CHAPTER 4 : RESEARCH ANALYSIS AND RESULTS

4.1 SYNERGIES TO BE MEASURED FROM THREE DIMENSIONS

There are three types of synergy mentioned by Hitt et al. (2001), to determine whether the M&A of BCHB and SBB creates synergy or destroys value further, I will evaluate from these three dimensions of operational, financial and managerial.

Operational synergy is the ability to generate more value and output with two companies working together rather than operating separately. Financial synergy is the ability to derive higher income and profit resulting from the M&A of two companies. Last but not least, managerial synergy is the ability to gain additional competitive advantage in the market due to the combined decision maker's leadership for the combined company.

The synergies measurement will be evaluated against the objectives that initiated this M&A, which is to grow BCHB's retail banking arm and strengthen its foothold in Malaysia prior to liberalisation in Malaysian banking market and BCHB's expansion regionally.

> *"CIMB Group Chief Executive Dato' Nazir Razak said, "For the CIMB Group, this proposed merger and acquisition is strategic and consistent with our priority agenda of transforming our consumer banking franchise. It augurs well for the future as it gives us the lead in the long anticipated next round of banking consolidation."*
>
> *(CIMB Group and SBB Joint Announcement, 15 March 2006)*

“Among the many local banks BCHB considered, it found SBB's “consumer banking business appealed most’’ and its other businesses complemented what the CIMB Group has. “When you go first, you have the opportunity to choose from everything that is still out there. The proposed merger with SBB is a major boost. It will accelerate the transformation of CIMB’s consumer banking operations and allow us to export consumer banking as we want to be a regional player,’’ CIMB Group chief executive Datuk Nazir Razak said”

(The Star, 16 March 2006)

4.2 OPERATIONAL SYNERGIES

Operational synergies was probably one of the very important reason BCHB initiated the M&A negotiation with SBB. BCHB and SBB were very different in terms of their strength of their product offered, customer segment owned, and channels to reach out to their customer. They very much complement each other in terms of their respective strength and weak areas if integration is to be carried out properly and successfully, which provides the best justification for BCHB to spend the cost for M&A with SBB for an instant inorganic growth rather than a gradual organic growth.

“The intention of CIMB group to grow into retail bank business is the main purpose of the M&A. But the investment banking does not help much in this and SBB with strong presence in retail banking business would provide a great solution.”

(Appendix 2, Interview Transcript)

There will be this expectation that SBB would provide the new CIMB group the kind if instant impact with their knowledge transfers, expertise sharing and access into different market, rather than BCHB spending unnecessary cost to trial-and-error venturing into a new market by itself. BCHB was hoping that by acquiring SBB, they'll be able to avoid the risk of wasting resources in setting up new business units trying to capture new business in new markets not knowing the probability of success, knowing the fact that CIMB investment arm was not familiar with retail banking operation and BCB retail arm has very limited resource to grow nor do they have the expertise to handle operation of new banking products offered.

> *"The three main major items and values that were inherited from SBB were the banking system, the SBB way of running the business, and also the corporate value of SBB. These are the 3 core contributions that makes CIMB retail bank a success today."*
>
> *(Appendix 2, Interview Transcript)*

The result of the merger with SBB is that CIMB today is a leading universal bank in ASEAN and Asia Pacific, serving customers from different regions and backgrounds with all kinds of financial needs.

4.2.1 INFORMATION TECHNOLOGIES

SBB also provides a lot of technology transfer to BCHB as part of the M&A. SBB prior to M&A, was a more technology savvy bank compared to BCHB. Systems and technologies used by SBB were better than BCHB if not the best, as SBB has always been willing to invest in new technologies to support the bank's operation. An evident of SBB's well-structured IT infrastructure is that

CIMB today's IT department still resides in Menara Southern Bank (MSB) in Bukit Damansara which used to be SBB's head quarter.

> *"CIMB adopted most of SBB's practices after the M&A, knowing the fact that SBB are having a stronger and more robust retail bank system than what CIMB used to have."*
>
> *(Appendix 2, Interview Transcript)*

It is operating as efficient as ever that the management has decided to maintain its infrastructure in MSB, to do only improvement and enhancement on the IT infrastructure inherited from SBB rather than scrapping everything off and start a new infrastructure. The IT infrastructure is today serving one of the largest banking transactions in Malaysia efficiently, and looking to support cross ASEAN transactions as CIMB now has the largest branch network across ASEAN. As of to date, CIMB is currently engaged in transforming its core banking technology called 1Platform inter-linked across ASEAN, starting with Thailand, Singapore, Indonesia and Malaysia, which is the first bank to do so in Malaysia.

4.2.2 DISTRIBUTION CHANNELS

Prior to M&A, SBB was more recognized as a bank serving more chinese ethnic customers and BCHB was more recognized as serving more bumiputra or malay customers. Besides, SBB has better strength in providing loans to SME businesses, credit cards and wealth management products, whereas BCHB is more on providing investment banking services through CIMB and collecting retail deposits through BCB.

The M&A of BCHB and SBB, has enable both banks to complement each other in terms of gaining access into customers of the two major ethnic group in Malaysia. Cross selling of banking products and facilities are also being enabled due to the M&A.

> *"BCH has received approval from Bank Negara to start cross sales of products and to-date, BCH's "All Stars" structured product has been successfully launched. 40% of the RM400m sold during the offer period were taken up by Southern Bank's customers, who make up 15% of the group's total customer base. At the other end, Southern Bank's sub-prime product, Xpress Cash, will be sold to BCH's 4m customer base. This product was launched in January 2005 and marks Southern Bank's foray into the micro-credit market. We view this as a big growth area for BCH given its sizeable 4m customer base."*
>
> *(Citigroup Global Markets Equity Research, 29 November 2006)*

> *"BCHB now has scale economy, critical mass and distribution clout. Its business model is to operate as a seamless bank with a mentality to cross-sell."*
>
> *(MARC, 1 March 2007)*

Customers of both SBB and BCHB now served under CIMB has greater access to variety of banking services in one stop, hence increasing customer loyalty and satisfaction. SBB which previously has difficulty penetrating malay customer market and BCHB that has problem gaining more chinese customer can now easily cross sell their products into each other's customer base. In fact, CIMB today attracts customer of all ethnic from the ASEAN region.

