CHAPTER 5

ANALYSIS OF CHOICE OF ANCHOR BANKS

5.1 Introduction

In February 2000, BNM announced the final choice of 10 anchor banks i.e Maybank, Bumiputera Commerce Berhad, Multi Purpose Bank, AMMB, Affin, Public Bank, Southern Bank, EON Bank, RHB and Hong Leong Bank. The reasons for the choice of these banks as anchor banks out of the 21 domestic bank in the country has not been clearly stated. This chapter will analyze some of the indicators that could have been used as criteria when determining the selection of the anchor bank.

Data were obtained for all the banks for the period of 1980 to 1999. Analysis will only be done on the 10 anchor banks, 5 non-anchor banks and 5 foreign banks. The 5 non-anchor banks that will be analyzed are Ban Hin Lee Bank, Pacific Bank, Phileo Allied Bank, Bank Utama and Wah Tat. The reasons for focussing only on this banks are because this are the bigger banks in terms of asset size, activities and past records that could also have been considered as anchor banks. The remaining banks, Bank Buruh, BBMB, D+C, Kwong Yik, UAB and UMBC merged with other banks during the period 1991 to 1998.

The 5 foreign banks are used for comparative purposes as anchor bank status was only for domestic banks to promote the growth of the local banking sector. The 5 foreign banks chosen for analysis are Citibank, Hongkong and Shanghai Bank, Standard Chartered, OCBC and Chung Khiaw Bank. These banks were chosen as they are the bigger and more established banks. Most of the other foreign banks are mainly one-branch banks.

As the decision to consolidate banks was announced in mid 1999 and choice of anchor banks was initially done in July 1999 and subsequently finalized in February 2000, data was analyzed up to 1999, the latest year prior to the anchor bank choice.

5.2 Indicators for Analysis

The indicators that will be used are the profitability indicator, the asset growth indicator, capital adequacy indicator, shareholder analysis, previous experience with mergers and branch network.

These indicators could have been the main criteria used in the decision on the choice of anchor banks. The choice of these indicators is also supported by theory. In the study by Allen Berger, Rebecca Demsetz and Philip E. Strahan (1999) on the consolidation of the financial services industry indicate that profitable companies undertake mergers to expand their market share. The return

to assets (ROA) and return to equity (ROE) will be used as proxies for profitability indicator. These studies show that it is the well-capitalized and larger banks that undertake mergers with smaller and undercapitalize banks. The capital adequacy indicator that is a measure of strength of the banks is a strong predictor of merger activities. The asset size and asset growth ratio will be used as indicators for size. The study by Harbir and Zollo(1998) also suggest that previous merger experience as an important element of the success of mergers. The banks will be analyzed with regard to any previous experience in undertaking mergers in the banking industry. Studies on corporate governance stress the importance of shareholders and their influence that they can bring to bear on the management of the company. This is especially true in Malaysia where bank shareholding is rather concentrated among major shareholders. In addition, the unique development experience of Malaysia and the role of banks in development policies require that the bank merger should also take recognition the role of government and government institutions. Thus, the shareholder structure of the banks was also analyzed to bring into focus the role of these institutions that may have been involved in the selection of the anchor banks. Branch network was also analyzed, as most of the anchor banks chosen had a good branch networking system and it could have been a criterion for their selection.

5.2.1 Profitability Indicator

The ROA and ROE are measures of the bank profitability. The ROA is net income after taxes as a percentage of book value of total assets. ROA measures the return on every Ringgit invested in assets. It is an overall measure of the profitability of the assets employed by the bank.

Based on the ROA calculations shown in Appendix 1, the 10 anchor banks have shown significant stability throughout the period of study except Affin which had negative returns during the 1985 crisis (this was during the economic crisis of 1985-86) but subsequently recovered to maintain positive ROA even in the recent crisis. The average ROA for all the 10 anchor banks were positive for the whole period except for Affin. Southern Bank, Hong Leong, Maybank and Public Bank on the average fared better throughout the study period. During the two economic crisis period (1985/86 and 1997/98), some of the banks had very low and even negative returns for some years e.g Affin –23.36 in 1985,AMMB –4.3 in 1998, BOC 0.05 in 1983 just before the crisis, Kong Ming(EON) –3.17 in 1986, Hong Leong 0.11 in 1983, Maybank 0.14 in 1981 and 1988., Multi Purpose –1.57 in 1987, Public Bank 0.14 in 1985 and Southern Bank 0.42 in 1981. During the 1997 financial crisis, Public Bank, Southern Bank, Multi Purpose, Hong Leong and Maybank have remained relatively strong. Unlike the crisis of the 1980s, many of the anchor banks particularly the larger ones have fared better during the crisis of 1997/98.

As for the ROA for the non-anchor banks, only Ban Hin Lee, Pacific Bank, and Wah Tat had consistently positive ROA throughout the period. The non-anchor banks too, experienced reduced returns during the crisis period. Phileo Allied and Bank Utama had negative returns during the crisis period. The average ROA for Sabah Bank was negative due to poor returns during the 2 crisis. Hock Hua recorded an average ROA of 1.29 and Wah Tat had an average ROA of 1.20. These two non-anchor banks recorded higher average ROA compared to the anchor banks.

All the 5 foreign banks analyzed had positive ROA throughout except for HSBC during the recent crisis and Standard Chartered during the earlier crisis. But on the average the 5 banks did relatively well with Citibank having an average ROA of 1.31, which was the highest among the anchor banks, non-anchor banks and foreign banks studied. Generally all the 5 foreign banks had higher average returns compared to the domestic banks.

Table 13 : Average ROA of Commercial Banks(1980-1999)

Anchor Banks	Av.ROA	SD	Non Anchor Banks	Av.ROA	SD	Foreign Banks	Av.ROA	SD
Affin/ Perwira Habib	-1.27	6.77	Ban Hin Lee	0.64	0.38	Citibank	1.31	0.76
AMMB	0.10	1.89	Pacific Bank	0.62	0.2	HSBC	0.86	1.06
Bank of Commerce	0.61	0.43	Phileo Allied	1.04	1.02	Std Chartered	0.93	1.23
Kong Ming(EON)	0.17	0.84	Wah Tat	1.20	1.27	OCBC	1.19	0.31
Kwong Lee(HL)	0.76	0.41	Bank Utama	0.14	1.62	Chung Kiaw Bank	0.98	0.69
Malayan Banking	0.70	0.71	Oriental	-0.39	2.18	ABN Abro	0.46	0.63
Multi Purpose	0.64	0.68	Hock Hua	1.29	1.06	Bangkok Bank	-0.06	2.95
Public Bank	0.71	0.38	Sabah Bank	-0.30	3.93	Bank of America	0.57	1.52
RHB Bank	0.46	0.14	Bank Buruh	-2.16	5.65	Bank of Nova Scotia	1.15	0.61
Southern Bank	1.03	0.32	BSN	-0.40	2.32	Bank of Tokyo	1.77	1.31
			Bank Bumiputra	-0.09	2.48	Chase Manhattan	1.29	2.22
			D + C	0.55	0.41	Overseas Union	1.17	0.53
			Kwong Yik	0.18	1.5	United Overseas	1.82	0.97
			UAB	-1.60	5.35	Deutsche	0.56	1.10
			UMBC	0.32	0.22			
Average	0.39			0.73			1.05	

Source : Calculated from various annual reports of commercial banks/ ABM Bankers Directory.

However, the standard deviation and the means of the ROA among the three groups shows some evidence of variability of the ROA which is highest for the anchor banks and the lowest for the foreign banks. Affin Bank and AMMB had large deviation due to their bad performance during the two crisis periods. ROA for the foreign banks were the most stable during the period.

