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## Break-away mania

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WHEN Tan Sri Azman Hashim, the chairman of the Arab-Malaysian banking group, joined Prime Minister Datuk Seri Dr Mahathir Mohamad's entourage to the United States and later to London in late September, he was on the brink of being marginalised in the local financial sector.

Arab-Malaysian Merchant Bank Bhd, which Azman had nurtured into the top merchant bank in the country, his fledgling finance company and a commercial bank still in its infancy, were to be absorbed by the Affin Holdings Group under Bank Negara's radical consolidation programme. Under the Bank Negara initiative outlined on June 29, all 58 local financial institutions are to be merged into six anchor bank groupings. By virtue of not being chosen as an anchor bank, the Arab-Malaysian group and Azman were in a precarious position of being reduced to a minority player. However, his trip to the United States appears to mark a turning point for Azman as he was greeted by some delightful news upon his return. In essence, they point to one thing - his Arab-Malaysian group has a good chance of getting anchor bank status.

Another financial institution that is likely to get anchor bank status is Hong Leong Bank. The bank, controlled by Tan Sri Quek Leng Chan, is keeping its cards close to the chest on its next move.

The RHB banking group is another likely candidate for anchor bank status. However, its chances are viewed as not that bright compared to the Arab-Malaysian group or Hong Leong.

Under the original plan, all the financial outfits headed by Tan Sri Rashid Hussain were to be merged into an anchor bank grouping headed by Multi-Purpose Bank. In total, the Multi-Purpose Bank was to merge with 11 financial institutions.

But an official of the Multi-Purpose Bank management team tells Malaysian Business that two of the financial institutions had already indicated that they were looking at other options in view of the latest development.

'About 60 per cent of the financial institutions have stated that they will stick with Multi-Purpose Bank,' says the official. 'Only two parties have indicated that they are looking at other options. At the end of day, Multi-Purpose Bank would still remain an anchor bank with shareholders funds of more than RM2 billion.'

The official declines to name the two parties but they are widely believed to be the financial institutions under the RHB group and Phileo Allied Bank. Rashid, even when signing the memorandum of understanding with Multi-Purpose Bank, had stated his disappointment at his group not being accorded anchor bank status. As for Phileo Allied Bank, says an analyst, it should find itself not short of suitors should it decide to break away.

'Many bigger banks would not hesitate to court Phileo Allied Bank,' says C K Ngu of TA Securities.

The bank, which is known for its innovation in IT banking, is owned by Tong Kooi Ong. But market talk is that Tongkah Holdings Bhd may emerge as a substantial shareholder with a 20 per cent interest in the bank.

Amidst the rumblings in the banking sector, the softening of Bank Negara's stand has been well received, although it has stirred some provocative suggestions.

Bank Negara's statement, which came 18 days after Dr Mahathir first

indicated that the number of anchor banks was arbitrary, gave rise to two elements. (Dr Mahathir first announced in London on Oct 2 that the number of anchor banks were arbitrary and not fixed at six. Bank Negara came out with a statement on Oct 20).

Immediately there was speculation that the policy shift signalled a rift between Dr Mahathir and First Finance Minister Tun Daim Zainuddin. But observers familiar with both men simply burst into laughter when asked about a possible rift.

'On hindsight, it is a victory of sorts for both Bank Negara and Dr Mahathir,' says an observer. 'By willing to backtrack from its previous stand, Bank Negara has come out of a potentially sticky situation. If the central bank had carried out with its original plan, it would have resulted in a lot of unhappy marriages and inefficient banks.'

'At the same time, Dr Mahathir is seen as someone who is sensitive to the concerns of the business and finance community as he has responded well to their cries of protest,' he says.

Secondly, by changing its hardline stance, it has given a much welcomed breathing space for small as well as big banks on the lookout for friendly partners or seeking anchor bank status. 'It is for the better,' says Franklin Lim, the head of research in OCBC Securities. 'At least it gives banks a chance to choose their partners.'

On the surface, the consolidation process seems to be moving at a snail's pace. But in the background there are a lot of movements and overtures being made. Many small banks are looking for friendly partners to keep their operations intact as far as possible. The smaller banks are hoping to play a meaningful role,' says an analyst.