4.2.3 ONLINE BANKING AS NEW BANKING PLATFORM TO CUSTOMER

Smart phones, tablet computers, mobile internet data services and broadband have become very common in recent years. Using the internet for the purpose of socialising with friends and completing business transactions are no longer privileges of technology savvy youngsters. Hence, a bank that offers a convenient online banking platform such as mobile banking or internet banking will gain more customers.

Online banking was one the signature service of SBB, SBB was one of the very first bank in Malaysia to venture in online banking which started in October 2000. SBB was not only promoting online banking services to technology savvy individuals, but also looking to offer business-to-customer (B2C) and business-to-business (B2B) online banking services. BCHB with his investment bank arm CIMB and retail bank arm BCB were not active in online banking prior to M&A with SBB, BCHB are a few years lag behind SBB in terms of online banking operations.

As a result of the M&A between BCHB and SBB, CIMB is today one of the leading online banking services provider in Malaysia and in ASEAN.

> *"CIMB Clicks, our internet banking portal, also experienced tremendous growth with its user base increasing more than 100% in the course of the year to over 400,000."*
>
> *(CIMB Bank Annual Report, 2007)*

CIMB's online banking service today mainly serves three purposes :

a. to facilitate banking transactions through the internet

b. to provide assistance to customer

c. to communicate with customer and to strengthen CIMB's branding

Most Malaysian banks nowadays offered online banking services, very much helped and driven by the growth of telecommunication infrastructure in broadband facility of Malaysia. But BCHB is a different story. From a bank that has almost dormant involvement in online banking services six years ago prior to M&A with SBB, CIMB is today being recognized as one of the bank with best internet banking services. CIMB has been awarded the "Best Internet Bank Award in Malaysia" by Global Finance of New York in November 2011.

> *"Global Finance magazine said: "The world is becoming increasingly connected and more and more people are looking for convenience online. CIMB Bank has proven that the online facilities it offers its customers provide them just that, with no compromise to security."*
>
> *(The Edge Financial Daily, 21 November 2011)*

CIMB together with Maybank's M2U online banking are two of the most utilised online banking services today in Malaysia. Undeniably, the M&A with SBB has contributed the most to the knowledge transfers and online banking technology expertise in getting CIMB achieving today's recognition.

Besides, CIMB is not satisfied with offering just online banking that enables customer to perform online banking transactions, CIMB has fully utilized the online banking expertise inherited from SBB and gaining full advantage from it to outplay its other competitors. CIMB is currently one of the most active Malaysian bank that is using social media to promote brand engagement with its customer. Last but not least, CIMB is also providing a new channel for customer to get advice and assistance online with regards to any CIMB services through twitter.

As one of the leading bank that ventures into online banking and providing one-of-its-kind internet banking services, CIMB has gained a lot more advantages in recruiting new customers and improving customer loyalty. And it all started with the M&A with SBB.

4.3 FINANCIAL SYNERGIES

The M&A of BCHB and SBB managed to improve the financial performance of the new CIMB group. The synergies in financial mainly contributed by improved revenues and ability to maintain or lower cost spending, hence, also strengthens CIMB group's balance sheet and capital position.

The revenue growth percentages in the merged CIMB group are significantly better than the earnings growth of the previous SBB and BCHB entity respectively in previous years. Revenues have been growing at double the pace post-merger compared to pre-merger. Average revenue growth pre-merger was at 4% per year over period of 5 years (2001-2005), whereas average revenue growth post-merger leaped to 9% per year over the period of 4 years (2006-2009). Table 8 shows the average annual growth of revenue. The huge improvement were mainly contributed by the ability of the merged group to capture bigger market share, gaining access into more customers for cross selling, and also ability to provide new products offering inherited from SBB commercial bank, BCB commercial bank and CIMB investment bank.

> *"The acquisition of Southern Bank is a positive development for BCB. With its strong niche in credit cards, wealth management*

and SME loans, particularly to the Chinese community, Southern Bank is a strategic fit vis-à-vis BCB's stronghold in corporate lending and treasury operations. The merger will create one of the largest banking groups in the country, where it will operate on a single platform as a broadly diversified universal bank with commanding market shares and enhanced competitive advantages. The business profile of the merged entity will see a better balance between corporate and retail businesses, providing greater revenue diversity."

(RAM, May 2006)

"The acquisition of SBB is of great value to BCHB, especially in its retail and business banking franchise, brand equity, and talent pool. The merger between the two banks is seen as hugely benefiting BCHB as it would increase the banking group's market share in several of its business segments."

(Institutional Shareholder Services, 2006)

The cost spending and tax rate of the new merged CIMB group was being successfully managed at par level if not lower compared to previous SBB and BCHB separated entity. The cost management synergy was contributed by branches rationalisation, human resources reallocation and expertise sharing, and also better taxation management.

4.3.1 BIGGER MARKET SHARE AND LARGER CUSTOMER BASE

Malaysian and Singaporean banking market is relatively saturated compared to other ASEAN countries (Wall Street Journal, 2012). There are two methods that Malaysian banks can employ to expand their businesses, either by venturing out of Malaysia into ASEAN countries or by acquiring peer competitors in Malaysia.

> *"Increasing competition at home has also helped persuade Mr Nazir to look offshore, with the government opening its overcrowded domestic banking market to more foreign competition."*
>
> *(The Star, 22 October 2005)*

By merging SBB into BCHB, CIMB group basically achieved one of the very important objectives in M&A which is to gain economy of scales by having bigger market shares and larger customer base. Financial synergies and strength are realised when bigger markets shares bring in higher earnings to the bank.

> *"The commercial bank will benefit from more diverse sources of income after the acquisition of SBB, which is strong in lending to the retail, and small- and medium-sized enterprises."*
>
> *(Standard&Poor, March 2006)*

Customers usually prefers more experienced bank, and bank that owns a bigger market share usually gives a perception to customer that they are more experienced since they have serve so much customers over the years. This gives CIMB group an advantage over smaller Malaysian bank players in getting more new businesses and also retaining existing customers. This is the reason banks are engaged in M&A to achieve economy scales as bigger market shares today wins business of tomorrow.

Customers with established relationship with CIMB tends to transact their savings or checking deposits in CIMB, hence, CIMB is gaining a huge pool of low cost deposits to fund their lending. This source of fund is far cheaper than running Fixed Rate Deposit Promotion campaigns offering higher rate to attract customer deposits at an expensive cost. As a result of that, the gross margin of CIMB balance sheet improved due to the growth in low rate deposits at low cost.

