

**TRANSCRIPT OF THE INTERVIEW WITH**

Mr. Tan Kong Khoon  
President and Chief Executive Officer  
Bank of Ayudhya Public Company Limited (BAY)

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**UNITED WORLD:** Thailand has been in the international spotlight for the wrong reasons. However, the economy is still growing well. The fundamentals remain strong. The country expects a 5% growth in the GDP by the end of this year. How would you assess the business investment climate in Thailand?

**MR. TAN KONG KHOON:** The year started with pretty much euphoria. We were seeing factories starting to order capital goods in preparation for a much rosier economic situation. Thereafter, as the political tension sort of escalated, there has been a dampening of the investor and business sentiment over the balance of the year. Having said that, Thailand has been through many kinds of turmoil in its recent history. The wonderful thing about the country is that the economy and the business sector continued to prosper. There were some skirmishes between the pro and anti government forces taking place in a very isolated area, away from the business center. People are starting to focus once again on the growth of the economy. It is not common for countries to churn a positive GDP during this sort of situation, but Thailand has managed to do exactly that. With a projected GDP growth of 4.5% to 5%, Thailand is moving along nicely.

**UNITED WORLD:** How would you rate the competitiveness of the Thai economy within the region?

**MR. TAN KONG KHOON:** I think that there are a lot of positive things that Thai Banks can advertise. Surprisingly enough, the strength mainly draws from a previous weakness. During the Asian Financial Crisis in 1997, Thai bankers went through a lot and they have learned. If you look at the bank's balance sheets today, they are a lot healthier than they were. In fact, they are significantly healthier than some of those in the countries in the region. It was not just a case of the financial health and the portfolios. It was also the financial discipline in capital structuring. On average, our capital adequacy ration is probably in the mid-teens. That puts us in a very comfortable position to take some risks during this period and get some market shares from our regional competitors.

**UNITED WORLD:** What can the Americans learn from the recovery of the Thai financial institutions?

**MR. TAN KONG KHOON:** At the end of the day, it is also about going back to basics. During the Asian Crisis, there were a lot of banks that were trying to arbitrage foreign currency, low interest rates, facilitating companies, and taking advantage of cross-currency positions. I think they have all learned a bitter lesson from that. At the same time, over-engineering financial products, to a certain extent, masks the level of risk. This became very obvious during the Asian Crisis. I think that is clearly the direction that Thai banks have steered away from. If you look at the loan portfolio leverage against the capital, I believe that there is hardly any bank that is overleveraged to a dangerous point at this time (even less of them are exposed that way to any derivative products). Going back to tradition and focusing

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on transactional banking are among the things that have been driving the healthy revenue of the Thai banks. In addition to that, there is also the shift towards lending to the consumer. 10 to 15 years ago, there was only negligible lending to individuals. Since then, banks have been focused on growing the consumer banking portfolio. This gives them a chance to spread their risks instead of concentrating on a few large corporations. Because they are lending to many individuals instead of one large borrower, the pricing is much better for the banks. This is something that the Thai banks are increasingly getting into. Bank of Ayudhya is definitely pursuing this course.

**UNITED WORLD: Bank of Ayudhya Public Company Limited (BAY) was established was established over 60 years ago with the starting capitalization of only THB1 million. It has grown considerable large since then. How would you position your bank in the current Thai financial landscape?**

**MR. TAN KONG KHOON:** I think it is very critical for us to remain as a universal bank. This means that we bank all the various customer segments there is to be banked. We will remain committed to the large corporations of Thailand. We need to grow our portfolio of SMEs. More importantly, we need our portfolio of consumer banking customers to rapidly grow.

**UNITED WORLD: In 2007, GE Money became a strategic partner with a 33% stake. A few days ago, GE reiterated its commitment to stay in the bank. What value did GE's involvement bring to the bank?**

**MR. TAN KONG KHOON:** Aside from raising our capital adequacy by 18% through capital fusion (the highest in the Thai banking industry), GE Money brought certain consumer financing know-how, from risk management to efficiency initiatives that the company is greatly known for. We have grown our consumer portfolio from 15% to 33%. That is very appropriate, given the window of opportunity here before the rest of the banks become more competitive and everybody rushes even deeper into this customer segment.

