

ROYAL BANK OF CANADA IN THAILAND

Bernice Scholten and Leslie Stephenson prepared this case under the supervision of Professor Paul Beamish solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Version: (A) 2010-02-01

Thailand, the country known as the “Land of Smiles,” had little to feel good about after the brash headline appeared in The Nation on August 6, 1997: “IMF Takes Sledgehammer to Economy.” Mark Bielarczyk, Country Manager for the Royal Bank of Canada’s (RBC) office in Thailand, knew that the recent events would have a significant impact on the bank and found himself recounting the excitement leading up to the announcement.

RBC had re-entered Thailand on June 16, 1997, offering corporate and correspondent banking from its new office on Wireless Road. On July 2, following a sudden collapse in the financial and property sectors, and a lack of foreign reserves to defend the baht against speculation, the government reacted by floating the baht for the first time in thirteen years. This helped trigger the suspension of two-thirds of the country’s finance companies, including Bank of Nova Scotia’s minority interest in Poonpipat Finance and Securities Company Limited. By August 5, the International Monetary Fund (IMF) intervened and established a \$16.7 billion bailout fund to help the country out of the financial crisis. This was the largest bailout fund since the Mexican peso crisis in 1992.

Thailand’s 1997 financial crisis had created significant unrest. A recent American Express survey indicated Thailand had the greatest consumer pessimism in Asia and the economies of neighboring countries such as Indonesia and Malaysia were being negatively impacted by the instability. This had raised doubts with international investors about the sustainability of southeast Asian economies. Bielarczyk had only hired one staff person and had inherited a handful of clients from the Singapore office. Perhaps the bank should cut its losses and focus its efforts elsewhere.

On the one hand, Bielarczyk knew based on experience that opening an office in an emerging market, such as Asia, required patience and persistence. These markets typically featured unique challenges including volatility in economic growth, poor information quality, political instability, and barriers to entry. Generally, the markets opened slowly and selectively. On the other hand, there was growing concern about whether the country could reform its system of political and economic management. Bielarczyk knew that corporately to fail in Thailand would affect RBC’s ability to grow its commodity trade finance business, service multinationals and produce solid returns from trading activities.

Bielarczyk would be meeting with Phil Brewster, Senior Vice-President and General Manager, Asia later that week and would be expected to provide an update on existing clients, new business contacts, and the potential in the region. Bielarczyk would need to present a strategy to Brewster about how the company should react to the crisis.

BACKGROUND

In the early 1980s, RBC opened a representative office in Bangkok with limited operations. The office served as a marketing liaison only and could not solicit business in that jurisdiction. The bank's intention was to obtain a full branch licence. Unfortunately, the financial sector did not open as quickly as expected. With no demonstrated change in the regulatory environment, coupled with unexpected LDC (less developed countries) portfolio problems, the bank closed its office in 1986.

On May 23, 1997, the press release appeared in the Bangkok Post announcing that the office would be opening in June:

Thailand: Canadians Return to Financial Market

RBC is making a comeback in the Thai financial market largely due to the many good opportunities identified. With our wide range of expertise, particularly in telecom, energy, mining and trade financing, our clients can expect top financial solutions to help them achieve their business goals.

RBC has a strong commitment to Thailand and believes that the Kingdom has good potential to become a regional financial centre. Being a forward-thinking organization, we will work very hard to achieve our ultimate goal — a full branch licence to operate in Thailand.

The bank's intent was to commence with a staff of five people; the general manager would be an experienced banker from the network, with all other staff hired locally. Included in the local staff base would be individuals with account management, credit, and analysis skills, whose experience and familiarity with the marketplace would be important in developing the client base. Over the first two to three years, they would hire several Thai university graduates and train them in Canada before they returned to Bangkok to work. The capital equipment investment would reflect RBC's strong technological capabilities, from personal computers to communications.

BANKING INDUSTRY

Canadian Banking System

The Canadian banking system was one of the most stable in the world. Since 1923, Canada had experienced only two bank failures (compared to some 17,000 bank failures in the United States since 1921), and in both cases there were no losses experienced by either the deposit holders or bond holders. The Office of the Superintendent of Financial Institutions (OSFI) in Canada was responsible to the Minister of Finance of the Canadian federal government for the supervision of both banks and federally regulated non-bank financial institutions. The Canadian Bank Act required a bank to maintain adequate

capital as well as adequate and appropriate forms of liquidity, and empowered the OSFI to direct a bank to increase its capital or to provide additional liquidity.

Revisions to Canada's Bank Act in 1987 and 1992 greatly reduced the barriers between the four pillars of Canada's financial services industry — commercial banking, investment banking, trust, and insurance. As a result, the major Canadian banks provided an extensive range of services within their marketplace, including insurance, money management, retail brokerage, and trust. In 1980, Canada had allowed foreign banks to enter its marketplace, and to date approximately 75 institutions had established operations in Canada.

Royal Bank of Canada

Founded in 1869, Royal Bank was Canada's largest financial institution, and North America's sixth largest bank, with assets of Cdn\$245 billion in September 1997. Earnings in 1996 reached a record \$1.2 billion and return on equity of 19.1 per cent for the first half of 1997 was among the highest in the industry in Canada. Market capitalization in July 1997 was \$20.4 billion. Royal Bank ranked first or second among Canadian financial institutions in earnings, market capitalization and in virtually every financial service it delivered. The bank's 10 million personal, business, government, and financial institution clients were serviced through one of the world's largest delivery networks, which included more than 1,600 branches and over 4,000 automated banking machines.

In an April 1996 survey, the Chief Executive Officers of the 1,000 leading Canadian companies selected the best-managed corporations in Canada. Royal Bank ranked number two, the highest of any financial institution in the country. Additionally, it was selected as number one among all companies regardless of industry in the categories of "Leader in Investment Value," "Leader in Responsibility" (measuring equality and charity), and "Leader in Financial Performance."

