3. LOCAL BANKS MERGER & ACQUISTION ACTIVITY

3.1 Maybank Merger and Acquisition Activity

Now let start with one of the local bank M&A activities, Maybank. Malayan Banking Berhad is the largest bank and financial group in Malaysia, with significant banking operations in Singapore, Indonesia and the Philippines. The bank also has large interests in Islamic banking through Maybank Islamic Bank and insurance via its Etiqa subsidiary. Maybank has 374 domestic branches and 90 international branches and offices. Maybank is the second largest listed company on the Malaysian Stock Exchange, Bursa Malaysia, with a market capitalisation of over RM30 billion as of mid-April 2009.

In 2008, Maybank completed the acquisition of 15% in An Binh Bank (Vietnam), 20% of MCB Bank Ltd (Pakistan) and 97.5% of Bank Internasional Indonesia (BII). In addition, Maybank won for the second year Malaysia's Most Valuable Brand (worth RM9.3 billion), and Deal of the Year - Insolvency & Restructuring Deal of the Year at the 2008 ALB SE Asia Law Awards.

Shares in Malayan Banking tumbled to a 3½-year low on 2008 as investors balked at the high price of its planned $2.7 billion acquisition of Bank Internasional Indonesia, or BII. Analysts said the 23 percent premium that Malayan Banking was paying for the Indonesian bank was too steep and noted that BII had posted weak financial results in the past two years while the country's other major lenders had reported strong performances. The price tag was more than 50 percent higher than Citigroup had assumed "for a mediocre franchise," the bank said in a research note, downgrading Maybank to a sell from a buy.

Maybank has been criticized for being too slow to expand outside its home market while rivals have moved into countries like China and Indonesia to buy the juiciest prizes.It surprised investor by saying it would pay $1.5 billion to buy 56 percent of BII, a double-digit premium to the share price, from the Singapore state investor Temasek and Kookmin Bank, of South Korea. Maybank would spend an additional $1.2 billion to buy the remaining 44 percent of BII from minority shareholders. Maybank said the price was justified as the deal would help it tap Indonesia's fast-growing banking market, which is aiming for loan growth of over 20 percent. Malaysian banks want more of their profits to come from offshore as domestic competition grows, but the deals have done so far have been small, overdue and expensive. Maybank paid 510 rupiah per BII share, or about 4.6 times book value, for a foothold in Southeast Asia's biggest economy, the highest ever paid for a banking acquisition in Indonesia. Chinese banks usually fetch between 3.3 and 5.4 times book value. Maybank faced a tough challenge in BII, saying the Indonesian bank had a mediocre deposit franchise, a small branch network in major cities and high exposure to risky motorcycle financing.

Maybank shares tumbled as much as 11 percent to 8 ringgit in early trade to their lowest level since August 2004. BII's net profit has fallen for two straight years, dropping 36 percent in 2007 after a 13 percent fall in the previous year. But BII is optimistic that Maybank could help turn the bank around. There will be improvement at the bank. BII look forward to have synergy with a strong bank which has a strong presence in Shariah, or Islamic financing, and some expertise in some sectors like plantations. Credit rating agency

Fitch put Maybank's creditworthiness on watch after the deal, which it said could force it to raise capital.