The merged entity of SBB and BCHB is able to attract new businesses from any ethnic nowadays compared to the old days where SBB mainly gets chinese and BCHB usually get malay customers.

> *"BCHB's has 4million retail customer base which majority to be Malay while SBB's 0.66million are mostly Chinese, meanwhile its business banking and corporate banking saw a 2% and 22% overlap respectively for the merge entity. Hence, we can expect greater synergies from the enlarged entity."*
>
> *(ECM Libra Avenue, 11 August 2006)*

These new sets of customer inherited from the previous SBB and BCHB entities, enables CIMB to gain access instantly to significant percentages of banking customer in Malaysia. CIMB can then connect to these customers and offered them products that SBB or BCHB is not able to reach through all previous advertising and promotional effort, either due to wrong perception of the previous bank entity or lack of value added products offered.

> *"CIMB find SBB to be the most suitable M&A target that will provide them the kind of solution for the portfolio they needed to merge with CIMB commercial bank. This M&A move will provide them a fast solution to grow in retail banking rather than organic growth."*
>
> *(Appendix 2, Interview Transcript)*

Besides, by achieving a bigger market shares and increase in transaction volumes, the merged CIMB group is fully utilising its resources and back end system, hence making cost spent on supporting system and resources up to its optimised level.

Last but not least, by becoming a leading market player enables the merged CIMB group to gain advantage over other banks, such as not having to follow smaller banks to offer cut throat pricing to gain more market shares. Even if CIMB are to be involved in lowering their pricing to compete with smaller banks, the huge volume of businesses that CIMB have on their balance sheet provides them sufficient earnings although margins are lowered. By becoming one of the top bank in Malaysia also allows CIMB to achieve a better rating from rating agency, thus allowing them to get funding from the money market or capital market at lower cost.

4.3.2 ONE STOP FINANCIAL OFFERING

The merged CIMB group consists of BCB commercial bank, CIMB investment bank, and SBB commercial bank. The merger and restructuring of these entities has created CIMB group offering universal banking services.

> *"We think that SBB would complement our existing businesses very well. They have good mass affluent retail and SME franchises while we are strong in treasury, corporate and investment banking, Nazir said."*

> *"The group has a growing asset management business but it is still considered weak in some areas such as SMEs and the credit card business. Analysts say a merger with SBB would allow it to*

> *not only bolster its consumer banking arm, but also gain significant inroads in asset management, SME banking business and credit cards."*
>
> *(The Star, 22 October 2005)*

By not only gaining bigger market shares and larger customer groups, CIMB group now has the ability to offer a one stop financial solution to its customer from very simple savings deposit to sophisticated structured products, or a simple personal financing to large corporate syndicated customised loan. The three previous entities of SBB, BCB and CIMB staff with their respective expertise in different product knowledge can now work together to serve customers to their utmost financial needs.

Cross selling can now be done among ex-SBB and ex-BCB customers with full sets of product offered. This one stop financial service advantage is also attracting new customers to start new relationships with CIMB. Customer loyalty is also improved due to this reason. The impact of transforming CIMB into a universal bank through merger with SBB is harvesting huge earnings for the new CIMB group, as loans and deposits portfolio for CIMB is growing tremendously over the years after merger with SBB.

> *"The takeover of SBB is aimed at completing BCHB's overall franchise as a veritable universal bank with leading market positions in retail and investment banking backed by CIMB Bank's sprawling branch footprint and huge balance sheet."*
>
> *(MARC, 1 March 2007)*

By having the ability to offer all kind of financial services and supporting cross borders transactions across Asia Pacific, the strengthen CIMB also has gained the advantage to offer customer value added products and services, rather than being involved in pricing war in order to attract new customers or retain existing customers. This has enable CIMB to defend its balance sheet gross earning margin while other banks are hurting their profit margin trying to survive in the market.

4.3.3 BRANCH RATIONALISATION

After the M&A with SBB, there will be branches from both SBB and BCB where they were located nearby to each other, hence branch network rationalisation is one of the standard process post banking M&A. By planning branches network at strategic and reasonable location, CIMB is able to serve its customer with not only more products as mentioned earlier but also with lesser branches located at strategic location in a more efficient manner.

By removing redundant branches from SBB and BCB located in neighboring area, CIMB saves a lot of overhead cost running those extra branches' day to day operation. Cost savings of not having redundant branches comes from cost saving of building rental, utility bills, extra staffs performing over lapping task, and all other redundant miscellaneous expense needed in performing daily branch operation. The sale of extra fixed assets from the redundant branch also provides extra one time income to the bank, and no longer incurring further depreciation of fixed assets on the balance sheet nor any maintenance cost.

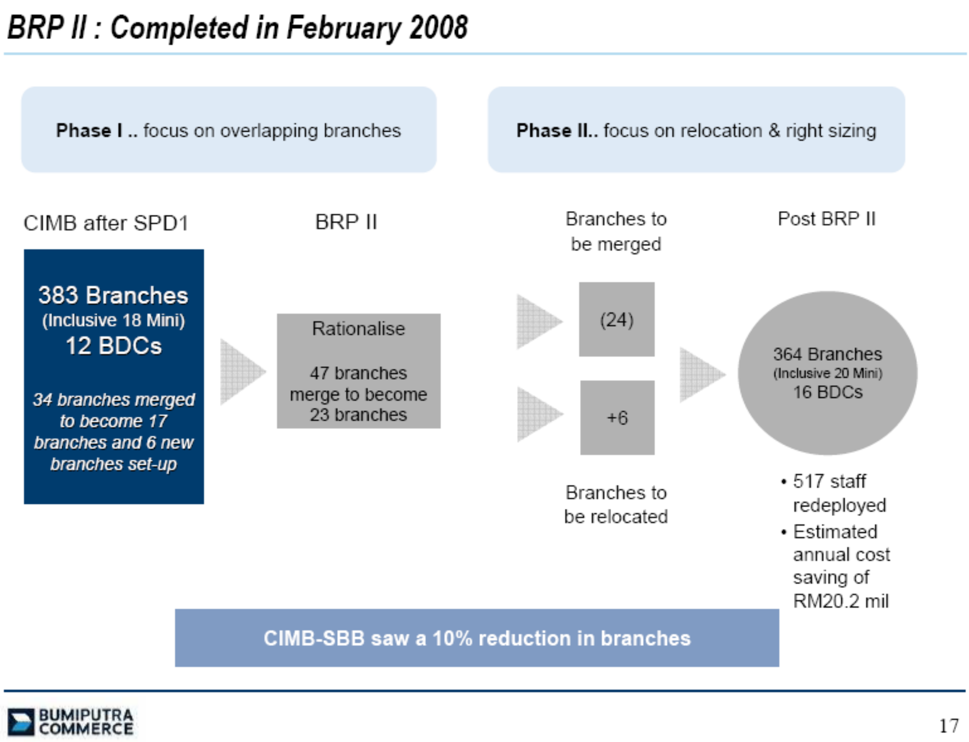

Figure 4 : Branch Rationalisation Plan
(BCHB 51st Annual General Meeting, 5 May 2008)