Internationally, Royal Bank operated in 35 countries through over 100 delivery units. The bank was strongly represented in the major international financial centers of the world, including New York, London, Frankfurt, Tokyo, Hong Kong and Singapore. RBC's Chile office was opened in 1995, adding to its existing Latin American network of offices in Argentina, Brazil, Venezuela and Uruguay. In addition to the above locations, the bank's European network included Spain, France, Switzerland, Netherlands and Channel Islands. Business clients were offered a wide range of services including corporate banking, trade financing, treasury services and investment banking.

Twenty-three percent of the bank's earning assets at October 31, 1995 were non-Canadian risk, producing 36 per cent of its net income. RBC's international asset base increased 19 per cent between October 1995 and April 1996 to US\$30.4 billion. One of the bank's corporate goals was to increase the proportion of its business generated from non-Canadian sources.

RBC in Asia

The bank's Asia Pacific network of 10 offices spanned seven jurisdictions, including Australia, Hong Kong, Japan, People's Republic of China, Singapore, South Korea and Taiwan. Royal Bank had been operating in the region for more than four decades — in fact, in the early 1950s it was the first North American bank to begin doing business with China after the revolution. Exhibit 1 outlines Royal Bank's history in Asia. The bank now had 400 employees based in Japan, Hong Kong, Singapore, Korea, China,

Taiwan, Australia, and most recently, Thailand. The product offering focused on four major business lines — financial institutions and trade, multinational lending, treasury services, and global private banking. Exhibit 2 outlines the business assessment relative to trade services. The asset base as of April 30, 1996 was US\$4.2 billion. This represented approximately 16 per cent of RBC's total international earning assets.

Royal Bank had been marketing in Thailand for over 30 years. Initially, this was undertaken by representatives of the bank based in Hong Kong, as well as through RoyEast Investment and Orion Royal Pacific, joint venture partners. In the early 1980s, Royal Bank was granted authorized lending facilities for term loans to government entities, which included the Kingdom of Thailand, Electrical Generating Authority of Thailand, and Thai Airlines. The Royal had relationships with Thai banks, particularly Bangkok Bank, Thai Farmers Bank, and Siam Commercial Bank. In total, RBC provided facilities exceeding US\$260 million for a number of locally incorporated groups. Recently, it had provided over US\$100 million in facilities to more than 15 Thai corporations, both in Thailand and overseas.

While the bank's Asia strategy had been "status quo" in recent years while it had focused on consolidating its dominant position in Canada, there was now an aggressive plan in place for Asia. With a population of 2.8 billion people and unprecedented economic progress, Asia's need for financial services, by businesses and individuals, had grown exponentially. And although the financial environments in individual countries varied in degree of maturity, the potential of the region was evident.

BIBF Application

One of the primary challenges facing banks in Asia-Pacific was the ability to expand their delivery network to participate in the economic and social infrastructure development of the region. To successfully compete in and profit from this growth required an investment in the South East Asia network to increase presence, and to demonstrate commitment to both regional and multinational clients. For financial institutions that expected to reap long term-benefits in the country, the prescribed entry format (BIBF) had to be followed. New banks had been allowed to enter Thailand as Bangkok International Banking Facilities (BIBF) offices, as a representative office, as a branch with a banking license, and as a Provincial International Banking Facility.

A BIBF permitted entry into a strictly controlled marketplace, and served as the entry point to onshore lending in the future. These licences enabled the banks to extend loans within Thailand and abroad using money borrowed from overseas. Foreign banks were limited to just one office and were not permitted to deal in the local currency. Only certain transactions could be undertaken by a BIBF; these excluded certain types of trade business involving Thai goods or customers such as issuance of letters of credit or dealing in local currency. It did, however, provide the future possibility of upgrading to branch status, which permitted a larger range of business, including on-shore lending in the local currency. The BIBF represented an immediate investment to satisfy longer-term objectives. Local presence, combined with the ability to secure collateral, provided an opportunity to develop relationships with a much broader prospective client base than could be achieved from abroad. Also, physical presence permitted superior management of the political and economic risks prevailing in the marketplace.

Royal Bank opened a representative office in Bangkok in the early 1980s with a view to attaining full branch status. A representative office allowed it simply to develop relationships and refer and give advice. Unfortunately, the financial sector did not open as quickly as anticipated. Given no demonstrated change in the regulatory environment and Royal Bank's pressing LDC (less developed countries)

portfolio problems, it decided to close the office in 1986. This action did not sit well with a country that believed foreigners should “weather the storm” and demonstrate their commitment to Thailand. Regulators have long memories and although there was some financial service liberalization in 1992 and some banks were “invited” to apply, Royal Bank was not one of them. In 1996, another round of foreign bank licensing occurred and Royal Bank was invited to apply. It was one of 21 applicants from around the world, and after six months of review and meetings with Thai regulators, it was one of seven successful applications and was granted a Bangkok International Banking Facility licence.

As the bank expanded its BIBF presence, it expected significant benefits to accrue to Thailand:

- companies would receive funding at attractive prices
- sophisticated products would be offered, reflecting RBC’s experience in specialized lending
- Thai personnel, both those working for RBC and those working with clients, would have their skills upgraded
- RBC’s appetite for exposure, available to support trade in over 120 countries worldwide, would be available to support Thai exports
- technology expertise would be transferred to Thai employees and clients

A summary of expectations concerning the operation of the BIBF is outlined in Exhibit 3. These estimates were considered conservative; business activities were expected to increase significantly as a result of participation in various growth industries in the country, including transportation, telecommunications and energy.

The BIBF reported to the Senior Vice-President and General Manager, Asia based in Singapore. Expertise and familiarity with the marketplace were important in the development of a client base. Exhibit 4 outlines staff, premises and capital costs for the initial five years.

The Thai Environment

(Exhibit 5 provides an overview of the key factors relative to the markets in Southeast Asia. Exhibit 6 summarizes the Royal Bank’s presence in Asia.)