3.2 Maybank Strategy of M&A

In terms of strategy, as a local bank - the best way to grow the business is to expand. Looking at Maybank, they are already one of the biggest bank in malaysia - and in order for them to continue to grow and make more money, they would need to expand their operations globally. At this point of time, Maybank has already operations in other countries like Singapore and Phillippines. Moving into the mainstream banking in Indonesia would be a huge opportunity for them. Again - if compare Malaysia and Indonesia, Indonesia is very much bigger market in comparison to Malaysia. With regards to the value of the acquisition, supposed the investment bankers has already done their due diligence in terms of the value of the bank at the point of purchase. Again - the value of one company, doesn't really depends on the stock price wholly, there are so many other things that one need to consider. Maybank is undertaking a massive RM8.6bil acquisition for Indonesia's sixth largest bank -- PT Bank Internasional Indonesia Tbk (BII) -- after succeeding in securing a 55.7% stake from Temasek Holdings Bhd. Maybank told Bursa Malaysia on Wednesday that it had entered into a share sale agreement with Temasek's unit Fullerton Financial Holdings Pte. Ltd. (FFH) to acquire its 100% stake in Sorak Financial Holdings Pte. Ltd for about RM4.8bil. Sorak owns 55.7% of BII and upon completion of the agreement Maybank will be the controlling shareholder of BII. As required by Indonesia's regulatory rules, it would have to make a tender offer for the remaining 44.3% shares held by the remaining shareholders of BII.

The total amount involved for the tender offer is approximately Rp11.0 trillion or the equivalent of approximately RM3.8bil and will be funded via internally generated funds and/or borrowings. Maybank said Sorak is a 75% owned subsidiary of FFH while Kookmin Bank holds the remaining 25% equity interest in Sorak. As part of the terms of the share sale agreement, Maybank will also acquire the remaining 25% equity interest in Sorak representing 1.42 million Sorak shares from Kookmin Bank for a total cash consideration of approximately Rp3.5 trillion or the equivalent of approximately RM1.2bil. Maybank said the purchase consideration shall be satisfied entirely by cash and will be financed via internally generated funds and/or borrowings.

On the rationale for the proposed acquisition, Maybank offered opportunities to further expand its banking franchise in the Indonesian market and was in line with Maybank's continuous effort to establish a strong foothold in the regional markets. The proposed acquisition will open up opportunities for the Maybank Group in capturing a share in the Indonesia banking sector which has high growth margin. The acquisition would enable Maybank to develop an excellent platform for to build and capture growth particularly in remittance and trade finance products; and also create revenue synergies for Maybank's existing customer base in Indonesia by leveraging on BII's experience in the local market and cross-selling opportunities.

BII is listed on the Jakarta Stock Exchange and ranks as Indonesia's sixth largest bank in terms of assets. BII operates in all major banking segments (corporate banking, SME/commercial banking, consumer banking and wealth management) and has a multi-channel distribution network of over 230 branches and 700 ATMs supplemented by Internet banking and call centre operations.

According to Maybank Acting Chief Executive Officer Dato' Aminuddin Md Desa, the bank delighted with the outcome and are excited moving forward given the significant value in BII's banking franchise and infrastructure. It provides with an excellent platform to capitalize on growth opportunities with limited execution risks, coupled with the strong underlying fundamentals of the Indonesian economy. The existing management team is also highly experienced and strategically aligned with Maybank's aspirations for Indonesia.

The strategic and financial rationale for the acquisition is extremely compelling. The acquisition will transform the growth prospects in Indonesia and is a huge step forward in strategy to regionalize the bank operations through investments in selected high growth markets as the Indonesian banking sector remains under-penetrated with excellent long-term growth potential. BII is well placed to capitalize on this growth potential given its strong market position, extensive multi-channel distribution network and high quality customer base. This acquisition effectively enables Maybank to leapfrog into the Indonesian banking market with a significant, well-established presence and attractive platform for further growth.

BII has an established banking franchise in Indonesia with a reputation for service quality and production innovation. Maybank with its solid track record and experience in the Indonesian market is well positioned to leverage on BII's excellent infrastructure to further grow the business. In addition, there are also significant revenue synergies given the established and rapidly growing presence of Malaysian cooperates in Indonesia and the strong trade flows between the two countries. Indonesia is the fourth most populous nation in the world and banking penetration remains relatively low. Prospects for value creation in the medium term are also excellent as Maybank can leverage on its experience in Malaysia to augment the product offering and banking capabilities of BII, particularly in areas such as Islamic banking, bancassurance and Takaful.