The reduction in overhead cost of redundant branch coupled with the ability to sell more income earning products to the same amount of customer, has improve the profit margins of the bank by generating more income at lower cost through branch rationalisation.

4.3.4 RESOURCE REALLOCATION AND EXPERTISE SHARING

The merger of SBB into BCHB has managed to have best resources shared among the different entities and business units, hence reducing cost needed to venture into new infrastructures and personnel hiring to support offerings of new products to new customers with higher banking transactions needed. Fixed assets, properties and back end systems of each unit can now be shared to co-support each other's operation to its optimised level, without having to incur cost needed to buy new infrastructure to support higher volume of transactions and services rendered.

Expertise and skills sharing among the merged entities also reduces cost of having to pinch experienced staffs from other banks to venture into new product offering, as hiring staffs from another banks will incur a 6 months new salary penalty to Institut Bank-Bank Malaysia(IBBM).

This cost of training was charged to the bank for acquiring someone with competitive skillset learned during its tenure with competitor bank, and the gain of new talent in CIMB will be at the lost of the competitor bank. Besides, CIMB group also saved from not having to invest extra cost in providing training to staffs in order to capture more markets shares for new products offered that it intends to sell.

> *"We are optimistic about the potential combination of management talent. Our customer bases are also quite different while our two asset management companies could combine to become the largest domestic private asset manager, Nazir said."*
>
> *(The Star, 22 October 2005)*

> *"The reorganisation/merger of BCB-Commerce International Merchant Bankers Berhad-SBB has enabled the new entity to draw from an enlarged talent pool. MARC perceives the group's leadership and management to be performance driven and expects the performance-based culture at CIMB IB to be eventually supplanted throughout the entire group."*
>
> *(MARC Annual Review, May 2007)*

4.3.5 TAX MANAGEMENT

The overall corporate tax structure of the merged entity has improved, compared to SBB and BCB per-merger. Profit after tax (PAT) improved by 146% in the duration of 4 years post-merger, comparing financial year end

(FYE) 2005 PAT of total of RM756million contributed by both SBB and BCB to FYE 2009 CIMB Bank of RM2billion, as per shown in table 12.. Shareholders fund has then also rise from FYE 2005 of RM8.9billion to FYE 2009 of RM16.9B which translates to 89% growth, as per shown in table 9.

4.3.6 IMPROVED FINANCIAL PERFORMANCE

Banks' balance sheet is mainly contributed by loans as assets and deposits as liabilities.

Deposit growth of CIMB Bank pre-merger[1] is averaged at 5% per annum but deposit growth of CIMB Bank post-merger[2] has gone up to average 17% per annum. Meanwhile, interest expense growth of CIMB Bank pre-merger is averaged at 2.76% per annum, but interest expense growth of CIMB Bank post-merger has gone down to average of 2.18% per annum.

This means that CIMB bank deposits are growing at triple the pace per annum compared to pre-merger, but cost spent on getting deposit funding in terms of interest expense has been managed to lower growth rates per annum. Hence, CIMB Bank is gathering deposits at higher speed but with lower cost. The annual growth in total deposits and interest expense are being shown in table 3 and table 4.

In asset side of the balance sheet, loans have been growing steadily at the rate of 7.7% per annum during pre-merger and post-merger. Anyway, the interest income earned pre-merger every year is averaged at RM5.13billion

[1] CIMB Bank pre-merger consists of SBB and BCB, with data collected from annual report 2001 - 2005

[2] CIMB Bank post-merger is CIMB Bank entity, with data collected from annual report 2006 - 2009

per annum, but interest income earned post-merger is averaged at RM6.85billion per year. That contributes to average RM1.7billion differences in average interest income earned per year between pre-merger and post-merger or equivalent to 34% jump in average interest income earned. This means that loans are generally growing at a steady rate but with a far higher yield return from these better quality loans. The annual growth in loan and differences in average annual interest income are being shown in table 5 and table 6.

Besides, non-performing loan (NPL) on the balance sheet has also gone down by 51%, comparing average NPL of RM6.4billion pre-merger to average NPL post-merger of RM3.1billion. That reflects that assets on CIMB Bank's balance sheet are improving in terms of credit quality with a higher rate of return. This is being shown in table 7.

As shown in table 8, revenue were growing at average rate of 4% per annum pre-merger, but revenue were growing at average 9% per annum post-merger, which is more than double of its performance prior to M&A. Shareholders fund average annual growth post-merger also has been doubled as per shown in table 9. Average annual growth of shareholders fund per-merger was at 8.8% but has gone up to 17.6% post-merger, which is almost double the performance of pre-merger.

Table 10 shows that Tier-1 capital[3] of the bank has improved from 9.2% average pre-merger to 10.8% average post-merger, making it well complied to the Basel II accord requirement.

[3] Tier-1 Capital as per Basel definition includes equity capital and disclosed reserves. It is also called core capital which is the most stable and reliable source of funding for the bank.

In terms of overhead cost control as per shown in table 11, average overhead cost post-merger has gone up by only 66% compared to average overhead cost pre-merger. The increase in overhead cost is still reasonably low, because CIMB Bank has been engaged in overseas branches expansion and hiring of new head counts. And the result achieved from the spending of this overhead cost has transformed CIMB bank to own the largest branches network in ASEAN, and also one of the banks with leading technologies in the market serving customers across ASEAN. The cost spending is justified by revenue post-merger growing at double the magnitude compared to pre-merger and also PAT post-merger improved by average 146% four years after merger, as per shown in table 12.