Social

Thailand was situated on the Indo-Chinese peninsula and was bordered on the west by Myanmar and the Andaman Sea, on the east by Cambodia and the Gulf of Thailand, on the north by Laos, and on the south by Malaysia. The country covered a land area of 514,000 square kilometres and consisted of 76 provinces which were divided into four regions: central, northern, north-eastern and southern. Bangkok, the nation’s capital, was situated in the central region and was home to approximately 10 per cent of the total population. The official language was Thai, but English was often understood and used in commercial circles. Chinese, principally the Teo-chiew dialect, was also used in business.

According to the latest census, Thailand had a population of approximately 59 million, with an annual population growth rate of two per cent. Most of the population was Thai; minority groups included Chinese, Indians, and Malays. Approximately 95 per cent of the population was Buddhist, the remaining primarily Muslim, Christian and Hindu. Freedom of religious belief was highly emphasized, with the King’s royal patronage extended to all religions.

Political

Thailand was a constitutional monarchy and the king was head of state. The king appointed the prime minister on the recommendation of the Speaker of the House of Representatives. The prime minister was usually the leader of the core political party that formed the government. The latter was recommended to the prime minister by the political parties that formed the government and commanded the majority of votes in the House of Representatives. The appointment of the ministers in the cabinet was sanctioned by the king.

Thai politicians were seen as corrupt, incompetent and responsible for the current economic crisis. General Chavalit Yongchaiyudh, Thailand's prime minister, took office in November 1996, but by August 7th, when he was sent to see the much-revered King Bhumibol, many expected his resignation to follow. Although his resignation did not occur, there were rumors of planned coups. The question remained whether Chavalit had any clout to form a strong team capable of steering the country out of the economic turbulence. Thailand's beleaguered finance minister had recently resigned, sending the currency and stock markets into a dive. He left after losing an intra-government battle over a plan to raise excise taxes for some consumer goods.

Economic

Thailand was an open economy with a significant volume of international trade. Its diverse private sector operated in the industries of agriculture, manufacturing and services. The state favored the free enterprise system, but controlled certain industries to protect the public welfare or because the private sector showed no interest in developing them. Several industries were monopolized: utilities, tobacco, communications, arms and explosives, and air, rail and motor transportation. Tourism was the country's most important foreign exchange source and was critical to the economy. With seven million people visiting a year, tourism represented 13 per cent of the country's total export revenue.

In 1985, manufacturing outstripped agriculture in GDP share. Thailand was one of Asia's main agricultural exporters; it represented 11 per cent of exports. Approximately 70 per cent of the population was engaged in agriculture. Thailand was an important provider of rice, rubber, cassava, maize and sugar to the world market but reliance on agriculture had been reduced due to the rapid growth in manufacturing and services. Manufactured products in Thailand accounted for 81 per cent of exports. These included clothing, electronic parts and components, furniture and jewelry. Thailand's principal trading partners were Japan, United States, European Union, Singapore and Taiwan.

Between 1984 and 1990, Thailand's GDP growth rates averaged 11 per cent per year, which made it the world's fastest-growing economy. From 1990 to 1995, annual growth rates averaged approximately eight per cent. Inflation averaged five per cent in recent years, which was impressive given Thailand's rapid growth. To keep pace with the country's growth, the government increased spending on infrastructure improvements such as road networks and telecommunications. Efforts were also underway to improve employee training and increase the number of workers with secondary and post-secondary education.

The currency was the Thai baht. It was fixed by the Exchange Equalization Fund of the central bank and was generally followed by the commercial banks. The Bank of Thailand (BOT), the central bank, was the Ministry of Finance's agent for public debt management, exchange control and commercial bank supervision.

Thailand ranked in the top 25 of Canada's trading partners, with trade flows between Canada and Thailand increasing dramatically over the past three years. Major Canadian exports to Thailand increased 57 per cent between 1993 and 1995 and included organic chemicals, wood pulp, paper and building materials. Canada's imports from Thailand, such as electrical machinery, mechanical appliances, and fish had grown almost 35 per cent during the same period. This represented more than US\$1.1 billion in trade business between the two countries.

Thailand was strategically located with respect to both Indochina and the Southern China region, and expected to continue as one of the fastest-growing economies in the world. It was anticipated that local companies would not only expand regionally, but that foreign companies would also want to service both the local and regional markets with new projects. The US\$750 million announcement from General Motors in May 1996 was one such example. Royal Bank saw an important role in Thailand for the bank to assist such companies. Exhibit 7 outlines the top companies listed in Thailand. In addition, it was felt opportunities existed to lend to many more companies, with over 50 domestic companies having a turnover exceeding US\$100 million. This growth was expected to increase by 10 to 15 per cent per year as planned privatization was implemented.

Competitive Environment

The financial industry in Thailand comprised 15 domestic commercial banks, branches of 15 foreign banks, and approximately 100 finance companies. The five largest banks accounted for nearly 70 per cent of the total banking assets and included Bangkok Bank, Krung Thai Bank, Thai Farmers Bank, Siam Commercial Bank and Bank of Ayudhya. The foreign banks had only a seven per cent market share. It was expected that the financial markets would be further liberalized, with plans in place to establish five new commercial banks, and to open branches of seven foreign banks currently operating under the offshore banking facility.

The Bank of Nova Scotia was the most active Canadian financial institution in Thailand. It established a representative office in Bangkok in 1980 and, in 1990, purchased a 25 per cent interest in Poonpipat Finance and Securities Co. Limited. In 1993 it was granted a BIBF licence and was currently applying for a branch licence. In the mid-1980s, Canadian Imperial Bank of Commerce was active in Thailand, but subsequently closed its office.

Current Situation

After a decade of seven to eight per cent annual growth, the Thai economy entered a dangerous and volatile phase. The country's exports were no longer booming; foreign investors were becoming concerned about the current-account deficit; and big loans to property developers had inflated a dangerous financial state. Bad debt continued to accumulate, causing more anguish in the financial system. The stock market plummeted to depths not seen in eight years. The currency fell prey to speculative attack.