3.3 CIMB Merger and Acquisition Activity

The banking sector has certainly seen an awakening of late. Market observers would note that the sector had been quiet for some time and had been consolidating after the first round of bank mergers a few years back. While there were on-and-off market rumours about further bank mergers (such as that of EON-AMMB), investors did not really see some `real stuff' until the recent merger talks between Bumiputra- Commerce Holdings Bhd (BCHB) and Southern Bank Bhd (SBB).

The acquisition of MNI Holdings Bhd by Malayan Banking Bhd (Maybank) as well as the recent acquisition of Hong Kong's Asia Commercial Bank (ACB) by Public Bank Bhd has also added more spice to the mergers and acquisitions (M&A) scene in Malaysia. So, how will these M&A turn out especially given the now seemingly hostile bid by BCHB for SBB, and are there more M&A activities to come? It started with the disagreement between SBB chief executive Tan Sri Tan Teong Hean and the other major shareholders of SBB, Sultan Sharafuddin Idris Shah and Datuk Syed Yusof Syed Nasir, over the bank's decision to bid for Singapore-based Asia General Holdings Ltd (AGHL).

It is believed the bid incident triggered the decision of these two major shareholders to sell their stakes to a third party and BCHB probably came into the picture as an opportune party at the right time. As it turned out, the proposed acquisition of SBB by BCHB was not smooth-sailing at all. The negotiation process dragged on for more than three months before SBB finally decided to stop the talks with BCHB.

In a twist, the board of SBB said it believed a merger with another banking institution could be more value-creating for shareholders at this stage of the Malaysian banking industry's evolution. Market talk now is that Maybank is entering the fray as the new suitor, although both SBB and Maybank have denied this, saying they have yet to identify any parties.

BCHB has said it intends to pursue the merger with SBB despite the latter's board rejection and to continue discussions instead with shareholders of SBB who remain interested in a merger between BCHB and SBB. As it turns out, BCHB later made two proposals on SBB:

i) BCHB is to acquire the entire business and undertaking of SBB including all its assets and liabilities at an aggregate cash consideration equivalent to RM4.08/SBB share multiplied by the total outstanding SBB shares. SBB shall carry out a capital reduction exercise in order to return all the profit arising from the disposal of the SBB business, share capital, share premium, other reserves and retained earnings to the shareholders of SBB and upon completion, SBB shall be reduced to a RM2 paid-up company.

This offer has been rejected by the board of SBB, which said the takeover offer has `hostile implications'. It also urged the bank's shareholders not to take any action in respect of any takeover offer (under the second option below).

ii) Under BCHB's second offer, it will acquire, via CIMB Bhd, all the outstanding shares and warrants of SBB at the offer price of RM4.08/SBB share and RM2.34/SBB warrant.

The offer price of RM4.08 will be satisfied via a cash consideration of RM3.08 and one BCHB redeemable convertible unsecured loan stock (RCULS) at an issue price of RM1.

According to OSK Investment Research, it is clear the net tangible assets (NTA) dilution (arising from the goodwill on acquisition) will be substantial at about 20%. However, on the positive side, both the earnings per share (EPS) and return on equity (ROE) of BCHB will eventually be enhanced strongly by about 47% and 35%, respectively, hence mitigating the dilutive impact on its NTA.

Besides, BCHB may benefit from synergies arising from the acquisition. The proposed merger could result in significant synergies, for example, revenue enhancement from greater cross- selling opportunities and cost savings from operational rationalisation over the next 18 months. The established niches in the mass affluent retail and small-medium enterprises (SME) segments of SBB will complement BCHB's strength in treasury, corporate and investment banking. According to RHB Research, based on the offer price of RM4.08/ share, SBB is priced at almost RM6.2 billion, which values the franchise at 2.2x FD NTA (after stripping out SBB treasury shares). This valuation is actually at the lower end of market expectations of 2.2x-2.4x, it adds. Nonetheless, it is a 20% premium to the most recent M&A pricing involving Malaysian Plantations (MPlant), which was transacted at 1.86x historical NTA.