To test whether the means of the anchor banks and the non-anchor banks are really different a t-test was conducted on the mean ROA returns. Summary statistics of the data used is given in table 14.

Table 14 : Group statistic of the ROA between anchor and non-anchor banks.

Group	N	Mean	Std Dev	Std Error Mean
Average Anchor	10	0.3905	0.6458	0.2042
Non-anchor	5	0.7268	0.4144	0.1853

Table 14 shows that the mean ROA of non-anchor banks was higher than the mean ROA of the anchor banks. To test whether there is a significant difference, a t-test for difference of means was conducted and the results are presented in table 14A.

Table 14A – t-test output for difference of means of ROA between anchor and non anchor banks

	Levene's Test for Equality of variance		t-test for Equality of Means						
	F	Sig	t	Df	Sig(2-tailed)	Mean Difference	Std Error Diff	Lower	Upper
Average Equality of variance assumed	0.313	0.583	-1.051	13	0.313	-0.3363	0.3201	-1.0279	0.3552
Equal variance not assumed			-1.220	11.848	0.246	-0.3363	0.2758	-0.9380	0.2654

The 2 tailed probability value of p = 0.313. Such high probability value indicates that the difference in means of the rate of ROA between anchor and non-anchor banks could have resulted by chance. The difference is not significant i e. there is no real difference between the ROA of the anchor and non-anchor banks. Therefore, going by the ROA, the non-anchor banks have not performed significantly better than the anchor banks.

Table 15 gives the group statistics of the ROA between anchor and foreign banks.

Table 15 : Group Statistics of the ROA between anchor and foreign banks

Group	N	Mean	Std Dev	Std Error Mean
Average Anchor	10	0.3905	0.6458	0.2042
Foreign	5	1.0537	0.1880	8.408E-02

Table 15 shows that the mean ROA of foreign banks is higher than the mean ROA of the anchor banks. The mean difference is substantial. A t-test of difference of means was conducted and the results are presented in table 15A.

Table 15A – t-test output for difference in mean of ROA between anchor and foreign banks

	Levene's Test for Equality of variance		t-test for Equality of Means						
	F	Sig	t	Df	Sig(2-tailed)	Mean Difference	Std Error Diff	Lower	Upper
Average Equality of variance assumed	1.784	0.205	-2.212	13	0.045	-0.6633	0.2998	-1.3110	0.56E-02
Equal variance not assumed			-3.003	11.562	0.011	-0.6633	0.2208	-1.1465	-0.1801

The p value is < 0.05 (p =0.045). Therefore, the probability that the observed difference could have been by chance is low. This implies that the ROA of anchor and foreign banks are indeed different. A comparison of mean ROA suggests that ROA of the foreign banks are higher than that of the anchor banks.

Equity refers to total amount of capital contributed by shareholders plus any retained earnings. ROE measures the profit return for every Ringgit of shareholders fund. The ROE of the commercial banks are shown in Appendix 2. Among the 10 anchor banks, Hong Leong, Maybank, Public Bank, Southern Bank and Bank of Commerce had consistently good ROE for the period under study. RHB since its inception in 1997 has also been showing positive ROE. Affin on the other hand has been having negative ROE from 1984 until 1990. AMMB had extremely low ROE in 1998 during the crisis period. Low and negative ROE could be due to a few factors such as banks taking a big provision for bad loans as the case of AMMB in 1998 thus reducing profit after tax or that capital was severely impaired during the crisis. Public Bank had the highest average ROE of 13.58% for the period 1980 to 1999 followed by Southern Bank (12.44%) and Hong Leong (11.37). The variability of the ROE figures has been severely affected by the extreme values of AMMB and Affin bank.

For the non-anchor banks, Ban Hin Lee, Pacific Bank, Hock Hua Bank and Wah Tat Bank shows consistently positive ROE throughout the period showing that they were not badly affected by both the crisis. Hock Hua Bank had a very high average ROE of 15% which is higher than Public Bank's average ROE of 13.8%. ROE was negative (-2.91) for Phileo Allied during the 1997/98 crisis.

The 5 foreign banks on the average had positive ROE for the period although HSBC had negative ROE during the recent crisis and Standard Chartered in 1987

(-37.19). Nevertheless the average ROE for Citibank, Standard Chartered, OCBC and Chung Khiaw are all higher than the anchor banks. The higher ROE for foreign banks with fewer branches and less assets justifies the exhortation by BNM that domestic banks have to improve bank management practices that will have impact on the ROA and ROE. Table 16 shows the group statistics for the ROE for anchor and non-anchor banks. The mean ROE for anchor banks is negative while the ROE for the non-anchor banks is positive. This negative value for the anchor banks is largely influenced by the large negative returns for AMMB in the year 1998

Table 16 : Group statistics of ROE between anchor and non anchor banks

Group		N	Mean	Std. Deviation	Std. Error Mean
Average	Anchor	10	-51.9907	191.0329	60.4099
	Non-Anchor	5	9.3602	3.9415	1.7627

An independence samples t -test was carried to test the difference in mean values of the anchor and non-anchor banks. The results of the test are show in the table 16A.

Table 16A : t-test output for difference in mean ROE of anchor and non-anchor banks.

	Levene's Test for Equality of Variances		t-test Equality of Means						
								95% Confidence Interval of the Difference	
	F	Sig.	t	df	Sig (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Equal variance assumed	2.31	.152	-.705	13	.493	61.35	87.07	49.45	26.74
Equal variance not assumed			-1.105	9.025	.337	61.35	60.44	98.03	75.32

The 2 tailed probability value is p= 0.493. Such high probability value indicates that the difference in means of the rate of ROE between anchor and non-anchor banks could have resulted by chance. The difference is not significant i e. there is no real difference between the ROE of the anchor and non-anchor banks. Therefore, going by the ROE, the anchor banks have not done significantly better than the non-anchor banks.

Table 17 gives the group statistics for the mean values of ROE of anchor and foreign banks. Here again the mean ROE of the anchor banks are very much lower than that of the foreign banks.

Table 17 : Group Statistics of the ROE of anchor banks and foreign banks

Group		N	Mean	Std. Deviation	Std. Error Mean
Average	Anchor	10	-51.9907	191.0329	60.4099
	Non-Anchor	5	13.0233	3.4589	1.5469

The results of the t-test of difference of means of ROE of anchor and foreign banks are presented in Table 17A.

Table 17A : t-test output for difference in means of ROE of anchor and foreign banks

	Levene's Test for Equality of Variances		t-test Equality of Means						
								95% Confidence Interval of the Difference	
	F	Sig.	t	df	Sig (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Equal variance Assumed	2.326	.151	-.747	13	.469	-65.014	87.066	253.109	23.081
Equal variance not assumed			-1.076	9.012	.310	-65.014	60.429	201.688	71.660

The 2 tailed probability value is p= 0.469. Such high probability value indicates that the difference in means of the rate of ROE between anchor and foreign

banks could have resulted by chance. The difference is not significant i.e there is no real difference between the ROE of the anchor and foreign banks. Therefore, going by the ROE, the foreign banks have not done significantly better than the anchor banks.

The higher ROE gives an indication of the high leverage and the riskiness of the banking business. Given the nature of the banks balance sheet, the low equity portion of the bank balance sheet makes it very vulnerable to fluctuation in the profit after tax. The low level of equity employed is also the source of the often-discussed moral hazard problem in the banking industry. The standard deviation of the ROE shows the high variability of the ROE. This is partly due to the extremely low PAT during the crisis period and the severe capital erosion during the period too.