Contributing factors to the Thai crisis were the typical litany of high debt, heavy borrowing, a large current account deficit, and a semi-fixed exchange rate system (the baht was tied to US\$). Also, the banking industry had been deregulated without requiring adequate capitalization or proper lending controls — real estate was reckless. In June 1997, the central bank and the Ministry of Finance attempted to take control by ordering struggling finance companies to shore up their reserves against bad loans in response to a crisis of confidence that threatened the stability of the financial sector. The intervention

came after the government had ordered the leading finance firm, Finance One, to merge with its long-time strategic rival, the country's 12th largest commercial bank, to avert Finance One's collapse.

The authorities' firm intervention contradicted the BOT's traditional preference for self-regulation and came after a year of mounting concern over the burden of non-performing loans carried by the finance sector. Loan defaults had been rising sharply because of tighter credit rules introduced by the central bank in late 1995 and high interest rates designed to bring inflation under control.

While the government had reassured the public that the baht would not be devalued, they could not withstand the pressure on the baht by speculators. The baht was, in effect, devalued 20 per cent when the central bank could not halt its slide and had to unpeg it on July 2nd. Despite the country's good macroeconomic condition, Thailand had clearly lost sight of market discipline.

On August 5, 1997, the Thai government announced it had reached an agreement with the International Monetary Fund (IMF) on a tough program of economic and financial reforms to be introduced in return for a \$16.7 billion package of loans. The reforms included the closing of another 16 finance firms, in addition to the 42 finance firms that were suspended earlier in the year. These firms were asked to merge with banks and other companies or submit other rehabilitation plans. The package also involved tax hikes, spending cuts, accelerated privatization and, potentially, the phasing out of public-utilities subsidies.

The program enabled Thailand to resume the rapid economic growth that it had enjoyed since the mid-1980s and allowed it to implement two of the three significant reforms that Thailand had long needed:

- the restoration of budgetary control
- the restructuring of the country's rickety and corrupt financial system

As a result of the bailout, the government was accountable to the IMF. It was required to report its reserves every two weeks and the central bank had to maintain foreign reserves above \$24 billion, enough to pay for four months' imports. This figure would increase to \$25 billion in 1998. The letter of intent also required the Thai government not to bail out troubled financial institutions by assisting their creditors. Implementing IMF conditions would be painful and unpopular, but without the credit package the reserves would be at risk of falling sharply since the private sector had to repay dollar-denominated loans at a time when foreign capital was flowing abroad.

Many Thais hoped the IMF rescue package would bail out the floundering economy and result in the reduction of the Value Added Tax (VAT) from its current level of 10 per cent back to the previous seven per cent. This, of course, would raise serious doubts about the commitment to the package. The government expected the VAT to increase revenue by 60 to 70 billion baht the following year on a broad range of consumer goods, services and utilities. The government felt pressure to reduce consumption on non-essential goods and to cut public expenditures to achieve a balanced budget. Furthermore, the government hoped to:

- trim the current 950 billion baht budget for fiscal 1998 by 60 to 100 billion baht with cuts in all sectors apart from education and health
- cap inflation — less than five per cent when the baht was floated in July — at 8.9 per cent
- cut the current account deficit — 8.2 per cent of GDP at the end of 1996 — to five per cent in 1997 and three per cent in 1998

HEADING FOR A RECOVERY?

The Bank of Thailand's governor, Chaibawat Wibulswasdi, was optimistic that Thailand's economy would turn around. He declared that the country was headed for recovery in three years, assisted by the country's new international credit line. Economic growth was expected to shrink to 2.5 to three per cent this year, before improving to four per cent in 1998 and five per cent in 1999. The current account deficit would narrow to three per cent of GDP.

The IMF might have helped to "plug the hole," but the country was clearly struggling to contain the effects of the currency devaluation and turn around an economy growing at its slowest pace since 1986. Without a doubt, the Thai crisis had triggered a reassessment of Southeast Asian and of individual economies. Problems around the region that investors had long ago discovered and discounted suddenly loomed larger and more sinister as markets began questioning the sustainability of Southeast Asia's economic miracle. International investors were growing more nervous about risk factors and local companies took a look at their practice of borrowing in dollars and looked for other ways to hedge.

DECISION

The fallout from the Thai property market had been staggering. The financial sector, which once fed on relatively cheap offshore borrowing, was saddled with a staggering 547 billion baht (\$17 billion) in property-related debt, much of which it would probably never recover. Growth had plunged and the government had been forced to accept a rescue line from the International Monetary Fund. Matters weren't helped by the government's muddled attempts to deal with the crisis, most of which came too late and brought confusion rather than clarity. The important question was when, and if, the country could reform its beleaguered, ill-fated system of political and economic management. The future looked uncertain at best.

Perhaps Royal Bank should cut its losses and focus its efforts elsewhere. Bielarczyk would be meeting with Brewster next week and needed to provide a status report and strategic direction for the country.

The Richard Ivey School of Business gratefully acknowledges the generous support of The Richard and Jean Ivey Fund in the development of this case as part of the RICHARD AND JEAN IVEY FUND ASIAN CASE SERIES.