Adding to the pressure, the largest shareholder of SBB, Killinghall (M) Bhd, had given an ultimatum to SBB to call for an extraordinary meeting (EGM) before Feb 21, 2006 or it would exercise its rights as a major shareholder to requisition one in SBB to allow shareholders to decide on the proposed acquisitions. Meanwhile, the possibility of a merger between SBB and Maybank has become less likely given that the Finance Ministry has said it wants to see both SBB and BCHB settle their disputes before considering alternative merger proposals.

3.4 CIMB Strategy of M&A

CIMB and SBB Banking Group Jointly Announce Proposed Merger of Banking Operations of BCHB and SBB in 15 Mar 2006 with the following conditions:

- Acquisition of all the assets and liabilities of SBB for a purchase consideration of RM6.7 billion.

- BCHB to undertake a voluntary general offer at RM4.30 per SBB share cash or a combination of cash and RCULs equivalent to RM4.30 per SBB share and RM2.56 cash per SBB warrant

CIMB Group and Southern Bank (SBB) are announce unanimous support from the Boards of Directors of BCHB and SBB as well as endorsement from substantial shareholders of SBB for the proposed acquisition by BCHB of the entire business and undertaking of SBB and the revised conditional voluntary offer by BCHB for all ordinary shares of RM1.00 each in SBB and Warrants 1996/2006 in SBB. Under the terms of the transaction, BCHB will acquire the entire business and undertaking of SBB for a total cash consideration of RM6.7 billion equivalent to RM4.30 per SBB share. With the revision in the acquisition price for the business and undertaking, the consideration for the voluntary offer will be increased to RM4.30 per SBB share and RM2.56 per SBB warrant. The consideration for the SBB shares will be satisfied fully in cash or a combination of cash and redeemable convertible unsecured loan stocks ("RCULS") at shareholders election. The full terms of the RCULS however will now be determined at the time of the launch of the VGO as opposed to the earlier pre-announced offer terms. Payment for the SBB warrants will be fully in cash. SBB shareholders will also receive a gross dividend of 5 sen per share which will not be adjusted against the offer price. Post-acquisition of SBB, BCHB will inject the entire business of SBB into CIMB Group.

Both CIMB Group and SBB will make a joint application soon to Bank Negara Malaysia for approval of the Revised Offer. The proposed merger and acquisition is also subject to approvals from the Securities Commission, the Minister of Finance and shareholders of BCHB and SBB. CIMB and SBB announce the proposed merger and acquisition. The entire transaction is a landmark merger exercise and value enhancing for all shareholders, customers and employees of BCHB and SBB. For the CIMB Group, this proposed merger and acquisition is strategic and consistent with the bank priority agenda of transforming our consumer banking franchise. It augurs well for the bank future as it gives the lead in the long anticipated next round of banking consolidation, positioning the BCHB Group even stronger in terms of diversity and scale with total assets increasing from RM121 billion to RM152 billion. The new merged bank will have leading presence in retail and wholesale banking, stronger risk profile and better economies of scale. Furthermore, the deal is expected to be earnings and ROE accretive for BCHB at least in the medium term. The complementary strengths of CIMB and SBB will translate as a quantum leap in value creation capabilities particularly in retail and credit card operations, consumer finance and wealth management. This proposed merger and acquisition has received the support of substantial shareholders of Southern Bank and has been unanimously recommended by both Boards of Directors of BCHB and SBB.

The merger is largest, most public takeover in Malaysian history with ripples that will be felt in Corporate Malaysia. Developments here will trigger a second wave of consolidation in the financial sector as the industry prepares for a new age of fierce global competition when Malaysia opens its doors to further market liberalisation. This transaction reflects several realities, in particular, the inevitable forces of consolidation that arise under the Financial Sector Master Plan. It also represents an endorsement of CIMB business model, industry leadership and financial strength. Combining the strengths of our two institutions, both banks expect in going forward a stronger and bigger home grown financial institution to emerge.