As discussed in chapter 4, in a mandated consolidation exercise, there is a danger of good banks being used to take over weak banks. The initial choice of anchor bank and its partners was determined by BNM. The anchor banks were not necessarily the stronger banks for e.g Affin Bank. Earlier, the small but strong Bank of Commerce had taken over BBMB, a larger but problematic bank that had to be rescued by the government a number of times. Through this takeover, CAHB catapulted from a small time bank to become the second largest with a huge retail franchise of over 250 branches and four million retail accounts after taking over BBMB. In addition, CAHB,[i] because of the low quality of loans in BBMB's portfolio obtained the option to sell low quality loans back to the

government. In the case of Maybank, it could be an anchor bank without the need to merge with any other financial institution as it had a strong asset base, equity size and profitability.

Foreign banks in Malaysia have been used as a basis for comparison of performance of domestic banks. As shown in the profitability analysis and despite the restrictions in their Malaysian operations, the foreign banks have performed better. Foreign banking institution in Malaysia control about 25% of banking sector's market share in terms of total assets and total deposits as at end 2000. In anticipation of the stiff foreign competition, the Financial Sector Master Plan has correctly taken steps to establish bank performance benchmarks. The establishment of these benchmark performance measures will provide a basis for performance comparison and also spur domestic banks to initiate measures to achieve or exceed identified performance targets. The performance of foreign banks will be an important component in the establishment of benchmark performance measures.

5.2.2 Capital Adequacy Indicator

Capital adequacy lies at the heart of an institution's safety and solvency. Capital is a measure of financial strength and it will be used to cushion operational and abnormal losses. Capital is a banks an important source of fund because it is the buffer against any loss that might occur. The primary function of bank capital fund is to reassure the public and the bank supervisors that a bank is in a position

to withstand financial strains placed on it. BNM has always emphasized the need for banking institutions to maintain adequate capital in relation to the volume and riskiness of their business to absorb unexpected or unusual losses.

Capital adequacy requirements are imposed to strengthening the bank's capital structure, protecting depositors against risks and potential losses to which the banks may be exposed and maintaining a general confidence in the banking system.

Capital adequacy indicator measures the bank ability to meet regulated capital standards and ability to attract loans and deposits. A strong capital structure also allows the bank access the fund markets regularly and cheaply. If a bank has consistently adequate capital capacity and able to utilize its loan capabilities and attract deposits without any problems, the bank is said to be financially strong. Three ratios are normally used to measure this indicator namely:-

a) Capital to asset ratio(CTA)

b) Loans to equity ratio(LTE) and

c) Deposit to equity ratio(DTE)

The CTA ratio measures the sensitivity of capital to changes in the assets value. It measures the loss in value of the assets that can be off set with available equity. If the asset value loss is greater than the equity to asset ratio, the bank is

technically insolvent. i.e the smaller this ratio is, the riskier is the firm. Larger banks tend to have a higher CTA ratio.

From the capital adequacy ratio as measured by the CTA ratio presented in Appendix 3, it can be seen that for most of the years the capital adequacy for anchor banks has been positive except for Affin in the years 1985 to 1990. It has been noted that during the recession of 1985, the need to provide for bad and doubtful loans and suspend interest on non-performing loans caused some of the banks to suffer huge losses such that their capital was severely eroded. One of the banks affected by this was Affin Bank whereby BNM had to intervene to rescue the bank. All the other anchor banks had relatively sufficient capital to withstand the 2 recessions except for AMMB in 1998 where it was plagued by non-performing loans. Danamodal had to inject in capital to restore its capital adequacy. The capital adequacy of EON and Southern Bank was good for the years 1993 to 1999, in most cases exceeding 10%.

For the non-anchor banks, the capital adequacy ratios are comparable to the anchor banks. The capital adequacy ratios of the selected 5 non-anchor banks were sufficient to withstand the adverse consequences of the two-crisis period. Ban Hin Lee's capital adequacy on the average has been better then some of the anchor banks. Ban Hin Lee's capital adequacy ratio reflects the prudent and conservative management styles of family owned banks. Phileo Allied too since its inception in 1992 has been having sufficient capital adequacy ratios with a very high average ratio of 12.43%.

For the foreign banks, their capital adequacy ratio was much higher. The average for Citibank for the years under study was 10.25. There was a drop in capital ratio during the 1997 crisis for a number of the foreign banks for e.g for HSBC, the ratio for 1999 was only 5.03 compared to 8.13 in 1996.

The loans to equity (LTE) ratio is a measure of the bank lending ability (vis-à-vis) its equity base. Appendix 4 shows the LTE ratio of the various banks. Increasing LTE shows implies that the bank is increasingly making better use of its lending capacity. The deposit to equity ratio (DTE) shows the ability to attract deposits for each dollar of equity. Appendix 5 shows the DTE equity ratio of the banks for the period 1980 to 1999.

Comparing the 3 ratios, among the anchor banks, Affin seem to be the most affected for the period 1985 to 1990 with negative ratios throughout the period. However, the LTE figures were high compared to previous and later years for Affin. Al other anchor banks had generally positive LTE.

The loans and deposits are relatively stable in banking operation. The deposits are more volatile as depositors at short notice, even for fixed deposits, can withdraw them. On the other hand, loans are contractual amounts once booked cannot be removed until they are paid off, recalled or sold. The equity on the other hand is a book entry that is adjusted with changing values in asset side of the balance sheet. At times of crisis, the loans portfolio value changes causing

large changes in the equity base is reduced. Such unsynchronized changes greatly influence loans to equity ratio, asset to equity and also ROE as indicated earlier.

All these three indicators reflect the strength of the bank as reflected in its equity base. A strong capital base attracts deposits, allows bank access to cheaper funds, and creates a large customer base for it loans where cheaper funds can translate to relatively cheaper loans.

The risk weighted capital ratio (RWCR) is the amount of bank capital expressed as a percentage of its risk weighted credit exposure. The international standard recommends a minimum capital adequacy ratio of 8% to ensure that banks can absorb a reasonable level of losses before becoming insolvent. BNM monitors the RWCR closely. Table 18 shows the RWCR of the banks in question from 1995. For the year 1998, the RWCR was generally higher than in previous years reflecting the need to have higher capital to cushion the adverse impact of the 1997/98 crisis. In comparing over the years, there has been an increasing trend in the RWCR among the banks. The table also compares the RWCR for the banks as against the average for all commercial banks. As a closely monitored ratio, these are well above the minimum for all the banks.

Table 18 : RWCR of Commercial Banks

	BANK	1995	1996	1997	1998
	Anchor Banks				
1	Affin	10.85	12.36	11.31	11.40
2	AMMB	13.10	12.20	9.98	8.50
3	Bank of Commerce	11.34	11.18	13.51	11.70
4	EON	10.77	11.60	15.29	15.50
5	Hong Leong	11.55	10.27	10.37	12.10
6	Maybankg	10.08	11.77	14.00	14.50
7	Multi Purpose	10.69	10.24	9.62	10.60
8	Public Bank	13.38	10.61	10.74	12.60
9	RHB Bank	-	9.73	-	14.30
10	Southern Bank	13.78	14.35	20.34	18.80
	Non Anchor Banks				
1	Ban Hin Lee	10.20	12.83	12.07	12.60
2	Pacific Bank	14.79	11.82	11.36	10.90
3	Phileo Allied	-	28.3	14.20	10.20
4	Wah Tat	11.23	10.85	11.69	12.25
5	Bank Utama	9.16	12.87	21.10	19.80
6	Oriental	-	10.99	11.73	8.79
7	Hock Hua	13.00	12.60	18.40	19.70
8	Sabah Bank	12.91	15.10	-	13.10
9	BSN	23.84	14.20	9.11	9
10	Bank Bumiputra	-	9.20	11.80	6.50
	Foreign Banks				
1	Citibank	15.21	13.29		12.60
2	HSBC	9.00	9.70	9.50	9.60
3	Std Chartered	12.39	12.40	12.47	11.10
4	OCBC	11.36	10.66	-	11.20
5	Chung Kiaw Bank	12.80	17.19	-	-
6	ABN Abro	9.24	15.20	13.68	-
7	Bangkok Bank	-	-	-	-
8	Bank of America	-	-	-	-
9	Bank of Nova Scotia	-	-	-	-
10	Bank of Tokyo	12.10	14.50	15.67	21.54
11	Chase Manhattan	41.19	46.03	37.14	-
12	Overseas Union	10.24	12.18	11.77	12.14
13	United Overseas	10.91	16.32	-	-
14	Deutsche	11.21	9.95	-	-
	Average for Banks	11.10	10.80	10.30	11.70