	Total of BCB and SBB as Separate Banking Entity (Pre-merger)					Total of CIMB Bank (Post-merger of BCB and SBB)			
TOTAL DEPOSITS (RM)	2001	2002	2003	2004	2005	2006	2007	2008	2009
Year End Balance	69,464,953,000	73,672,483,000	77,519,071,000	86,194,352,000	86,707,361,000	97,535,719,000	124,884,532,000	136,240,271,000	161,053,291,000
Annual Growth %		6.06%	5.22%	11.19%	0.60%	12.49%	28.04%	9.09%	18.21%
Average Annual Growth %	5.77%					16.96%			

Table 4 : Average Annual Deposits Growth Pre-Merger(2001 - 2005) and Post-Merger(2006 to 2009)

	Total of BCB and SBB as Separate Banking Entity (Pre-merger)					Total of CIMB Bank (Post-merger of BCB and SBB)			
INTEREST EXPENSE (RM)	2001	2002	2003	2004	2005	2006	2007	2008	2009
Year End Balance	2,404,271,000	2,283,690,000	2,258,248,000	2,443,043,000	2,662,151,000	2,974,827,000	3,592,428,000	3,625,092,000	2,729,639,000
Annual Growth %		-5.02%	-1.11%	8.18%	8.97%	11.75%	20.76%	0.91%	-24.70%
Average Annual Growth %	2.76%					2.18%			

Table 5 : Average Annual Interest Expense Growth Pre-Merger(2001 - 2005) and Post-Merger(2006 to 2009)

	Total of BCB and SBB as Separate Banking Entity (Pre-merger)					Total of CIMB Bank (Post-merger of BCB and SBB)			
TOTAL LOANS (RM)	2001	2002	2003	2004	2005	2006	2007	2008	2009
Year End Balance	65,979,232,000	69,599,938,000	76,659,374,000	84,393,312,000	88,724,025,000	85,669,448,000	85,295,535,000	100,300,537,000	117,695,426,000
Annual Growth %		5.49%	10.14%	10.09%	5.13%	-3.44%	-0.44%	17.59%	17.34%
Average Annual Growth %	7.71%					7.76%			

Table 6 : Average Annual Loan Growth Pre-Merger(2001 - 2005) and Post-Merger(2006 to 2009)

	Total of BCB and SBB as Separate Banking Entity (Pre-merger)					Total of CIMB Bank (Post-merger of BCB and SBB)			
INTEREST INCOME (RM)	2001	2002	2003	2004	2005	2006	2007	2008	2009
Year End Balance	4,842,415,000	4,923,850,000	4,960,842,000	5,252,065,000	5,659,954,000	5,911,388,000	7,171,325,000	7,341,222,000	6,958,548,000
Average Annual Balance	5,127,825,200					6,845,620,750			
Differences	RM1,717,795,550 or Equivalent to 34% Increase								

Table 7 : Differences in Average Annual Interest Income Pre-Merger(2001 - 2005) and Post-Merger(2006 to 2009)

	Total of BCB and SBB as Separate Banking Entity (Pre-merger)					Total of CIMB Bank (Post-merger of BCB and SBB)			
NET NPL (RM)	2001	2002	2003	2004	2005	2006	2007	2008	2009
Year End Balance	6,330,339,000	6,616,983,000	6,420,996,000	7,372,151,000	5,283,418,000	4,789,972,000	3,452,963,000	2,488,054,000	1,759,228,000
Average Annual Balance	6,404,777,400					3,122,554,250			
Differences	- RM3,282,223,150 or Equivalent to 51% Decrease								

Table 8 : Differences in Average Annual NPL Pre-Merger(2001 - 2005) and Post-Merger(2006 to 2009)

	Total of BCB and SBB as Separate Banking Entity (Pre-merger)					Total of CIMB Bank (Post-merger of BCB and SBB)			
REVENUE (RM)	2001	2002	2003	2004	2005	2006	2007	2008	2009
Year End Balance	6,063,327,000	5,860,784,000	5,821,618,000	6,425,395,000	7,050,384,000	7,321,666,000	9,638,669,000	9,057,385,000	9,672,633,000
Annual Growth %		-3.34%	-0.67%	10.37%	9.73%	3.85%	31.65%	-6.03%	6.79%
Average Annual Growth %	4.02%					9.06%			

Table 9 : Average Annual Revenue Growth Pre-Merger(2001 - 2005) and Post-Merger(2006 to 2009)

	Total of BCB and SBB as Separate Banking Entity (Pre-merger)					Total of CIMB Bank (Post-merger of BCB and SBB)			
SHAREHOLDERS FUND (RM)	2001	2002	2003	2004	2005	2006	2007	2008	2009
Year End Balance	6,397,892,000	7,131,971,000	7,982,305,000	8,918,302,000	8,933,336,000	10,944,926,000	12,135,071,000	13,081,918,000	16,890,866,000
Annual Growth %		11.47%	11.92%	11.73%	0.17%	22.52%	10.87%	7.80%	29.12%
Average Annual Growth %	8.82%					17.58%			

Table 10 : Average Annual Shareholders Fund Growth Pre-Merger(2001 - 2005) and Post-Merger(2006 to 2009)

	Total of BCB and SBB as Separate Banking Entity (Pre-merger)					Total of CIMB Bank (Post-merger of BCB and SBB)			
TIER 1 CAPITAL (%)	2001	2002	2003	2004	2005	2006	2007	2008	2009
Year End Percentage	8.59	9.08	9.33	9.34	9.70	8.44	9.04	10.75	14.81
Average Percentage	9.21					10.76			

Table 11 : Average Annual Tier-1 Capital Pre-Merger(2001 - 2005) and Post-Merger(2006 to 2009)

	Total of BCB and SBB as Separate Banking Entity (Pre-merger)					Total of CIMB Bank (Post-merger of BCB and SBB)			
OVERHEAD EXPENSE (RM)	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Year End Balance	1,543,858,000	1,582,886,000	1,671,681,000	1,772,224,000	1,990,407,000	2,084,889,000	2,857,900,000	2,697,439,000	3,714,232,000
Average Annual Balance	**1,712,211,200**					**2,838,615,000**			
Differences	**RM1,126,403,800 or Equivalent to 66% Increase**								

Table 12 : Differences in Average Annual Overhead Expense Pre-Merger(2001 - 2005) and Post-Merger(2006 to 2009)

	Total of BCB and SBB as Separate Banking Entity (Pre-merger)					Total of CIMB Bank (Post-merger of BCB and SBB)			
PAT (RM)	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Year End Balance	387,270,000	687,384,000	803,260,000	658,486,000	755,869,000	1,153,161,000	1,732,545,000	1,574,698,000	2,016,916,000
Average Annual Balance	**658,453,800**					**1,619,330,000**			
Differences	**RM960,876,200 or Equivalent to 146% Increase**								

Table 13 : Differences in Average Annual Profit After Tax Pre-Merger(2001 - 2005) and Post-Merger(2006 to 2009)

4.4 MANAGEMENT SYNERGIES

Despite the dramatic twist and turn from the initial bid of BCHB's offer to merge with SBB until the deal was conclude, the integration process were a totally different story. The integration process went relatively smooth, mainly due to CIMB investment bank's experience in conducting M&A.