Exhibit 1

ROYAL BANK ASIAN TIMELINES

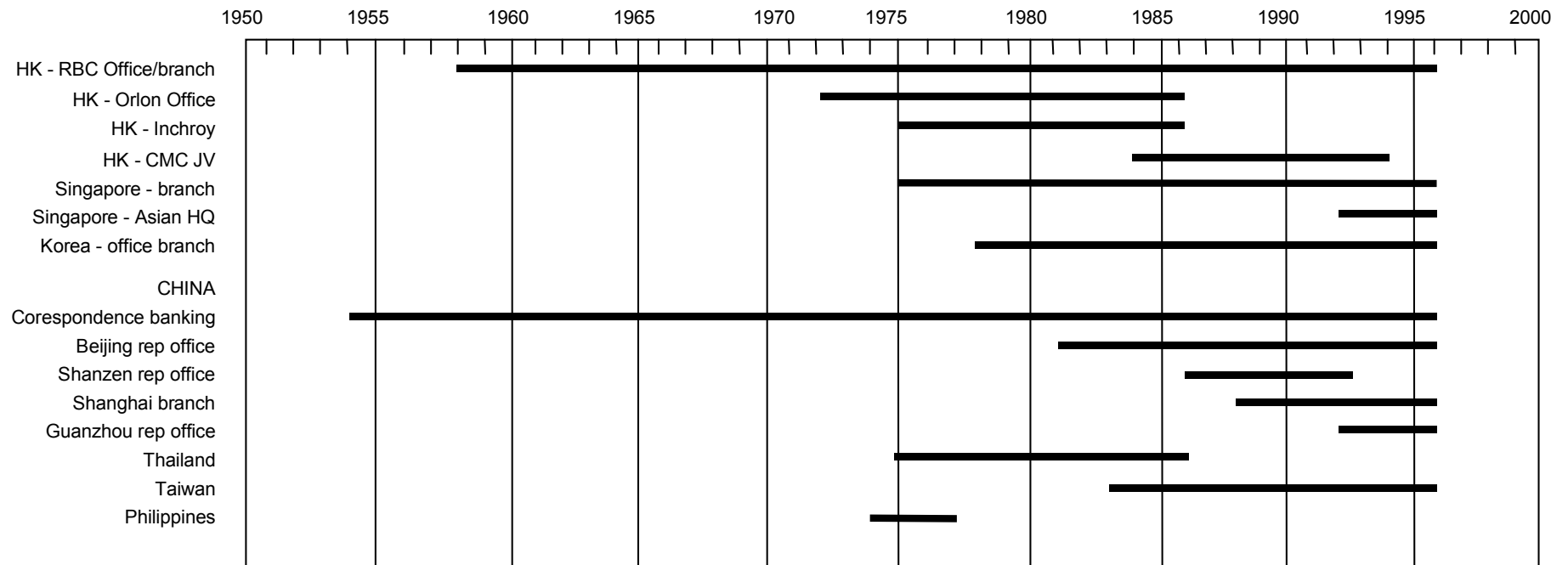


Exhibit 2

BUSINESS ASSESSMENT (JUNE 1996)

BUSINESS SEGMENT	TRADE SERVICES
Definition	• Delivery of trade products and services to Business Banking, Multinational, Correspondent Banking and selected trade customers globally primarily on a short-term basis • For RBC internal purposes. Financial Institutions & Trade (FI&T) includes all activities undertaken in Asia outside of Korea and Japan which would include general commercial lending which may or may not be trade-related
Key Success Factors in this Business	• Centralized low cost processing of documentation utilizing state of the art technology, electronic connection of processing centres with branches and client and simple documentation to speed processing time • Bank-to-bank trade (included in FI) is credit-driven: origination, structuring and distribution critical • Strong reputation in the marketplace • Customer service; trained experienced staff • Throughput: volume • Large number of correspondent banking relationships
CURRENT RBFG CAPABILITIES IN ASIA	
Operations	• Trade conducted through branch offices in Shanghai, Hong Kong, Taiwan (two offices) and Singapore under the direction of the VP Trade, Asia; other Southeast Asian countries are marketed out of Singapore • Approximately 300 clients served, with a high concentration of business with one client in Hong Kong • MTC (micro trade command) implemented in Singapore in 1995 at a cost of \$1.8 million which automates L/C transaction processing for Singapore; to be implemented in Hong Kong (for HK, Tokyo & Shanghai) and Taiwan over the next year and to interface with RIBS accounting system. It is the same system used in Canada but customized for Singapore. This should result in full time equivalent (FTE) savings (Canada eliminated 150 positions). Conversion costs are estimated at \$150 thousand for each of HK and Taiwan and should result in saving three to four FTE positions at each location or \$100 thousand per year at each location

Exhibit 2 (continued)

Financial Results	• 1995 NIAT \$8.9 billion, forecasted to increase to \$11.4 billion in 1996 (ROC of 18% and 17%, respectively). These results include loans to corporate clients (approx. 60% of gross revenue) and exclude bank-to-bank loans which are trade-related yet included in FI results. • NIAT expects to grow 28% and 33% in 1996 and 1997, respectively • ROC levels are strong and forecasted to grow further • Global trade ROC for 1996 is 14%; Canada 12%, Europe 8%, US 28%. The Asian ROC could be overstated due to an under-allocation of capital; this issue is currently being examined.
Strengths	• Strong position with correspondent banks as a source of short-term trade finance business with more than 3,000 correspondent banking relationships globally; 40% of foreign banks requiring Canadian services use RBC.
Weaknesses	• Lack of integrated marketing approach with other RBC products and units; lack of focused marketing strategy • Account manager turnover and skill set not optimized due to lack of specialized training • Lack of market coverage; no ground presence in Indonesia, Malaysia, Thailand, Vietnam; relatively few non-bank trade customers outside Canada • Lack of management information systems (MIS) and cost/pricing methodology • Low productivity due to lack of volumes and high fixed costs
Key Competitors	• Highly competitive; significant market activity due to ease of entry and large number of players threatens profitability • All global banks present including Citibank, Chase/Chemical, BNP, Societe Generale, HSBC, Standard Chartered, ABN-Amro and Deutsche • Citibank leading player with regard to centralization via imaging technology — all trade processing centralized in Penang (rent \$.95 psf) and Hong Kong. • CoreStates is active in trade processing and is used by BMO and many others.
Best Practices of Competitors	• Centralized, low cost processing and use of technology • Large number of correspondent banking relationships • Focused approach to the market

Exhibit 2 (continued)