Source: Bank Annual reports, various years

5.2.3 Asset Growth Indicator

This indicator is a measure of how a bank grows in terms of asset. The notion that big is better has been sited as one of the criteria in the selection of anchor banks. Especially after liberalization of the financial sector comes into effect

soon, banks must be big and strong to be able to withstand the competition when all the financial services are liberalized. A strong asset base is important in determining the strength and credibility of banks.

In a bank's balance sheet, among the items categorized under assets are cash and short term funds, deposits and placements with financial institutions, securities, loans, advances and financing, statutory deposits in Central Bank, investments, property plants and equipment and other assets.

Appendix 6 shows the asset growth rate (%) of commercial banks in Malaysia from 1980 to 1999. Appendix 6A shows the asset growth in terms of Ringgit. Most of the anchor banks have shown impressive growths in asset size in the last 20 years. However during the crisis period of 1985-1987, there was a drop in assets growth for Affin, Bank of Commerce and EON Bank. The largest bank in terms of assets has always been Maybank with assets growing from RM9 billion in 1980 to RM29.4 billion in 1990 and to RM87 billion in 1999, a growth of about 800% in the last 20 years. The smaller banks in terms of assets but were chosen as anchor banks were Multi Purpose Bank which had an asset size of only RM560 million in 1982, RM1.3 billion in 1990 that increased to RM9.3 billion in 1999 and EON bank with an initial asset of RM206 million that had increased to RM8 billion in 1999. In some instances, the growth in assets base was as a result of mergers within the industry in the past. The merger of UAB with Bank of Commerce is a good example.

As for the non-anchor banks, most of them have also attained good asset growth within the 20 years. This growth of anchor and non-anchor banks is a natural phenomenon of economic growth in the country during the said period. The linkage between banking sector growth and economic growth is well known. However, growth in asset base favors bank that already has a large asset base. The smaller banks will find it difficult to grow on their own unless they merge into bigger units. Therefore, merger provides a quick alternative to internally induced asset growth. Table 19 shows the mean growth rate of anchor and non-anchor banks. The mean growth rates of the non-anchor banks were higher than that of the anchor banks.

Table 19 : Group statistics of mean growth rate of anchor and non-anchor banks

Group	N	Mean	Std Dev	Std Error Mean
Average Anchor	10	28.9598	20.9634	6.6292
Non-Anchor	5	62.5732	89.6933	40.1121

A t-test on the difference in means of the growth rate of the anchor and non-anchor banks was conducted and the results are presented in the table 19A.

Table 19A : t-test output for difference in mean of growth rate of anchor and non-anchor banks

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Average	Equal variances assumed	7.972	.014	-1.164	13	.265	-33.6134	28.8769	-95.9983	28.7714
	Equal variances not assumed			-.827	4.220	.453	-33.6134	40.6562	-144.2088	76.9819

However the t-test on difference of means suggest that the difference in means could be by chance and that there may be no real difference in the mean growth rates of anchor and non-anchor banks. (p value = 0.453).

Table 20 shows the mean growth rate for the anchor and foreign banks. Anchor banks grew at an average of 28.9% per annum compared with 18.2% per annum for the foreign banks.

Table 20 : Group statistics for mean growth rate of anchor and foreign banks

Group	N	Mean	Std Dev	Std Error Mean
Average Anchor	10	28.9598	20.9634	6.6292
Non-Anchor	5	18.2187	4.1192	1.8422

The growth rate of the foreign banks is remarkable given that there are restrictions in establishing new branches in the country. This suggests that the foreign banks were able to grow in new market segments and repositioned themselves in areas that they have competitive advantage. The credit card market is one such niche market.

A t-test for difference of means of growth rate for anchor and foreign banks was conducted and the results are presented in Table 20A.

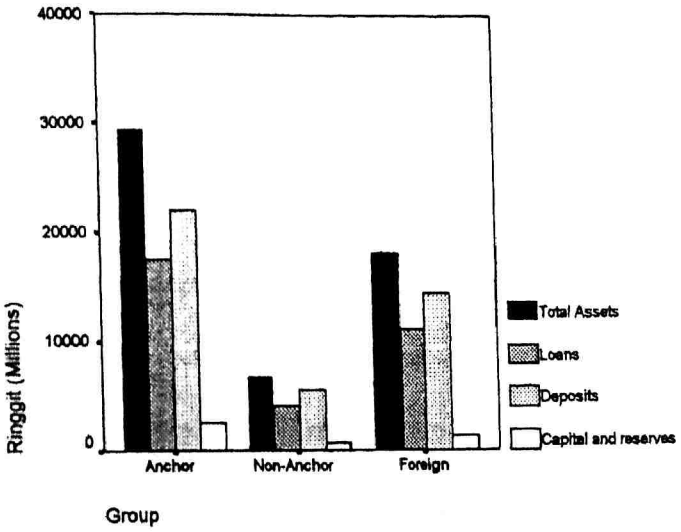
Table 20A : t-test output for mean growth rate of anchor banks and foreign banks

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Average	Equal variances assumed	2.093	.172	1.115	13	.285	10.7411	9.6353	-10.0748	31.5559
	Equal variances not assumed			1.561	10.305	.149	10.7411	6.8804	-4.5281	26.0102

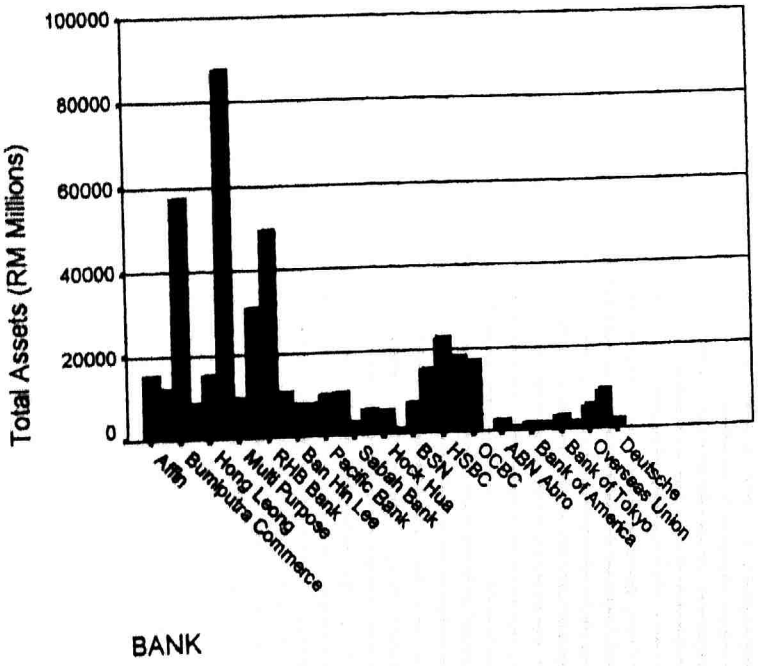
The p value is >0.05. (p= 0.285) This suggest that the difference in observed means of the growth rate between anchor and Foreign banks may have been due to chance and that there might not be difference in he growth rate between these two groups. While the mean growth rates suggest clear higher assets growth rate for anchor banks, the t-test need to be interpreted with caution due to the small sample size.