The CIMB management from CEO down to senior managers at various level of departments went down to the field to speak to all the concerned parties of SBB and BCHB, to give them confidence and to comfort them of their unknown fear due to the merger, the resistance was managed efficiently. Most importantly, the CIMB senior management has managed to convey a clear goal of the new company for all and instill confidence in everyone that all their efforts and contribution is needed and very much appreciated in driving the new company moving forward.

> *"We continue to be impressed by management's ability to execute and synergies are already starting to flow through."*
>
> *(Citigroup Global Markets Equity Research, 29 November 2006)*

> *"Whilst stemming customer and employee attrition remains key, threats of this happening on a massive scale are not visible as evidenced by its ability to retain key management from SBB."*
>
> *(MARC, 1 March 2007)*

The previous CEO of SBB, Tan Sri Tan Teong Hean has a great vision for SBB to move ahead and vowed to fight for its SBB employees benefit and future during the M&A saga with BCHB. Despite resistance given during the M&A saga, the support of outgoing SBB CEO and board of directors on the

M&A being concluded also helps in giving confidence to stakeholders related to SBB that it will be managed under good hands and will only grow stronger.

> *"SBB Chief Executive Director Tan Sri Tan Teong Hean said, "Combining the strengths of our two institutions, I expect in going forward a stronger and bigger home grown financial institution to emerge. I am confident that under the leadership of Dato' Nazir Razak,the fine traditions and legacies of SBB are in good hands""*
>
> *"Dato' Stephen Yeap Leong Huat, Director of SBB said, "It is good that substantial shareholders of SBB are now in the agreement that the proposed merger of BCHB and SBB would be in the best interest of not just shareholders but for the SBB franchise as well, given the increasing competition where scale and scope would be critical for survival""*
>
> *(CIMB Group and SBB Joint Announcement, 15 March 2006)*

CIMB, despite having successfully acquired SBB from Tan Sri Tan Teong Hean, managed to pull together all managements of SBB and BCHB to work together to achieve a greater goal to become one of the leading banks in ASEAN. The integrated management from these entities then never looked back and moved forward so efficiently, working together as a team in CIMB group under the leadership of Group CEO Dato Sri Nazir to become one of the leading universal bank in ASEAN in just five year time after the merger with SBB.

> *"MARC's reaffirmation on CIMB Bank is also based on the competitive position that the bank commands, expectations of*

improvement in resources and a proactive management team with an emphasis on synergy extraction."

(MARC, 1 March 2007)

"We think the combined BCHB+SBB will be a force to be reckoned with in virtually every product segment. Management objectives of driving change through the organization, instilling a culture of performance, and focusing on profitability, is expected to energize the group."

(Citigroup Global Markets Equity Research, 29 November 2006)

The new group's vision was once viewed by competitors as almost impossible as no one has done it before notwithstanding the fact that the world economy is still slow moving and banking players are expanding cautiously. But CIMB managed to achieve this goal by uniting all the senior management with all the necessary talents, they have again achieve another tremendous progress.

4.5 MAIN DRIVING FORCE OF GAINING SYNERGIES

Despite initial objectives of BCHB's hope to gain synergies through M&A with SBB, there was a very important reason that has got the potential synergy mentioned above realised. Many M&A happened in the past and value was not created just like the M&A of AOL and Time Warner, hence, BCHB was not exempted from the case that what if the synergy does not happen as per expected if integration was not being conducted effectively.

"Avoiding customer attrition/preserving the franchise :

1. Uncertainty and internal focus lets the predators in with a sniff - What BCH thinks it has acquired versus what it has actually acquired could be different... we have no doubt those adept and focused (and Chinese) competitors have deliberately targeted SBB customers

2. Branding and branch closure confuses/ upsets the customer experience - Altering a brand and maintaining customer traction is a challenging exercise and it's not just about signage and statement design, process change and general interruption to the customer experience risks attrition

3. Key staff retention - retaining the key senior executives and front line relationship managers is a key objective. Nothing has been decided as yet, and in a tight competitive labour market, most of the bargaining power resides with the employee

4. Cultural unification or identity crisis - the merged entity brings together two cultures (or at worst five cultures) and two peoples (Chinese and Bumiputra). The differences are vast and the challenges are real

5. Product proposition (ours or theirs) - a new product suite must now be assembled which takes the best from both, avoids customer confusion/turnover and retains front line staff

6. Infrastructure platforms (integrate, migrate and/or wholesale replacement) - many an organization has come unstuck with system down-time, cost overrun, risk management holes etc when confronted with the mammoth task of platform integration and/or replacement"

(Morgan Stanley Equity Research, 16 March 2006)

But one very important step during post M&A integration was being done successfully by BCHB with SBB, that managed to make synergies realised, was that CIMB managed to retain most of the human resources from SBB.

"The Bank is expected to face integration challenges in the immediate term, including culture differences. As with most mergers, the successful operational and human-resource integration is paramount to generating value for BCB."

(RAM, May 2006)

Human resource and expertise is the most valuable resources a company can have. Most of the time during M&A, the acquired company's employee will be demotivated and surrounded by fear of losing their job or having corporate culture shock.

> *"There were resistance and fear from the SBB staff but it was managed very well by CIMB. The CIMB CEO also came by himself to speak to all the senior management and reassured them of their future in SBB post-merger."*
>
> *(Appendix 2, Interview Transcript)*

CIMB has acted promptly during the post M&A integration, giving townhall briefings and small group communications to SBB staffs ensuring that their job are secured and their expertise in their respective work areas are very much appreciated and needed. CIMB efficiently managed the resistance and able to retain most of SBB staffs from senior management to junior officers, ensuring that expertise and customer relations of SBB can be successfully integrated into CIMB.