Opportunities for RBFG	• Adopt a more client-focused approach, segment and target market moving somewhat downmarket to large regional corporates to generate increased business • By 2000, total Asia exports, significantly intra-regional, will reach \$2 trillion, up 65% which is the highest growth rate in the world (1993 intra-Asian trade flows were US\$1,037 billion; 36% from Greater China [China, Hong Kong, Taiwan], 32% Japan & Korea, 24% Southeast Asia). Imports will total \$1.5 trillion • Intra-Asian trade flows — Japan, Korea, China & Taiwan are the origin of most flows; China and southeast Asia are the main destinations of the flows • Increasing Canada-Asia trade — by 2000, Canadian exports to Asia (excl. Japan) will total US\$13 billion (up from \$5.8 billion in 1994) and imports will be US\$19.9 billion • Tap into increasing Latin America-Asia trade flows through our correspondent banking network • Outsourcing our trade processing is an option (e.g., Citibank, Corestates); even on a “white label” basis, however, this represents a degree of loss of control and RBC could install a similar system to that currently being put into Canada to retain control of documentation processing • RBC can capitalize on its credit rating and strong reputation to generate business by linking customers globally (e.g., linking Asian with global commodities strategy) • Lending is the main basis of the Asian corporate banking relationship and the ability to secure trade finance business will likely go to those banks which maintain financing support
Threats for RBFG	• Credit risks — lack of foreign exchange (FX) ability to repay (transfer risk) and illiquidity of local bank (FI risk) • RBC loses clients who go into countries where we lack a ground presence as we are disadvantaged from providing a similar level of service to our competitors • Lack of transparency in financials of customers impedes risk assessments • Recent expansion in trade — the Bank has gone downmarket dealing with clients who essentially are independent business and trading companies with little capital and very high leverage

Exhibit 2 (continued)

Conclusion	• RBC is currently a high cost producer lacking the necessary volumes to gain peak efficiencies; estimated processing efficiencies in Hong Kong and Taiwan vs Canada are 50% • Trade is a core business in Asia and a core competency of RBC in Canada where volumes are relatively flat; to become a top 20 global trade bank by 2000, Asian trade business must be further developed • There is a need to promote awareness of Asian trade capabilities in Canada • With the forecasted growth in Asian exports and intra-regional trade flows (e.g., Korea – Japan; China Triangle), the Asian market is very attractive for trade • Through enhanced market coverage and promotion of interbank referrals, attempt to increase the volume of export-related trade products • Prepare a business case to centralize processing of trade documents in Singapore which would require imaging technology (similar to current Canadian initiative) to reduce costs (offset by higher communication costs) and improve efficiencies. This could result in substantial FTE savings (perhaps as much as 50% of back office staff). • Precisely define target market names; relationship-manage these targets with a view to enhancing revenue generation • Increase trade-specific training (as opposed to generic Visions and Values) to improve effectiveness of training dollars • Realign resources from back office/support/administrative staff to front-line revenue-generation staff (i.e., knowledgeable trade marketers) through downsizing, more effective training (our skill level requires upgrading) and introduction of technology. Add four trade marketers, reporting to VP Trade for Asia, in Hong Kong, Tokyo, Singapore and Seoul at a total estimated cost of \$1.2 million (4 x \$300 thousand) which will require \$120 million of new letter of credit (L/C) business to break-even (based on a 1% spread) which should be attainable based on expanding intra-Asian trade flows. • Lending as a stand-alone product should not be encouraged; however, as part of a trade finance relationship it should be encouraged • Involve VP Trade with country manager when setting country limits • More aggressive follow-up on advisements to Asian exporters • Upgrade Beijing to branch status to protect existing trade business done there as Beijing opens up
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Exhibit 3

**ROYAL BANK OF CANADA
THAILAND BIBF APPLICATION
JUNE 1996**

BIBF Feasibility Study Summary		
	Year 1	Year 5
	(USD \$)	(USD \$)
ASSETS	\$ 225 million	\$540 million
REVENUE	\$1,350,000	\$3,100,000
NON-INTEREST	\$720,000	\$1,550,000
PRE-TAX INCOME	\$595, 000	\$1,550,000
CAPITAL EQUIPMENT INVESTMENT	\$425,000	N/A
STAFF COMPOSITION		
Experienced RBC Staff	1	1
Locally Hired Team	4	9
TOTAL	5	10

Exhibit 4

**ROYAL BANK OF CANADA IN THAILAND
STAFF COST ESTIMATES (U.S. DOLLARS)**

Category	Number & Start Year	Detail	Year 1	Year 2	Year 3	Year 4	Year 5
General Manager (Canadian Expatriate)	1-Year 1	Expatriate compensation package	159,500	175,500	193,000	212,300	233,500
Senior Marketing Manager (5 years relevant experience)	1-Year 1	Salary, performance bonus & other benefits	48,300	53,200	58,500	64,400	70,800
Operations Manager (5 years relevant experience)	1-Year 2	Salary, performance bonus & other benefits		32,200	35,500	39,000	42,900
Marketing Manager (3 years relevant experience)	1-Year 3 1-Year 5	Salary, performance bonus & other benefits			35,500	39,000	42,900 42,900
Credit Analyst (Graduate with 2 years experience)	1-Year 1 1-Year 4	Salary, performance bonus & other benefits	22,200	24,400	26,800	29,500 29,500	32,400 32,400
Secretary (2 years experience)	1-Year 1	Salary, performance bonus & other benefits	9,700	10,600	11,700	12,900	14,200
Clerk (2 years experience)	1-Year 1 1-Year 3	Salary, performance bonus & other benefits	7,300	8,000	8,800 8,800	9,700 9,700	10,600 10,600
Driver allowance paid to managers (1 each for General Manager & Senior Marketing Manager)		Allowance	8,500	9,300	10,200	11,300	12,400
TOTAL STAFF COST	10 staff		255,500	313,200	388,800	446,000	545,600

Exhibit 4 (continued)