Chart 1 : Mean asset sizes of the anchor, non-anchor and foreign banks.



Anchor banks had a higher level of total assets compared to non-anchor banks and the foreign banks assets values were slightly higher than the non-anchor banks. All the size related variables display similar characteristics.

Chart 2 : Asset size of the individual banks:



For the year 1999, EON bank, Multi-Purpose and Southern banks (all anchor banks) did not seem to be much different in terms of asset size compared to Pacific and Phileo banks (non-anchor banks).

The following section looks into some of the variables that are size related. They are assets size, loans, deposits and capital. The data set used is the assets related variables for the year 1999. All these variables are of cumulative nature. The 1999 assets size reflects the cumulative effect of the growth of the bank over its existence. Likewise, the deposits, loans and equity variables have the same cumulative characteristics. 1999 was also the year of the announcement for the initial anchor banks list. This data set was tested to find out if indeed that the anchor and non-anchor banks differ in the some of the attributes, principally size factors like assets, capital deposits and loans. The 1999 figures are the most proximate data to the decision on the choice of anchor banks.

Table 21 : Bank data for 1999(RM Millions)

BANK	Total Assets	Loans	Deposits	Capital and reserves
Anchor Banks				
Affin	15011	9636	11531	1437
AMMB	11730.8	7204.1	6088.2	151.1
BCB	57285	28879.6	39774.5	3220.1
EON Bank	8039	5735	6581	1173
Hong Leong	15095	9182	11869	1565
Maybank	87592	57489	69004	7897
Multi Purpose	9330	6402	7785	623
Public Bank	30898	12612	25961	3308
RHB Bank	49455	31365	34134	4312
Southern Bank	10211	6326	7415	1898
NonAnchor Banks				
Ban Hin Lee	7369.5	4891.7	6215	621.4
Oriental	7606	4670	6373	-357
Pacific Bank	9632	5870	8087	850
Phileo Allied	10187	5236	8366	861
Sabah Bank	2784	1989	2454	207
Bank Utama	5818.4	3830.5	4307.3	681.7
Hock Hua	5431	3550	4454	745
Wah Tat	983	608	870	74
BSN	7288	4806	5277	104
Foreign Banks				
Citibank	15187	9078	11982	1240
HSBC	22523	11938	18237	1133
Std Chartered	17961	11975	14210	1232
OCBC	16821	11564	13225	1529
ABN Abro	2472	1428	1378	217
Bangkok Bank	505	292	455	42
Bank of America	1712	364	535	264
Bank of Nova Scotia	1877	1504	902	220
Bank of Tokyo	3308	2183	1721	608
Chase Manhattan	1544	213	420	256
Overseas Union	5497	4672	3466	682
United Overseas	9120	5941	7180	1255
Deutsche	1904	703	1042	229

Source : ABM Bankers Directory 2000.

The Group statistics for the data is presented in Table 22. A visual inspection show that the mean for each of the attribute is larger for the anchor banks when compared to the non-anchor banks.

Table 22 : Group statistic of size attributes for anchor and non-anchor banks

Group Statistics

	Group	N	Mean	Std. Deviation	Std. Error Mean
Total Assets	Anchor	10	29464.68	26914.43	8511.0903
	Non-Anchor	5	6797.9800	3695.1769	1652.5334
Loans	Anchor	10	17483.07	16892.53	5341.8886
	Non-Anchor	5	4087.2400	2080.6288	930.4855
Deposits	Anchor	10	22014.27	20564.77	6503.1504
	Non-Anchor	5	5569.0600	3092.4641	1382.9920
Capital and reserves	Anchor	10	2558.4200	2278.3088	720.4645
	Non-Anchor	5	617.6200	321.2777	143.6798

A t test was carried out to determine whether the differences on the difference in means were significant. The results of the t-test are presented in Table 22A.

Table 22 A : t-test output for size attributes for anchor and non-anchor banks

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Total Assets	Equal variances assumed	7.916	.015	1.840	13	.089	2666.7000	2317.0581	-3942.69	49276.09
	Equal variances not assumed			2.614	9.660	.027	2666.7000	3670.0360	256.2307	42077.17
Loans	Equal variances assumed	6.662	.023	1.734	13	.107	3395.8300	7724.3904	-3291.70	30083.36
	Equal variances not assumed			2.470	9.535	.034	3395.8300	5422.3221	233.7411	25557.92
Deposits	Equal variances assumed	6.836	.021	1.746	13	.104	3445.2100	9419.0153	-3903.34	36793.76
	Equal variances not assumed			2.473	9.787	.033	3445.2100	3648.5812	587.5227	31302.90
Capital and reserve	Equal variances assumed	5.305	.038	1.861	13	.086	1940.8000	1042.8780	-312.2010	4193.8010
	Equal variances not assumed			2.642	9.696	.025	1940.8000	734.6516	296.9015	3584.6985

All the 2 tailed probability values are below 0.05. We can conclude that the difference in the means could not be by chance and that the anchor and non-

anchor banks are indeed different when measured by the attributes of assets, loans, deposits and capital. Based on the graphical and the mean values we can say that the anchor banks are larger than the non-anchor banks on these attributes.

Table 23 shows the mean values of all the size variables between the anchor and foreign banks. Generally the mean values are higher for the anchor banks than for the foreign banks.

Table 23 : Group statistics for mean of size attributes for anchor and foreign banks

Group Statistics

	Group	N	Mean	Std. Deviation	Std. Error Mean
Total Assets	Anchor	10	29464.68	26914.43	8511.0903
	Foreign	4	18123.00	3146.5083	1573.2542
Loans	Anchor	10	17483.07	16892.53	5341.8886
	Foreign	4	11138.75	1386.3192	693.1596
Deposits	Anchor	10	22014.27	20564.77	6503.1504
	Foreign	4	14413.50	2707.1073	1353.5536
Capital and reserves	Anchor	10	2558.4200	2278.3088	720.4645
	Foreign	4	1283.5000	170.7484	85.3742

A t-test on the difference between the means of these variables between anchor and foreign banks was conducted and the results are presented in Table 23A.

required investment in technology or attract skilled staff. Investment in this 2 areas can bring significant economies of scale and contribute to long term growth and profitability. Bumiputra Commerce Bank is reported to have allocated RM 120 million to upgrade its computer system. However, the tangible benefits of these investments may only be realized 1 to 2 years later.

5.2.4 Branch Network

Table 24 shows the branch network among the anchor, non-anchor and foreign banks in Malaysia. The anchor banks have on average 132 branches per bank. In contrast the non-anchor banks have on average 43 branches in their network. The branch network of the major anchor banks extends throughout the country especially in peninsula Malaysia including a good representation in the rural areas. BCB and Maybank have a well-balanced network of branches including overseas branches. Public Bank has a strong presence in many urban areas.