> *"CIMB is very experienced in conducting M&A, so there shouldn't be any issue for them to get things done smoothly. Their M&A advisory team members are formed by experienced professionals like lawyers and financial advisors that are very efficient and effective."*
>
> *(Appendix 2, Interview Transcript)*

CIMB's expertise in performing M&A has helped them a lot in integrating SBB post-merger, and they make a remarkable record in M&A history that only 6 months are needed to get BCHB and SBB integrated operationally then up and running again in full throttle.

CHAPTER 5 : CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

This case study's main objective is to evaluate the synergies expected and achieved from the M&A of BCHB and SBB from a qualitative perspective. From literatures reviewed, many studies have proven that not all M&As successfully achieved the desired result and some M&As failed miserably. M&As started with certain strategic business goal and synergies expectation, and studies have shown that the objectives or synergies expected from the M&A and the post integration process play an essential role in achieving the desired synergies.

In this case study where qualitative approach is being applied, we are looking at how synergies was created from this merger contributed to the progress of CIMB group post-merger in terms of operational, financial and managerial perspectives. Interviews with stakeholder related to the M&A and market research reports were used to be the main source of this case study's qualitative write ups and financial ratios were used as supportive instruments.

Market analysts and economist from various research houses have a lot of concerns regarding this high profile merger during the initial stage post-merger. This M&A has been generally branded hostile takeover by the market, hence many are in doubts whether synergies expected can be realised due to possible resistance from demoralised staff and issues in integration, despite the fact that BCHB and SBB looks perfectly fit to complement each other in terms of their respective strength and weakness area in order to create synergies, it might just look too good to be true.

From the findings, the M&A with SBB has made CIMB group one of the leading Malaysian bank in terms of technology and operation efficiency. Prior to merger with SBB, BCHB with its CIMB investment bank and BCB commercial bank was not well-known for its technology and operation efficiency, whereas SBB was already one of the early birds that venture into online banking and using some of the advanced core banking system available in the market.

As of today, CIMB group is one of the pioneers in engaging customer through social media such as facebook and twitter, it also has one of the most utilized award winning online banking platform in Malaysia. CIMB group today has become one of the top five banks in ASEAN and the largest investment bank in Asia Pacific(excluding Japan), processing huge volume of cross border transactions live every day with up to date core banking system. In year 2010, CIMB has started a RM1.1billion 1Platform regional core banking system project to better serve its customer in ASEAN region.

CIMB currently also has the largest branches network coverage in ASEAN region. Despite the fact that BCB commercial bank was one of the top two banks in Malaysia in terms of loan portfolio, but its customer are more of bumiputra or malay ethnic prior to merger with SBB. The merger with SBB managed to put BCHB on the change and rebranding mode, where the new CIMB group is no longer be seen as a malay bank, hence managed to attract customer from all walks of life and different ethnic. The elimination of people's stereotype perception against BCHB and rationalisation of a more strategic branch networks coupled with online banking, has increase customer satisfaction and loyalty. As a result of this, CIMB was able to reduce cost on redundant branches, and also spending lower cost to manage customer retention or attracting new customers. The reputation and the branding now speak for itself.

Financially speaking, the merger with SBB has made CIMB one of the top bank in Malaysia, in terms of market shares and customer base, be it the portfolio inherited from the merger or new customers attracted to the new CIMB branding.

BCB commercial bank used to have one of the largest loan portfolios in Malaysia, but not doing so well in terms of credit card business, wealth management product, deposits and sme loans. Furthermore, BCB was also still suffering from all the bad loans that they have on their book. Meanwhile, SBB was having a far better non-performing loan (NPL) ratio and performing tremendously well in all those products that BCB was not able to sell.

Hence, the restructured CIMB group with BCB and SBB merged as CIMB commercial bank makes perfect fit for each to synergise each other’s strength. An obvious evident is that the merger itself has gained CIMB group better revised rating from various rating agencies every year. Besides, CIMB bank is now able to offer all kinds of financial products and serve as a one stop financial center which makes it a preferred bank for many Malaysian.

Due to this, CIMB’s balance sheet grows very well be it lending assets or borrowing deposits. Its all round coverage of banking facilities also enables it to not be involved in price war with other bank by offering value added services. Last but not least, its better credit rating enables it to get cheaper funding from the money market or capital market too. As a result, CIMB is able to defend its earning margin and managed to lower its funding cost, hence improving its overall profit margin in the P&L. With this advantage, CIMB at worst case scenario will still be able to maintain its profit if not improving, by defending its gross margin when economy is slowing down and banks generally do not do well. This is because CIMB still has a huge market share on the book with a decent margin compared to its competitor.

During post-merger, the integration process was carried out so efficiently by CIMB in order to maximise the management and expertise synergies. The senior management including the CEO was able to convey their message across all levels of staff to both BCHB and SBB employees to address their concerns due to the merger. The integration completed efficiently in 6 month time and the group started to move rapidly towards to the vision set and conveyed by the CEO, Forward Banking.

The employees had been reassured that the best talent and capable resources will always be treasured and needed. One of the examples is direct access unit from SBB which was doing very well in credit card and personal loan business, was retained as an independent unit as it is to continue its business as usual post-merger.

> *"When the merger process is completed, the consumer bank will be known as CIMB Bank, but key Southern sub-brands such as its popular Direct Access credit card, will remain, Nazir said"*
>
> *(Dow Jones, 27 April 2006)*

Hence, the sense of demoralisation gradually fades among the staff and every one working as a team towards the vision illustrated by the CEO to become ASEAN universal bank in 5 year time under the slogan of “Forward Banking”. CIMB managed to achieve that in 5 year, with efficient expertise allocation and outstanding leadership from the senior managements. They are now looking at even bigger vision of serving ASEAN across Asia Pacific under the motto of “ASEAN for You”.

5.2 IMPLICATIONS OF STUDY

Throughout this study, there were some important takeaways to be highlighted in terms of achieving expected synergies in M&A. All current local Malaysian banks have gone through at least one round of M&As under the BNM FSMP plan post 1997 Asian financial crisis, and Malaysian banks has been relatively stable since then with no further M&As despite some of them now being driven by foreign investor as single largest shareholder, such as Temasek with Alliance Bank or ANZ with Ambank.