Bumiputra-Commerce Holdings Berhad ("BCHB") and Southern Bank Berhad ("SBB") signed the sale of business agreement on 31 May 2006 for the acquisition of the entire assets and liabilities of SBB up to RM6.7 billion, a step forward to seal and bring to completion the proposed BCHB-SBB merger, Malaysia's largest in domestic banking consolidation.

BCHB has also today, concurrently launched the voluntary offer for the outstanding shares and warrants in SBB. The voluntary offer will be open for acceptances for a period of 21 days. The proposed offer is made to facilitate and expedite the payment of cash consideration arising from the proposed SBB acquisition to SBB shareholders. It also provides SBB shareholders an opportunity to participate in the equity of the enlarged BCHB group. The sale and transfer of the SBB business to BCHB which is an aggregate sum equivalent to RM4.30 per SBB share multiplied by the total outstanding SBB shares as at transfer dates, will be settled by BCHB entirely in cash. SBB shareholders can choose to receive the purchase consideration of RM4.30 fully in cash or through a combination of cash of RM3.22 and RCULS valued at RM1.08. BCHB will pay RM2.56 for each warrant tendered through the voluntary offer. Payment for the voluntary offer will be made to all shareholders and warrantholders within 21 days from the unconditional date of the offer. The combined BCB-SBB bank will have total assets of RM152 billion with a leading presence in retail and wholesale banking and a stronger risk profile. The merger is expected to be earnings and ROE accretive for BCHB at least in the medium term.

3.5 Public Bank Merger and Acquisition Activity

Public Bank is known for its prudent management, strong profitability, stable leadership, strong asset quality, healthy capitalisation and service excellence. A top-tier bank in Malaysia, Public Bank has the best overall financials among local banks. The fact that Public Bank is untouched by the US subprime crisis demonstrates its adherence to its prudent management and strong risk management.

With a healthy balance sheet, Public Bank is the largest domestic bank in Malaysia by market capitalisation and the third largest by balance sheet. The Public Bank Group employs close to 16,000 people – up from 14,000 in 2007 – with about 90% of the staff in Malaysia and the remaining spread across Hong Kong and the People's Republic of China, Cambodia, Vietnam, Laos and Sri Lanka. In Cambodia, Cambodian Public Bank Plc is the largest commercial bank in the country both in terms of balance sheet size and in its lending business.

For its consistently strong financial performance, superior asset quality, healthy capitalisation and prudent management, the Public Bank Group continues to be accorded strong financial ratings. In November 2008, Moody's Investor Service reaffirmed Public Bank's long-term deposit rating of A3, and short-term deposit rating of P-1. Standard & Poor's Rating Agency reaffirmed Public Bank A- long-term rating and A-2 short-term counterparty credit rating with stable outlook in May 2008. Also in September 2008, Rating Agency Malaysia reaffirmed Public Bank's long-term rating of AAA, the highest accorded by Rating Agency Malaysia, and its short-term rating of P1. A leading provider of integrated financial services, the Public Bank Group offers a wide range of financial products and services such as commercial banking, investment banking, wealth management products and Islamic banking services. The Public Bank Group is an industry leader in home mortgage financing, hire purchase financing and commercial lending to SMEs in Malaysia.

The Public Bank Group also offers a wider range of wealth management products through Public Mutual – a wholly-owned subsidiary of Public Bank – and through the long-term strategic alliance with the ING Group to distribute bancassurance products. Public Mutual is a dominant player in the fund management industry in Malaysia with a leading market share due to its superior funds performance, strong distribution capabilities and a strong brand.

The Public Bank Group is very focused on growing its market share in its retail lending and deposit-taking businesses in the domestic and overseas markets, while maintaining its prudent risk management and strong asset quality. The effectiveness of the Group's business strategy rests with its proven ability to effectively execute its core business strategies and build a strong capability and capacity to innovate and offer a wide range of competitive financial packages to its increasingly demanding customers.