Table 24 : Branch Network of Commercial Banks

	BANK	1980	1985	1988	1990	1998	Foreign Branches
	Anchor Banks						
1	Affin	15	25	30	42	86	0
2	AMMB	-	-	-	-	23	0
3	Bank of Commerce	2	8	8	39	260	0
4	Kong Ming(EON)	5	10	10	10	46	0
5	Kwong Lee(HL)	11	32	34	-	72	1
6	Malayan Banking	135	182	190	198	264	30
7	Multi Purpose	-	17	17	18	42	0
8	Public Bank	16	64	71	96	177	3
9	RHB Bank	-	-	-		201	9
10	Southern Bank	11	26	35	47	106	1
	Non-Anchor Banks						
1	Ban Hin Lee	8	15	16	22	48	1
2	Oriental	10	14	NA	18	64	0
3	Pacific Bank	9	14	17	25	69	0
4	Phileo Allied	-	-	-	-	34	0
5	Sabah Bank	2	NA	11	13	25	0
6	Bank Utama	2	8	8	12	34	0
7	Hock Hua	8	14	17	22	49	0
8	Wah Tat	2	5	6	10	32	0
9	Bank Buruh	1	8	-	-	-	0
10	BSN	-	-	-	-	23	0
11	Bank Bumiputra	82	123	160	152	-	0
12	D + C	21	34	37	42	-	0
13	Kwong Yik	15	36	36	44	-	0
14	UAB	30	31	29	-	-	0
15	UMBC	41	62	65	72	-	0
	Foreign Banks						
1	Citibank	3	3	3	3	3	
2	HSBC	36	36	36	36	36	
3	Std Chartered	35	35	35	36	35	
4	OCBC	25	25	25	25	25	
5	Chung Kiaw Bank	16	16	16	16	-	
6	ABN Abro	2	2	2	2	2	
7	Bangkok Bank	1	1	1	1	1	
8	Bank of America	1	1	1	1	1	
9	Bank of Nova Scotia	1	1	1	1	1	
10	Bank of Tokyo	1	1	1	1	1	
11	Chase Manhattan	1	1	1	1	1	
12	Overseas Union	12	12	12	12	12	
13	United Overseas	1	1	1	1	25	
14	Deutsche	1	1	1	1	1	

Source : Commercial Banks Annual Reports and Association of Banks Report.

The numbers of branches of foreign banks have to be seen in the light of the expansion restrictions by BNM. Apart from Standard Chartered, HSBC and

OCBC, many of the foreign banks are have very little presence outside major cities.

Banks with a large branch network have access to a larger client pool. In addition, banks with large branch network will also be able to realize better efficiency through the rationalizing of the branches that compete for the same market segment in a locality, or share facilities more efficiently. In addition, common user investments in IT and training facilities when spread over larger branch network provides potential for economies of scale. It is logistically and financially cheaper to get a smaller computer system of smaller banks to migrate and adopt system used by a larger network. Thus, merger programs add to the advantage of banks with a larger branch network size. Banks with larger branch network are also able to mobilize savings and increase the both the asset and liability side of the balance sheet. Thus, extensive branching is associated with higher deposit and loan volumes.

The anchor banks also have a number of branches in foreign countries. Among the 10 anchor banks, there are 44 foreign branches compared to 1 foreign branch among the non-anchor banks. The presence of foreign branches indicates the business spread of these banks and also their major clients. Expanding operations to an overseas market is a strategic decision that may only pay off after a long time. Therefore, it is the established and more profitable banks that show a keen interest to have a foreign presence. A bank must be well established domestically before venturing into foreign markets. Anchor banks on the whole

display higher presence in the foreign markets compared with non-anchor banks and can be said to be better positioned to exploit opportunities in foreign markets..

Operational rationalization is a key process in the merger exercise. Most of the banks have instituted post-integration teams at very senior levels to ensure that operational rationalization proceeds smoothly without disruptions to bank customers. Anchor banks have employed independent consultants to conduct assessment programs to ensure that the best-qualified people are selected to lead the new organization. BCB had employed an executive search firm, Egon Zehnder Inteernational to handle all matters pertaining to selecting the right person for the various jobs. Staff redeployment and separation has also proceeded in a fair and equitable manner with the help of external consultant.[ii]

Part of the economies of scale is obtained through cost reduction through the elimination of duplicated systems and redeployment of staff, rationalization of branches, and full utilization of other assets and systems. However, in the first 1-2 years of the merger period, cost reductions may be minimal as banks provide for substantial charges for staff redeployment and separation cost, shut down of obsolete systems and upgrading and integration of various operations systems etc engagement of external advisors etc. For, CAHB cost as measured by the cost-to-income ratio was higher by about 10% compared to pre merger levels. [iii]This indicator of cost efficiency can be expected to come down about 2 years after the merger period.

5.2.5 Previous experience in mergers

Previous experience in mergers is an important element in ensuring the success of merger exercises. A study on post-merger practices in U.S. by banking and insurance industries by Singh and Zollo(1998)[iv]shows that firms that had codified their merger experience in the form of manuals and guidelines have a higher probability of successfully undertaking new mergers. Successful acquirers pinpoint relevant lesson from previous mergers as a key to successful post merger integration and performance.

In horizontal mergers, the primary objective is achieving economies of scale through the integration of similar operations and saving initial cost in the elimination of duplicated assets be it equipment or human resources. After the initial cost savings economies of scale is derived from the larger customer base and cross selling of products.

The merger exercise was analyzed in the light of the theory of merger and the Harbir and Zollo's study. Table 25 shows past merger experiences by Malaysian banks prior to the anchor bank based mergers.

Table 25 : Past Merger Experience of Malaysian Banks

		Current Status	Past Experience	Outcome	Merger Experience
1	Affin Bank	Anchor	None		None
2	AMMB	Anchor	Related Business acquisition	Provides a wide range of Financial Services	+ve
3	Bumiputra Commerce Bank	Anchor	1.Bank of Commerce Bhd & United Asian Bank Bhd 2. BOC and BBMB in 1999	1.Completed in 1991. Merged bank known as BOC. 2.Merged bank BCB.	+ve
4	EON	Anchor	None		None
5	Hong Leong	Anchor	Acquired MUI Bank in 1994		+ve
6	Maybank	Anchor	Acquired Kwong Yik Bank in 1992	Largest Bank in Malaysia	+ve
7	Alliance Bank	Anchor	None with Commercial banks-some related company acquisitions		+ve
8	Public Bank	Anchor	No Major mergers	Provides a wide range of Financial Services	None
9	RHB Bank	Anchor	1.DCB Bank Bhd & Kwong Yik Bank Bhd 2. RHB Bank Bhd & Sime Bank Bhd	1.Completed in 1997. Merged bank known as RHB Bank Bhd 2. Completed in April 1999 – RHB Bank.	+ve +ve
10	Southern Bank	Anchor	None		None
1	Ban Hin Lee	Non-Anchor	None		None
2	Pacific Bank	Non-Anchor	Pacific Bank Bhd & OCBC,S'pore.	Terminated talks in November 1998.	-ve
3	Phileo Allied	Non-Anchor	Took over CCB		+ve
4	Bank Utama	Non-Anchor	None		None
5	Wah Tat	Non-Anchor	None		None

Source : Various Newspaper Reports.

From the above analysis, it is seen that out of the 10 anchor banks, 6 have had positive merger experiences prior to the conferment of anchor bank status. In the case of Public Bank, inspite of no previous merger experience, it has a reputation of being a well-managed conservative bank with strong financial performance. The non-anchor banks do not have such clear-cut merger experience, except for Phileo Allied Bank that came into existence when it took over the operation of the failed Cooperative Central Bank. There is a clear-cut difference in the past merger experience among anchor and non-anchor banks.