The M&A of BCHB with SBB makes a very interesting case study, because many parties do not expect this merger to turn out to be such a fantastic deal during the initial stage of the M&A, it looks too good to be true. The synergies generated from this M&A case study can be justified by a few reasons and could be a guidelines for other bank if they are to be engaged in M&A and expecting a successful outcome.

First of all, BCHB has chosen SBB as an M&A target which fits so well, that will complement each other and produce synergies. In bank M&A, there will be matches which are less compatible and there will be matches like BCHB and SBB that fits very well.

M&A of banks which are less compatible and less likely to generate synergies, are banks where their strengths and weaknesses are very similar to each other. Both the banks are operating in similar manner and having same types of resources. Some might claim that M&As of these two banks will be easier as they are similar, hence less issues and resistance will be encountered during post-merger integration. But this also means that the merged bank will then have redundant sets of strengths in terms of resource and staffs, and also redundant sets of less competent resources pending to be removed. Hence, M&A of this combination would not generate much synergies, because the weaknesses remains weak and the strengths are now having problems of over staffed.

M&A that has both parties fitting each other very well such as BCHB and SBB M&A, will be a scenario where each of them having strengths and weaknesses in different area. And most importantly, the strengths of company A are able to complement or cover the weaknesses of company B, and vice versa. Hence, establishing an organization that top talents are available at every single operating unit to compete with other competitors in the market. This is one of the critical success factor of achieving a successfully synergized bank M&A.

Besides, with respective banks having different kind of strengths also promote expertise sharing and knowledge transfer within the new merged entity. If human resource and expertise is the most valuable asset of a company, this process of expertise sharing is going to leverage the synergies of M&A to another level through upgrading staff skillset competitiveness.

Having mentioned all the benefits above regarding having a better fit of M&A partner, the synergies above would not happened if post-merger integration was not done properly and the two merged entity do not work together as a team.

In the case of BCHB and SBB M&A, CIMB's rich experience in performing M&A and also as an M&A advisor plays an important role in getting a smooth transition during the integration period. This is also one of the very important key reasons the BCHB and SBB merger got integrated so efficiently.

CIMB was efficient and effective in addressing concerns of staff from both BCHB and SBB due to the M&A. Staffs are having concerns regarding losing their job, having to learn new things or probably culture shock and etc. CIMB has been effective to conduct briefings to staffs and going down to the working levels to listen from the staffs, allaying their concerns and reassuring them that no unnecessary job cuts will be executed and so on.

During these post integration process where managements are going down to meet staffs and getting everyone settled down, the senior management especially the CEO also plays a great role. The CEO of CIMB in this case, through its speech and message conveyed gives great confidence to the staff from both banks that the banks will be in good hands and everything will be fine and moving on to be better than ever. Leadership is being seen as one of the very critical success factor in this case. The vision and determination of the CEO managed to pull everyone together to work under one roof for the better future of the new CIMB group.

5.3 LIMITATIONS OF STUDY

This case study was written mainly based on interviews, market research reports and financial reports. In regards of the interview performed, the interviewee interviewed is only from one of the bank and not from both banks involved. This M&A relates to the royal family and parties with significant political family background. Most people would prefer to not comment on this M&A or to be interviewed.

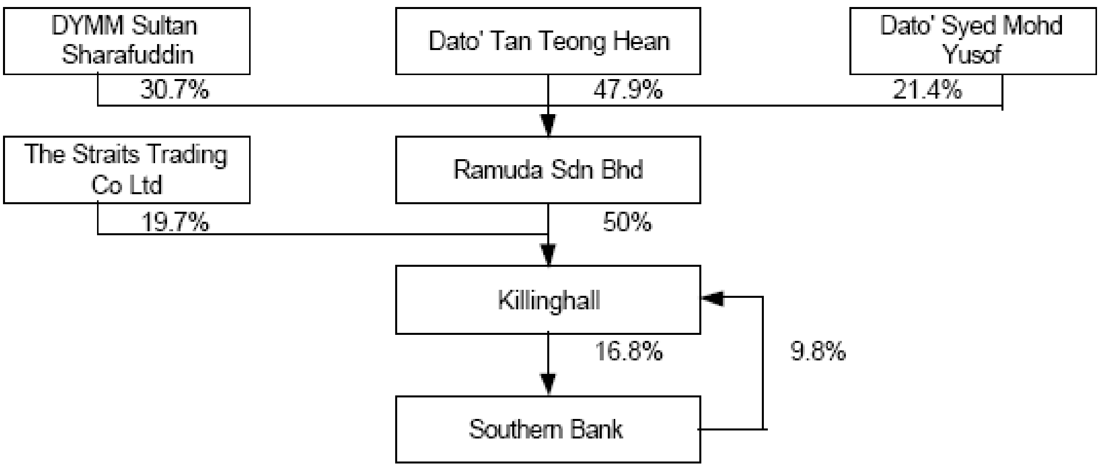

Figure 5 : Shareholding Structure of Southern Bank Berhad
(Affin Research, 24 October 2005)

On top of that, many literature reviews mentioned that objectives of starting an M&A bid also influence the outcome of integration process and the M&A result. With an interview input from only one side of the party which could possibly be bias, this case study could be evaluating M&A synergy result against M&A motive conveyed by one side of the party. Therefore, this case study focuses more on comparing the performance of CIMB pre- and post-merger to evaluate the magnitude of synergy impact from BCHB-SBB M&A.

There were few major rounds of restructuring in CIMB group legal entity structure and also few major changes made in the accounting reporting framework over the past decade on both BCHB and SBB annual report, hence, the financial ratio derived might not be able to provide an apple-to-apple comparison with only 9 annual reports data available.

5.4 SUGGESTIONS FOR FUTURE RESEARCH

Many literature reviews have mentioned and stressed regarding objectives of M&A, in terms of its impact during the M&A negotiation process and also during integration process, last but not least, the results and benefit achieved from the M&A.

Future research can be focused on conducting interview and inputs from stakeholders from both banks involved in the M&A, to understand the initial objectives of the M&A with SBB, hence evaluation can be made by comparing objectives against results achieved today, to measure whether does the M&A itself successfully fulfills its mission.