Backed by its effective delivery channels and competitive product packages, the Public Bank Group has able to sustain accelerated business growth at a significantly faster pace than the industry's growth without compromising on its asset quality. In the last seven years, the Group's total loans and advances and core customer deposits had been growing at a compounded annual rate of 21% and 16%, respectively.

Public Bank has been repeatedly voted the best managed company in Malaysia by investors and analysts across the Asian region. In particular, Public Bank is often rated highly in categories such as strong corporate governance, best investor relations and most committed company to strong dividend policy. In a survey of 200 most admired companies in Malaysia in 2008, Public Bank was ranked highly for its long-term vision, financial soundness and corporate reputation.

Backed in year 2000, as one of the ten anchor banking groups, Public Bank is in an advanced stage of completing its merger with Hock Hua Bank. With the liberalisation of the financial services industry and competition from the merged and enlarged banking groups, and foreign controlled Malaysian financial institutions, competition in the financial services industry will further intensify. Upon completion of Public Bank's merger with Hock Hua Bank, the enlarged Public Bank Group will see an increase in its domestic branch network to 381 branches in Malaysia from 345 branches, comprising 213 commercial bank branches and 168 finance company branches. The Public Bank Group's operations in the state of Sarawak will be significantly enhanced with Hock Hua Bank's strength in the state, where it has an established customer base in the retail consumer and commercial sectors, a niche market which is also the focus and specialisation of the Public Bank Group. In addition to synergetic advantage, there are immediate gains from economies-of-scale savings in the significant investments made in the past few years by the Public Bank Group in its Information Technology infrastructure. The process of post-merger integration has already begun. Public Bank's systems have been installed in all Hock Hua Bank's branches and, together with the training already given to the staff, these Hock Hua Bank branches are ready to operate as Public Bank branches immediately on the first day of the completed merger. In fact, all the necessary steps have been taken to ensure that the integration of the business and staff of Hock Hua Bank into the Public Bank Group is completed as quickly as possible without disruption to normal operations and progress in the implementation of its business plans and strategies.

As part of its merger integration strategy, the enlarged Public Bank Group offers continued employment to all staff of Hock Hua Bank and Advance Finance Berhad, whose finance company business was acquired by Public Bank on 31 December 2000. With the enlarged customer base arising from the merger, and further growth in the Public Bank Group's lending business to generate increasing returns to scale and efficiency, the issue of staff retrenchment normally experienced in corporate business mergers would not arise. In its effort to continue being an active partner in progress in Malaysia's transformation into a knowledge-based economy, the Public Bank Group has already established a dedicated E-Banking team to develop its initiatives in e-banking, including internet banking. Priority was accorded by the E-Banking team to address security, confidentiality and operational risk relating to such transactions. The Public Bank Group's plans in this direction is aimed at maintaining its competitiveness under a business environment in which increasing competition is being intensified by the leveling of the playing field, globalisation and liberalisation. Whilst resources are channeled into growing its business, and meeting customers' service needs and expectations, the Public Bank Group remains vigilant to maintain its asset quality at levels well above comparable industry standards. Operational procedures and processes, risk management processes and internal controls are continuously assessed and reviewed to ensure that the Public Bank Group's risk profile continues to be prudently and effectively managed.

3.6 Public Bank Strategy of M&A

On 8 March 2001, the shareholders of Public Bank Berhad approved the merger of the banking businesses of PBB and Hock Hua Bank Berha by way of a scheme of arrangement and amalgamation of HHB pursuant to Section 176 of the Companies Act, 1965 and Section 50 of the Banking and Financial Institutions Act, 1989 whereupon the banking business of HHB shall be transferred to PBB and PBB shall acquire the entire issued and paid-up share capital of HHB comprising 125,377,000 ordinary shares of RM1.00 each in HHB from the shareholders of HHB for a total consideration of approximately RM1,249.0 million to be satisfied via the issuance of up to 426,281,800 new ordinary shares of RM0.50 each in PBB to be listed and quoted as “Local” on the Main Board of the Kuala Lumpur Stock Exchange at an issue price of RM2.93 per share based on the exchange ratio of 3.4 new PBB Local Shares for every one (1) HHB Share held (“PBB/HHB Merger”); and The bonus issue by PBB of up to 848,171,335 new ordinary shares of RM0.50 each in PBB to be credited as fully paid up on the basis of three new PBB Shares for every ten existing PBB Shares held after the PBB/HHB Merger.