For instance, the analyst says that under Bank Negara's original merger plan, one anchor bank with a large number of branches throughout the country, was only interested in the small peninsula-based acquiree bank's business.

'The small bank's branch network are to be closed and its staff retrenched because there was no use for them,' he says. 'One small bank from Sarawak also faced the same problem.'

At the time of writing, breakaway groups are already beginning to form. The Arab-Malaysian group and Utama Banking Group have already stated their preference to break away from the original anchor bank grouping headed by Affin Holdings.

Affin Holdings had announced that the two groups were looking at other options in light of the relaxation in Bank Negara's consolidation process. Affin Holdings' announcement merely adds fuel to widespread speculation that the Arab Malaysian group is seeking anchor bank status and is viewing a merger with the Utama Banking Group.

The merger between the two - if it takes place - will give the Arab Malaysian group a strong and immediate presence in Sarawak which is the forte of the Utama Banking Group. The combined assets of both financial institutions should exceed RM55 billion with total shareholders funds of about RM2 billion.

The shareholders funds of RM2 billion will strengthen Azman's case to seek anchor bank status. Bank Negara has not given any definite figure on the number of anchor banks except that each of the anchor bank grouping should have shareholders funds of at least RM2 billion.

At the time of writing, the Arab-Malaysian group and Azman are still silent on their status.

Although Azman has not said anything, things have definitely been looking up for him lately. It is no secret that the Azman had been attempting to get anchor bank status for the Arab-Malaysian group ever since Bank Negara embarked on its consolidation process.

The 60-year-old banker owns about 43 per cent in Arab Malaysian Corporation Bhd (Amcorp) which is the holding company of the financial outfits under the Arab-Malaysian group. In its bid to gain anchor bank status, the Arab-Malaysian group recently repaid RM900 million that it took from Danamodal Sdn Bhd.

'The money taken from Danamodal was actually to increase the capital adequacy ratio (CAR) to a comfortable level of about 15 per cent. It was just a precautionary measure during the bad times early this year,' says an executive familiar with the group. 'With the economy picking up, the cashflow of the group is strong, especially for the finance company. So the money was repaid. In fact, Azman was affected only because he expanded his commercial bank too fast.'

Also, Azman's personal liabilities which is close to RM600 million has been resolved. With some restructuring and 'hair-cuts', the executive says Azman's shareholding is more than enough to cover his personal liabilities.

As for Hong Leong Bank, the media-shy group has denied that it was having talks with the RHB banking group. However, the bank is expected to lead another breakaway group involving Pacific Bank and EON Bank.

Under the original consolidation plan, Pacific Bank and EON Bank were to be absorbed by Malayan Banking Bhd (Maybank). However, both the banks are likely to be marginalised by the towering Maybank.

Maybank, one of the top banks in the region, has assets of RM78 billion, shareholders funds in excess of RM10 billion and more branches than any other bank group in the country. 'It has no need for the branch network of both Pacific Bank and EON Bank,' says an analyst. 'The only thing Maybank will be interested in is the business of both banks.'

As for the RHB group, the outlook is still unclear. Led by Rashid, the bank has gone through more than its fair share of mergers over the last two years. Barely had Rashid completed the acquisition of Kwong Yik Bank, he embarked on a merger with Sime Bank.

Both mergers have taken a toll on his financial strength.

But based on Bank Negara's RM2 billion shareholders criteria, the RHB group can stand on its own as an anchor bank. But the question is will the authorities allow RHB to stand alone?

If that is the case, the number of anchor banks will be nine.

Besides Maybank and RHB, other banks with shareholders funds in excess of RM2 billion currently are Bumiputra-Commerce Bank (RM5 billion), Public Bank (RM3.6 billion), Southern Bank (RM2 billion) and Affin Holdings group with RM2 billion. Affin Holdings' shareholders funds is taken into account after its merger with Asia Commercial Finance and BSN Commercial Bank. Thus, it is safe to assume that the previous six that were given anchor bank status would continue to enjoy the benefits. In addition, at most another three may join the big league.

But that scenario will only hold for a few years. Come year 2003, when the financial services sector is opened up, another round of consolidation is likely.