GE Money has announced recently that they really have no plans to sell their stake in Bank of Ayudhya. This shows their belief and commitment to the bank.

**UNITED WORLD: Part of the bank's vision is to become one of the most admired universal banks in Thailand. What are some of the bank's strategies to achieve this?**

**MR. TAN KONG KHOON:** The reason behind that objective is because a vision has to be aspirational. It has to stretch beyond the cold elements of financial dynamics. We could have very easily chosen to be the biggest or most profitable, but to be admired; one has to look into the stakeholders. To be admired by your customers, you have to have really innovative products all while delivering service excellence. From the investor's perspective, it's about being able to deliver certain expectations that they have, and continue to have sustainable

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growth. In the case of the regulators, we want to be the bank that they refer to as having the best practices. It's all about corporate governance. Towards the Thai society, there are certain corporate responsibilities that the banks have to play. To achieve that, in terms of investor returns, it is important for us to very rapidly expand our consumer banking portfolio while keeping our interest in wholesale.

**UNITED WORLD: Bank of Ayudhya operates more than 550 branches throughout Thailand with a paid-up capital of more than THB28 billion (more than \$6.8 billion). What value can the bank offer to its international investors?**

**MR. TAN KONG KHOON:** Part of the security that Thai banks enjoy is the fact that they have little exposure to foreign companies at this point in time. Very few of us are truly international. There are probably only about 3 of us that are truly global. Even then, the proportion of foreign exposure is negligible. Given the more realistic expectations during the financial crisis, I think that we should be able to identify the strong in the international community and start to participate more aggressively in that area. Now is a wonderful time to be extremely defensive while looking for offensive opportunities. This is a golden opportunity for Thai banks to take advantage of.

It is interesting to note these days that despite the decline in car sales and the dampening investor sentiment, the motor sales is booming because the increase in commodity and food prices have benefited the farmers in the provinces. They are doing much better because of the escalation in food and commodity prices. It is good when there is a decreasing disparity of income. For some of our other regional neighbors, that may not be the case. Social unrest comes from the inequitable distribution of wealth.

**UNITED WORLD: In an interview at the end of last year, you said that after a year of difficulties, 2008 would be a year of fundamental building. Can you comment on that?**

**MR. TAN KONG KHOON:** This year was a case where we needed to put further infrastructure into place to clean our portfolio. To date, we have sold about THB16 billion worth of bad debts, putting our house in much better order. In terms of H1, we actually brought our bad debt ratio percentage as a basis point from 2.5 down to 1.13. That's wonderful. Credit quality is really improving. 5 years ago, this bank was one of those that bought some CDOs. That is going to have a bit of an impact in our earnings streams at the end of this year. We are in the process of deciding what to do with that. You will see some of these things creating noise around our financials this year.

2009 is going to be about hankering down and focusing on business growth. The unfortunate thing about that is that by that time, the world economy won't be as rosy as it used to be. It is a case of continually pursuing business while being cautious about how you price these things. It is about looking for those specific opportunities that we want to participate in. There will continue to be greenfield opportunities for Thai banks; particularly, in the area of

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renewable energy sources, agriculture (to a certain extent, I would like to see Thailand as the food basket of Asia), and energy projects.

**UNITED WORLD: How would you assess the company's commitment to corporate social responsibility?**

**MR. TAN KONG KHOON:** In terms of the bank's CSR, we adhere to the principle that should be embedded in our normal operations. It starts with delivering good products and services to the customers. This, in turn, will bring sustainable returns to our shareholders. It has to be embedded. That's the important thing. It also covers our economic responsibility to our shareholders. There are also the legal and ethical responsibilities. Lastly, we have the philanthropic responsibility. As a bank, we need to look into what we can do for society as a whole in terms of sharing our profits.

**UNITED WORLD: Since you joined Bank of Ayudhya in January 2007, what has brought you the greatest personal satisfaction?**

**MR. TAN KONG KHOON:** It is the unity of the team that I work with. That is the fundamental strength of this bank. When I came in, there was obviously some personal concerns and apprehension as we tried to merge the GE Money team that was coming in with the original BAY team. When you and your team have a common objective (in this case, it is the welfare and the growth potential of the corporation) in the core of everything that you do, you will succeed.

**UNITED WORLD: Thank you very much for your comments.**

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