**ROYAL BANK OF CANADA IN THAILAND
PREMISES & EQUIPMENT COSTS (U.S. DOLLARS)**

Category	Number	Detail	Year 1	Year 2	Year 3	Year 4	Year 5
Office Space	2,000 sq.ft. 1,000 sq.ft.	@ USD 2.01/sq.ft./mth in year 1 @ USD 2.44/sq.ft./mth in year 3	48,200	53,100	87,600	96,300	106,000
General Manager's residence		Within 30 mins. driving distance of office	48,200	53,100	58,400	64,200	70,600
Depreciation – Automobiles (5-year useful life)		1 car for general manager 1 car for senior marketing manager	14,300 6,800	14,300 6,800	14,300 6,800	14,300 6,800	14,300 6,800
Depreciation – Office Equipment (5-year useful life)		Computers & LAN server Data processing equipment	7,300 3,100	7,300 3,100	10,900 3,100	10,900 3,100	10,900 3,100
Depreciation – Leasehold Improvements (5-year useful life)		Improvements to office space	26,200	26,200	39,300	39,300	39,300
Utilities			8,100	8,900	9,800	10,700	11,800
Other miscellaneous			9,100	10,000	11,000	12,000	13,300
TOTAL PREMISES & EQUIPMENT COSTS			171,300	182,800	241,200	257,600	276,100

Exhibit 4 (continued)

**ROYAL BANK OF CANADA IN THAILAND
CAPITAL COSTS (U.S. DOLLARS)**

Category	Number	Detail	Year 1	Year 2	Year 3	Year 4	Year 5
Club Membership	3	2 Country clubs, 1 city club	137,000				
Automobiles	2	1 Volvo	71,500				
		1 Toyota	34,300				
Leasehold Improvements		2,000 sq.ft. @ THB 1,625/sq.ft.	131,000				
		1,000 sq.ft. @ THB 1,625/sq.ft.			65,500		
Personal Computers	5	Desktop PCs	18,100				
	5	Desktop PCs			18,100		
	1	LAN server, cables, etc.	18,100				
Data Processing Equipment		Computer, telecommunications hardware, fax, printers	15,600				
TOTAL CAPITAL COSTS			425,600	0	83,600	0	0

Exhibit 4 (continued)

**ROYAL BANK OF CANADA IN THAILAND
OTHER COSTS (U.S. DOLLARS)**

Category	Number	Detail	Year 1	Year 2	Year 3	Year 4	Year 5
Club Membership	3	Annual fees	2,000	3,000	3,000	3,000	4,000
Car running expenses	2	Petrol, maintenance, etc.	10,000	11,000	12,000	13,000	15,000
Insurance		Office & GM's residence	4,000	4,000	9,000	10,000	11,000
Banking Licence			20,000	22,000	24,000	27,000	29,000
Training			10,000	12,000	14,000	17,000	20,000
Travel			7,000	9,000	11,000	13,000	15,000
Audit			4,000	5,000	6,000	7,000	8,000
Entertainment			11,000	12,000	13,000	15,000	16,000
Legal & Professional			6,000	7,000	9,000	10,000	13,000
Postage & Courier			4,000	5,000	6,000	7,000	8,000
Telecommunications		Phone, Fax, etc.	5,000	6,000	6,000	7,000	7,000
Data processing costs			42,000	47,000	51,000	56,000	62,000
Stationery			5,000	6,000	7,000	9,000	10,000
TOTAL OTHER COSTS			130,000	149,000	171,000	194,000	218.00

