising \$1.1 billion after a three-week roadshow. A flurry of activity on the capital-raising side since then has provided further respite for management to sort out its most pressing problems.

In one of his most far-sighted moves, Chartsiri has brought together a team of top restructuring specialists. Led by Lindsay Pyme, former head of Bank of New Zealand, they come armed with the latest expertise culled from Australia's banking crisis in the mid 1980s.

"You have to admire Chartsiri," says a senior official from a competing bank. "He realised very rapidly that this crisis would be deep. And he made a lot of harsh decisions in order to survive."

Is the worst over? The bank certainly thinks so. In its first quarter of 1999, it posted a loss of Bt9.9 billion as a result of a provision against bad debt of Bt22 billion. The bank's statement noted, however, that 'the bank actually generated a profit of Bt12.1 billion if such prudent loan loss provisioning wasn't factored in'.

Meanwhile, the drawn-out process of negotiating with debtors is now underway. Some progress has already been made. So far, according to executive chairman Kosit Panpiemras, the bank has agreed in principle to restructure about Bt40 billion of debts.

Cleaning up its balance sheet, however, is just the most pressing of many problems facing Bangkok Bank. Regionally, the bank's expansion plans have been put on hold. Despite its extensive presence in China and throughout Southeast Asia, Bangkok Bank's overseas offices accounted for less than 10% of the bank's total profits in 1995 and 1996. This year, they are expected to post losses. Now, branches are being closed in a bid to save costs. The first to go was Hamburg at the end of 1997, followed in 1998 by the closure of a sub-branch in Jakarta and a branch in Los Angeles.

By the time that Bangkok Bank emerges from the current financial crisis, the regional financial landscape will look very different. The Development Bank of Singapore (DBS), Citibank, HSBC and Standard Chartered Bank will provide more daunting competition.

"None of the big Thai banks can be genuinely regional," says Michael Unsworth, co-chief executive officer at Merrill Lynch Phatra Securities. "For the time being, they have to focus on survival at home."

In the domestic market too, Bangkok Bank faces challenges. Its dominant position as a wholesale bank has already been eroded by the growing clout of foreign banks with access to lower cost funds as well as by the growth of the capital markets. Its balance sheet is weighed down by non-performing loans. Despite its unrivalled retail presence, Bangkok Bank is under strong pressure to cut back on over-manned branches and to significantly reduce costs.

"About 30% of Bangkok Bank is a dinosaur," says one investment banker. "It's far easier to grow from a small base than it is to downsize your operation."

Says Kenneth Ng, senior investment analyst at ING Barings: "On a cost basis, Bangkok Bank is still a long way from competing with the foreign banks. Over the next few years they have to do a major revamp to upgrade their systems, to invest in staff training and to downsize in Bangkok."

In a recent speech at the meeting of the Young Presidents' Organisation, Chartsiri admitted that Bangkok Bank needed

to rethink the way it does business. "Thailand is a house that has burned down; we need to rebuild the whole thing," he said.

Rebuilding confidence in Bangkok Bank is likely to prove the easy part. Barring any further collapse of the economy, the bank's survival seems virtually guaranteed. With its capital restored to acceptable levels and the prospects of a recovery gathering pace, it also has a head start over many of its rivals.

Bangkok Bank's traditional strengths, though, may no longer be enough to ensure its pre-eminence. And while Kosit and Chartsiri dismiss the likelihood of taking in a foreign strategic partner, they may find at some stage that they have little choice.

"Bangkok Bank and Thai Farmers Bank will never be as dominant as before," says Donaldson Hartman, vice president at Salomon Smith Barney. "Market share is being lost to new foreign entrants and to banks like Siam Commercial Bank, which have been recapitalised."

The influence of the Sophonpanich family is also waning. Since the onset of the crisis, its shareholding has reportedly fallen from around 35% to an estimated 20%. If further capital raising were needed in the near future, it could fall even further.

"Family banking is no longer seen as appropriate in the more developed Thai system," says one banker. "The Sophonpanich will continue to play a significant role in the running of Bangkok Bank, but it will be professional managers who increasingly call the tune."

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