

**BANK CONSOLIDATION AS A STRATEGIC RESPONSE TO THE
BANKING CRISIS – AN ANALYSIS OF THE CHOICE OF ANCHOR
BANKS**

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**SUBMITTED TO THE FACULTY OF ECONOMICS AND
ADMINISTRATION, UNIVERSITY OF MALAYA IN PARTIAL
FULFILMENT OF THE REQUIREMENT FOR THE DEGREE OF
MASTER OF ECONOMICS**

FEBRUARY 2002

Perpustakaan Universiti Malaya



A511375336

Acknowledgement

First of all, I would like to thank the Government of Malaysia for providing me with a scholarship and study leave to further my studies. My thanks and gratitude also goes to the faculty members of the Faculty of Economics and Administration, University of Malaya in teaching, advising and guiding me. In particular, I would like to extend my sincere appreciation and thanks to my supervisor, Associate Professor Dr. Tan Eu Chye, for his invaluable advise and guidance throughout the course of completing this research paper.

I would also wish to express my deepest gratitude and appreciation to my beloved family, my husband, Sundaran and my children Sujen and Deepa for their encouragement, love and support throughout these period and to my mother, Madam K. Letchumi for her continuous show of support and concern.

And to all my lecturers, colleagues and friends, a big thank you to all.

TALAGAVATHI R. KARAPAYAH
February 2002

ABSTRACT

The financial crisis of 1997 and the resulting effects showed the weaknesses and vulnerability of the Malaysian banking system. In addition, impending globalization and liberalization of the financial sector has increased the urgency to strengthen the banking sector. Strengthening of the banking sector was to be realized by the merger of banking institutions under 10 anchor banks. The decision to consolidate the banking industry under 10 anchor banks was a necessary decision but the reasons for the choice of these 10 banks were not explained. This paper looked at some of the possible reasons for the selection of the particular 10 banks. The criteria used in this study were profitability measures, capital adequacy indicator, the asset growth indicator, branch networking, past experiences with mergers and shareholder analysis. Based on the study done, there is a clear bias towards the bigger banks (asset size, loans, deposits, capital, and branch network) and the prior experience in mergers in the selection of the anchor banks. In terms of returns on equity and assets, it was found that there were no significant differences in the performance of the anchor and non-anchor banks. While the selection of the anchor banks had its merits, some other banks like Pacific Bank, Phileo Allied and Ban Hin Lee could also have been considered based on performance indicators.

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LIST OF ABBREVIATIONS

ABM	-	Association of Banks Malaysia
AMMB	-	Arab Malaysian Bank
BBMB	-	Bank Bumiputra Malaysia Bhd.
BCB	-	Bumiputra Commerce Bank
BNM	-	Bank Negara Malaysia
CDRC	-	Corporate Debt Restructuring Committee
CTA	-	Capital to Asset
D & C	-	Development and Commercial Bank
DTE	-	Deposit to Equity
FI	-	Financial Institutions
GDP	-	Gross domestic Product
HL	-	Hong Leong Bank
IT	-	Information Technology
KLSE	-	Kuala Lumpur Stock Exchange
LTE	-	Loan to equity
NPL	-	Non Performing Loans
PAT	-	Profit After Tax
PNB	-	Permodalan Nasional Berhad
RHB	-	Rashid Hussain Bank
ROA	-	Return on Assets
ROE	-	Return on Equity
RWCR	-	Risk Weighted Capital Ratio
UAB	-	United Asian Bank
UMBC	-	United Malayan Banking Corporation
VSS	-	Voluntary Separation Scheme
WTO	-	World Trade Organization