Exhibit 5

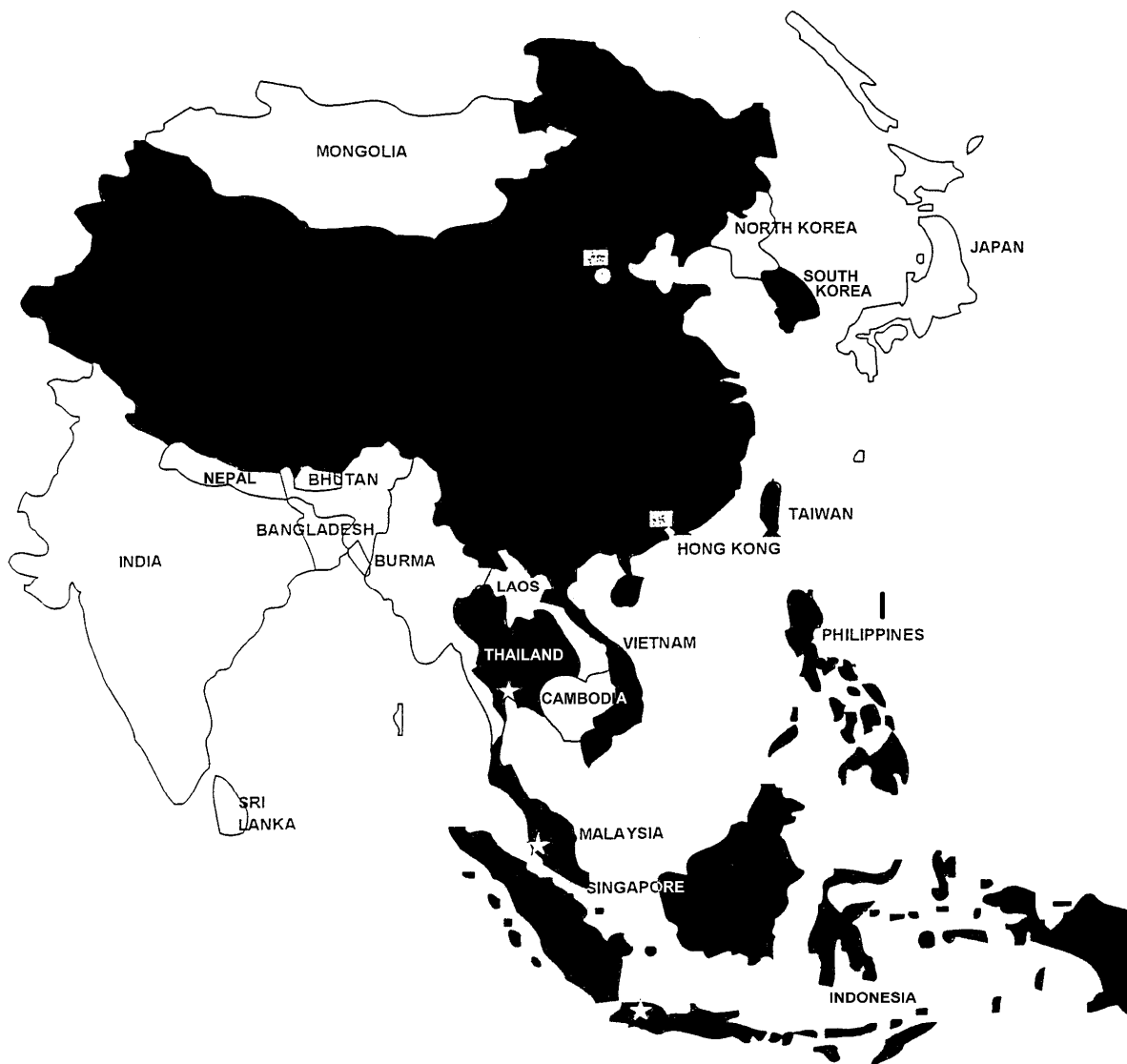
COUNTRY OVERVIEW

	Canada	China	Hong Kong	Taiwan	Singapore	Malaysia
	Developed	Emerging (2)	Developed	Developing	Developed	Developing
Ratings						
- CRR	1	2-	2	2+	1	2
- S&P	AA+	BBB	A	AA+	AAA	A+
- Moody's	Aa2	A3	A3	AA3	Aa1	A1
Literacy Rate	97%	80%	90%	92%	92%	60%
- Secondary education	88%	48%	62%	44%	60%	58%
- Higher education	42%	2%	10%	8%	8%	7%
Population	27 million	1.2 billion	6 million	21 million	3 million	20 million
Urban population as % of total	78%	29%	95%	56%	100%	46%
Income distribution (top 20% population/country earnings)	40%	42%	47%	41%	49%	54%
Foreign Reserves – US\$	12b	53b	52b	93b	60b	25b
Net Debt (Creditor) Level – US\$	430b	46b	(18b)	(54b)	(15b)	9b
GDP						
- 3-year average – US\$	493b	489b	111b	220b	69b	71b
- Historical growth – 5 year	1.6%	11%	5%	7%	8%	9%
- Forecasted Growth	2.9%	8%-10%	3.5%-5%	6.5%-5.5%	7%-6%	8%
- GDP per capita – US\$	18,015	408	18,652	10,516	23,980	3,622
- GDP per capita at PPP – US\$ (1)	20,170	2,400	21,700	12,300	20,500	8,600
Trade – in US\$						
- Exports	132b	99b	135b	88b	96b	59b
- Imports	122b	98b	141b	74b	96b	59b
- Current Account (1995)	(10b)	20b	(3b)	5b	15b	(7b)
RBC NIAT 1995		C\$1.7m	C\$0.8m	C\$1.9m	C\$0.8m	
Total revenues generated from country (4)						C\$0.2m

Exhibit 5 (continued)

	Indonesia	Thailand	Vietnam	Philippines	South Korea
	Emerging	Developing	Under-Developed	Emerging	Developing
Ratings					
- CRR	2-	2	3	3+	2+
- S&P	BBB	A	unrated	BB	AA-
- Moody's	Baa3	A2	unrated	Ba2	A1
Literacy Rate	84%	94%	89%	94%	97%
- Secondary education	45%	33%	n/a	74%	87%
- Higher education	20%	16%	n/a	28%	39%
Population	192 million	59 million	72 million	67 million	45 million
Urban population as % of total	33%	35%	20%	45%	76%
Income distribution (top 20% population/country earnings)	42%	51%	49%	48%	42%
Foreign Reserves – US\$	16b	29b	.6b	6b	26b
Net Debt (Creditor) Level – US\$	88b	44b	18b	33b	44b
GDP					
- 3-year avg – US\$	116b	143b	15(3)	63(3)	380b
- Historical growth – 5 year	7%	10%	8%	1.5%	7%
- Forecasted Growth	6.5%-7.5%	7%-9%	8.5%-9.5%	5%-6%	6%
- GDP per capita – US\$	909	2,411	215	941	8,539
- GDP per capita at PPP – US\$ (1)	3,100	6,400	1,300	2,700	9,800
Trade – in US\$					
- Exports	40b	45b	4b	13b	96b
- Imports	32b	49b	5b	21b	102b
- Current Account (1995)	(6b)	(12b)	(1b)	(4b)	(5b)
RBC NIAT 1995	-	-	-	-	C\$0.8m
Total revenues generated from country (4)	C\$1.6m	C\$1.4m	C\$0.4m	n/a	

Exhibit 6
RFBG IN ASIA



RFBG Presence

- ▲ existing Branch
- existing Rep Office
- proposed Branch
- ☆ proposed Rep Office/Offshore licence

Exhibit 7

**TOP COMPANIES LISTED IN THAILAND
(USD \$ MILLION)**

RANK*	COMPANY	SECTOR	SALES	TOTAL ASSETS
1	Airways International	Transportation	2,203	5,158
2	Ratchaburi Cement	Building	1,638	2,751
3	Saduak Petroleum	Energy	988	1,057
4	Damnoen Makro	Wholesale/Retail	737	326
5	Rama Petroleum	Chemicals	609	2,359
6	Siphya Merchandising	Agribusiness	536	153
7	Sukhumvit Feedmill	Agribusiness	478	604
8	Mallee Development	Property	469	623
9	Ratchaburi City Cement	Building	422	1,109
10	Sala – Union	Textiles	406	541

* ranked on sales; excludes banks and finance houses

Notes: Opportunity exists to lend to many more companies, with over 50 domestic companies having a turnover exceeding USD \$100 million. This is expected to grow by 10-15 per year as planned privatization is implemented