The approvals of the Minister of Finance, Bank Negara Malaysia, the Securities Commission, the Kuala Lumpur Stock Exchange, the Foreign Investment Committee, the shareholders of HHB and the sanction of the High Court of Malaya pursuant to Section 50 of the Banking and Financial Institutions Act, 1989 have also been obtained for the PBB/HHB Merger and the Bonus Issue. The PBB/HHB Merger was implemented on 31 March 2001 and the Bonus Issue was completed on 23 April 2001.Public Bank announced in 26 December 2001 to the Kuala Lumpur Stock Exchange that Public Bank and Hock Hua Bank had entered into a supplemental agreement to the merger agreement between the two banks which was signed on 26 June 2000, revising the merger scheme to effect the merger of Public Bank and Hock Hua Bank. The revised merger scheme will involve the acquisition of the shares of Hock Hua Bank by the issue of 3.4 new Public Bank shares by Public Bank for every 1 Hock Hua Bank share, resulting in Hock Hua Bank becoming a wholly owned subsidiary of Public Bank. The banking business of Hock Hua Bank will be transferred and merged with the banking business of Public Bank. As part of the revised merger scheme, Public Bank is also proposing a bonus issue of 3 new Public Bank shares for every 10 existing Public Bank shares held after the completion of the merger. Public Bank anticipates to complete the proposed merger with Hock Hua Bank by the first quarter of 2001 under the terms of the revised merger scheme. The revised merger scheme has received the approval of the Minister of Finance and Bank Negara Malaysia and is pending approvals from other relevant authorities, shareholders of Public Bank and Hock Hua Bank and the High Court of Malaya for the vesting order to effect the merger. Public Bank and Hock Hua Bank have, throughout 2000, been working together to prepare for the operational merger of the two banks. A merger joint steering committee, comprising members of senior management staff of both Public Bank and Hock Hua Bank, had since the last quarter of 1999, been guiding the integration planning and implementation process. Public Bank's IT and operational systems will be adopted for operating the merged entity's business. In this respect, the necessary preparation and testing of the IT capabilities have been completed, and the staff of Hock Hua Bank branches have been undergoing intensive training on the Public Bank systems since mid-2000. On the first day of operations of the enlarged merged bank, the customers of Hock Hua Bank will have access to the entire network and services of the Public Group and the Hock Hua Bank branches will merge seamlessly into the Public Bank network and operate fully as Public Bank branches. The Public Bank Group also expanded into the merchant banking business with the completion of the acquisition of Sime Merchant Bankers Berhad, which is now renamed Public Merchant Bank Berhad, in October 2000. With a fresh capital injection of RM150 million and the backing of the Public Bank Group, Public Merchant Bank Berhad is well positioned to develop its presence in the domestic merchant banking industry. Public Bank's merger with Advance Finance Berhad was completed with the transfer of the finance company's business to Public Bank on 31 December 2000.

The Malaysian economy is expected to register a moderation in GDP growth for 2001 to between 5% and 7%. This takes into account the still favourable external environment and the expected slowdown of the US economy towards a soft landing. The domestic environment will remain conducive as the positive impact of the accomodative monetary and fiscal policies, implemented since 1998, continue to sustain a respectable rate of growth of economic activities. 2001 will continue to see keen competition in the banking industry as the ten domestic banking groups complete their mergers. Arising from the consolidation process, the domestic banking playing field will be levelled.