Bank Negara as the regulator of the banking industry and entrusted in ensuring the safety and soundness of the Malaysian banks may have considered the relative experience and ability of the banks to carry out the merger exercise and ensure that there are minimal disruptions to customers and the operations of the merged entities. Many of the anchor banks have hired outside expertise to advise on the integration of the back office operations. In addition customers have been informed of the impending changes and adequate time has been given to ensure that operating changeover does not affect banking customers.[v] From the evidence[vi] thus gathered, it appears that the merger has to a large extend been carried out smoothly without much of a disruptions to customers and the bank themselves.

There is thus a compelling reason to look into the track record of the banks in as far as prior merger experience is concerned. Prior merger experience as an

indicator of successful post merger integration and performance is also supported by research in the U.S. banking and insurance industries.

5.2.6 Shareholder Analysis

Shareholders have a powerful influence in the strategic direction and operations of a firm. Shareholders dictate the governance style when they have controlling shares in the firms. In, Malaysia apart from individuals and corporate, the state has a strong presence in the banking sector. State presence in the banking sector is crucial in the attainment of many of the national development policies initially under the New Economic Policy and subsequent variants. The State can be expected to have a strong presence directly and indirectly in the banking sector. In addition, a number of corporate personalities in the banking sector like Tan Sri Rashid Hussain represents a visible success of the development policies of the government. Gomez and Jomo[vii] (1999) document the change in ownership of Chinese controlled banks to indigenous parties and corporations to reflect national development policies. The banking consolidation exercise may also have to consider the post merger banking landscape that has to reflect the success of the government development policies.

Foreign and Malaysian Chinese owned banks have traditionally dominated the banking industry. Prior to the consolidation exercise many smaller banks were family owned banks. However, these families owned banks generally have small branch network and localized customer base. These factors would be a big constraint in a competitive banking environment. As such, it is no surprise that

the smaller banks have made use of the consolidation exercise to exit the banking business or take on a minority share in the merged entity. Shareholder analysis would help to shed some light on the influence of the shareholding structure in the choice of the anchor banks.

Table 26 : Shareholding structure of anchor and non-anchor banks

Banks	Major Shareholders	% holding	Major Control
Affin Bank	• Lembaga Tabung Angkatan Tentera	39.9%	Govt Linked
	• Boustead Holdings Bhd.	28.37%	
Arab-Malaysian Bank Berhad	• Tan Sri Azman Hashim.	41.06%	Tan Sri Azman
	• Arab Malaysia Corporation	36.28%	
	• The Tokai Bank Ltd.	12.98%	
Bumiputra-Commerce Bank Berhad	• Wholly-owned by Commerce Asset-Holding Berhad	100%	Political Links
EON Bank Berhad	• EON Berhad	58.79%	Govt Linked
	• RH Devt. Corporation	19.24%	
	• Ceria Alam Sdn. Bhd.	10.45%	
Hong Leong Bank Berhad	• Hong Leong Credit Berhad	65.36%	Hong Leong Family
Maybank	• PNB	35.27%	Govt Linked
	• Amanah Raya Berhad	15.81%	
	• Khazanah Nasional Berhad	5.32%	
	• EPF Board	5.30%	
Public Bank Berhad	• Tan Sri Dr. Teh Hong Piow	33.15%	"Teh" Family
	• Sekuriti Pejal Sdn. Bhd.	12.95%	
	• EPF Board	6.79%	
	• Consolidated Teh Holdings	5.94%	
RHB Bank Berhad	• RHB Capital Berhad	70%	Tan Sri Rashid Hussein
	• Khazanah Nasional Berhad	30%	
Southern Bank Berhad	• Killinghall (M) Berhad	26.74%	
	• Amalan Istimewa	6.65%	
	• Keppel Bank of Singapore Limited	10.00%	
	• KI Investment (HK) Limited	5.00%	

Multi Purpose Bank	• Syabas Sutra Sdn. Bhd • Multi Purpose Management Sdn. Bhd.	70% 30%	

Note: The above shareholding is subject to frequent changes with the on-going merger.

Non-Anchor Banks			
Ban Hin Lee Bank Berhad	• Southern Bank Berhad	99.96%	Govt linked
Oriental Bank Berhad	• MIDF • Koperasi Diraja Malaysia Berhad • Minority shareholders	75.17% 15.63% 9.20%	
The Pacific Bank Berhad	• Oversea-Chinese Banking Corp. Ltd. • The United Malacca Rubber Estates Bhd.	28.23% 20.91%	
Phileo Allied Bank (M) Berhad	• Wholly-owned by Phileo Allied Berhad	100%	
Sabah Bank Berhad	• Wholly-owned by Suria Capital Holdings	100%	Sabah State Govt linked
Bank Utama (M) Berhad	• Wholly-owned by Utama Banking Group Berhad/CMS	100%	Sarawak State and political link
Hock Hua Bank Berhad	• Hock Hua Nominees (Tempatan) Sdn. Bhd. • Southern Nominees (Tempatan) Sdn. Bhd.	17.10% 6.87%	Family owned
Wah Tat Bank	• Chew Brothers Development Corp. • Twinplex Sdn. Bhd. • Chew Peng Ann @ Chew Choo Sing • Chew Peng Cheng	34.95% 18.00% 14.19% 6.15%	Chew Family

Source : KLSE Yearbook, Bank Annual Reports and ABM Bankers Directory.

The shareholding is considered as Government linked for banks that have some government links through institutions like PNB, Lembaga Angkatan Tentera and the Edaran Otomobil Nasional. The next category is individuals or family owned banks. These include bankers like Tan Sri Azman Hashim, Tan Sri Rashid Hussein and family controlled banks like Wah Tat Bank.

Of the ten anchor banks, 3 namely Maybank through PNB, Affin Bank through Lembaga Angkatan Tentera and EON Bank through EON Holdings are clearly government linked. PNB is the majority shareholder in Maybank. As the largest trust agency in the country, PNB needs access to a bank with strong branch network and asset base. Maybank represents a steady source of dividend income for PNB. In addition, the wide branch network helps PNB reach its unit holders. Affin Bank's major shareholder is the Lembaga Angkatan Tentera Malaysia, an organization established by an Act of Parliament to provide retirement and other benefits to members of the armed forces and generally provide for the welfare of serving and retired members of the armed forces. It has a very powerful investment panel headed by the top brass of the Armed forces, the Treasury and the Central Bank. EON Bank's major shareholder is the national car distribution company. It also needs a strong presence in the financial industry to have access to capital and also to provide hire purchase through the finance arm of the group. BCB is said to be closely aligned to the government as the major shareholders include government linked companies and institutions like PNB and EPF.

Two of the anchor banks are linked with the success of the New Economic Policy, the Arab Malaysian Bank and the Rashid Hussein Bank. These two banks are a visible representation of successful bumiputera corporate personalities in the banking sector. They have impressive credentials and have succeeded in building very strong banking groups that have professional management.

However, the consolidation exercise may provide opportunities for individuals to exit the industry too.[viii]

The remaining four banks are considered to be Chinese banks. Public Bank is well known as a well managed prudent bank and has won numerous awards for excellence, as the best commercial bank in Malaysia and also as the 4th best in Asia.[ix] It is noted for its stability, profitability and risk management as well as sound and conservative management culture. It stands to reason that its strong management and past performance merits the status of an anchor bank. The Alliance Bank is the product of the Multi Purpose group and has always been seen as Chinese based organization. Southern Bank and Hong Leong like Public Bank have remained Chinese controlled banks. Given the long and strong presence of the Chinese in the banking industry, the choice of 4 banks with ostensible Chinese control may have helped to allay fears that the consolidation exercise would significantly reduce Chinese presence in the banking industry.

The choice of the anchor banks may have also been based on some very practical and pragmatic considerations. From the shareholder perspective, BSN Commercial Bank and Oriental Bank are also government-linked bank. Sabah Bank and Bank Utama are state government linked banks. However, these banks are relatively small, with a regional focus and with smaller assets base. They do not have the experience or the financial clout to buy the much larger banks. In the case of Phileo Allied, though it could have been considered for anchor bank status.

Therefore, while there are indications of government linkages in the choice of anchor banks through the shareholder analysis, practicality and pragmatism to implement the merger program may have been a key factor in the choice.

5.3 Summary of Findings

A ranking based on the indicators namely the profitability indicator, capital adequacy indicator, asset indicator and branch network was done to compare the ratings of the anchor bank and non-anchor banks. 1999 data was used for the ranking as it was the year in which the merger directive was given. Table 27 shows the ranking of the anchor and non-anchor banks by ROA, ROE, capital adequacy, assets and branch.

Table 27 : Ranking by ROA,ROE,Capital Adequacy, Assets and Branches (1999)

Banks	ROA (%)	Rank	ROE (%)	Rank	CapAdeq. (%)	Rank	Assets (RM)	Rank	Branch	Rank
Affin	0.60	15	6.30	15	9.57	7	15011.0	6	86	6
AMBB	0.78	9	60.23	1	1.29	18	11730.8	7	23	18
BCB	0.21	17	3.82	17	5.62	16	57285.0	2	260	2
EON	0.76	12	5.20	16	14.59	2	8039.0	12	46	12
Hong Leong	0.78	10	7.54	12	10.37	6	15095.0	5	73	7
Maybank	0.92	7	10.24	10	9.02	8	87592.0	1	294	1
MultiPurpose	0.77	11	11.56	7	6.68	15	9330.0	11	42	13
Public Bank	1.68	3	15.66	4	10.71	5	30898.0	4	180	4
RHB	0.62	14	7.12	13	8.72	10	49455.0	3	210	3
Southern	1.18	5	6.38	14	18.59	1	10211.0	8	107	5
BHL	0.94	6	11.15	8	8.43	12	7389.5	14	49	10
Pacific Bank	0.75	13	8.47	11	8.82	9	7605.0	13	64	9
Phileo Allied	2.17	2	25.67	2	8.45	11	9632.0	10	69	8
Wah Tat Bank	0.92	8	12.16	6	7.53	13	10187.0	9	34	14
Bank Utama	2.21	1	18.88	3	11.72	4	2784.0	18	25	17
Oriental Bank	-5.07	19	-106.72	19	-4.69	19	5818.4	16	34	15
Hock Hua	1.44	4	10.47	9	13.72	3	5431.0	17	49	11
Sabah Bank	0.01	18	0.10	18	7.44	14	983.0	19	32	16
BSN	0.22	16	15.38	5	1.33	17	7288.0	15	23	19

Source : Calculated from various annual reports of commercial banks/ ABM Bankers Directory.

Based on the table, it is observed that in most instances, the non-anchor banks have better ranking compared to the anchor banks. For the ROA, in 1999, Bank Utama ranked number one followed by Phileo Allied in second place. Among the anchor banks, Public Bank was top followed by Southern Bank in terms of ROA. Affin and BCB that were given anchor bank status ranked number 15 and 17 in terms of ROA in 1999.

In terms of ROE, in 1999, AMMB ranked number one with a very high ROE 0f 63.23% as the shareholders fund was severely impaired as a result of the increasing immediately after the crisis. In the years prior to 1999, AMMB's ROE had ranged from 1.5% to 11.8%. The next best performances in terms of ROE are by Bank Utama and Phileo Allied, both non-anchor banks.

The ranking of the anchor and non-anchor banks in terms ROA and ROE confirms the findings of the difference of mean in ROA and ROE that shows no significant difference between anchor and non-anchor banks when measured by their ROA and ROE.

The ranking of the anchor and non-anchor banks in terms of capital adequacy provides mixed results. The anchor banks do not show clear superiority in terms of capital adequacy ratio over the non-anchor banks.

In terms of assets size, there is a clear-cut difference between the anchor and anchor banks. The top 8 banks in terms of asset size are all anchor banks. Two banks from the non-anchor banks are ranked 9th and 10th position. In terms of branches too, Maybank is ranked in the 1st position, and anchor banks occupy all the top 9 positions. Among anchor banks, AMMB has the smallest number of branches and is ranked 18th.

The analysis in this chapter shows that there is a strong bias towards the larger banks in the choice of anchor banks. This bias is supported by merger theory and also the practice of bank consolidation in other countries. The emphasis on size related measures is also related to some practical issues in successfully carrying out post merger integration where the logistics and finances dictate that larger banks take the lead as anchor banks to spearhead the merger exercise. The size related measures like loans, deposits, capital and total assets all point to significant difference between the anchor banks and the non-anchor banks. The branch network analysis is also points to the extensive network of branches in the anchor banks compared to the non-anchor banks.

On the issue of profitability, there appears to be no significant difference in the profitability of the anchor and non-anchor banks. In fact some of the smaller family owned banks in the non-anchor groups has better profitability figures measured via ROA and ROE.

The capital adequacy measures are one of the most closely watched indicators. The BNM watches it to ensure the safety and soundness of the banks. The creditors and rating agencies also monitor it ensure that banks are in a position to repay liabilities as they are due and also it determines that ratings of the banks which in turn decides the cost of purchased funds for the banks. As such, the capital adequacy measures have been largely well above the minimum requirement of 8%. (except for some banks when it dipped below the minimum during the crisis.)

The anchor banks also have a significant advantage over the non-anchor banks in terms of prior merger experience. From the shareholders analysis, it appears that most of the anchor banks have government links. This link is also observable in some of the non-anchor banks too. However, for the final choice of the anchor banks shareholding may have been a secondary consideration. Primacy may have been given to banks that have a capacity to successfully lead, conclude and carry out post merger reorganization.

In the post merger environment, there would only be 10 banking groups. Banking supervision and regulations by BNM is more crucial in the post merger environment. With fewer and larger banks, the concentration of risk is even greater. Failure of any one of the banks may threaten the stability of the entire banking system. The concept of too big to fail and the lender of last resort role by BNM may lead to even more risky behavior by bankers. Therefore, Bank

Negara's role in ensuring a strong and stable banking system has to be balanced with its role as a lender of last resort.

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[i] "Fallout from Malaysia's Big Bang", Andrew Ho, 7 May,2001 http://ww.asiawise.com/mainpage.asp? mainaction=50&articleid=1587

[ii] Various websites of the Anchor Banks

[iii] "Banking's Matrimonial Merry-Go- Round", pg. 10, Investors Digest, February 2001

[iv] Singh Harbir., & Zollo Murizio, "The Impact of Knowledge Codification, Experience Trajectories and Integration Strategies on the Performance of Corporate Acquisitions". August 1998, http://wrds1.wharton.upenn.edu/fic/wfic/m&a.html

[v] The Annual Reports of the Anchor Banks outlines the various measures taken to ensure smooth changeovers.

[vi] The Star 30th April 2001, "Governor Dato' Dr. Zeti's Interview with the Star"

[vii] Gomez, Edmond Terence and Jomo K.S., " Malaysia's Political Economy- Politics, Patronage and Profits", 2nd Ed. 1999. Published by the Press Syndicate of he University of Cambridge.

[viii] Tan Sri Rashid is reported to be selling to sell his interest in the RHB Capital that owns RHB Bank to the politically connected Cahaya Mata that controls Bank Utama.

[ix] Finance Asia Country Award, Best Bank In Malaysia by Global Finance Magazine, Asia Money Magazine etc.