

## MAHATHIR'S MULTI-BILLION RINGGIT BANKING PHILEO-SOPHY, PART 1

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### The Third Force

*“Dr. Mahathir Mohammad’s elevator isn’t going to stop at the billionaires’ floor much longer. Not if we have anything to do with it.” – Dato’ Y and Raggie Jessy.*

As most of you already know, I was supposed to do a piece on *Sapurakencana*, an oilfield services concern through which Dato’ Mokhzani Mahathir, son of former premier Dr. Mahathir Mohammad, is said to have conducted insider trading to illegally benefit from the sale and purchase of company stock. However, some new ‘evidence’ pertaining to the controversy surfaced last Monday, evidence I am now in the midst of scrutinizing.

As such, let us not inflate the sphere of controversy surrounding Mokhzani and *Sapurakencana* just yet. Instead, let us tie up some loose threads that appear to be hanging from the articles I posted last week (refer **links provided** below this article). Specifically, let us trace through events that led to the eventual purchase of PhileoAllied Bank Berhad (PABB) by the government-linked Malayan Banking (Maybank) Berhad, and how the deal landed Mahathir’s son with a cash-rich shell company virtually overnight.

As we go along, we will establish one of the many reasons **why Dato’ Seri Anwar Ibrahim was sacked from government and how Tun Ling Liong Sik came to be MCA president**. More importantly, we will discover how Mokhzani may have conspired with his own father to outmanoeuvre Tun Daim Zainuddin, then the Minister of Finance, whose only wish was to consolidate his own interests in the banking sector.

So without further ado, let us traverse back through time to discover how Mahathir and Daim spent almost 18 years making a pig’s breakfast of the whole banking sector simply to build a network of corporate capitalists who would one day be beholden to their whims.

### ***The problem with Multi-Purpose Holdings Berhad***

In 1982, the French government incorporated what came to be known as the Malaysian French Bank Berhad to concentrate all activity related to its local banking concern, the *Banque de L’indochine*. The move was in line with regulations that disallowed foreign-owned banks to operate in the country. To comply with this ruling, the owners of the bank sold their rights of ownership to Daim, who was by then a well known corporate figure.

It didn't take two years for Daim to work out a scheme to gain control of another bank, the United Malayan Banking Corporation (UMBC), then the third largest bank in terms of assets. The said bank was once controlled by Chang Ming Thien, who, in June of 1981, sold a 41 percent stake in the bank to Multi-Purpose Holdings Berhad (MPHB), then an MCA concern.

It is interesting to note that MPHB's purchase of UMBC took place a month before Mahathir came into office. My sources tell me that **Tengku Tan Sri Razaleigh Hamzah, then the Minister of Finance, instructed the board of directors in Perbadanan Nasional Berhad (Pernas) to increase its own shareholding in UMBC from 30 percent to match MPHB's stake in the bank.** Just so that you know, the Ministry of Finance was among major shareholders in Pernas and had jurisdiction in all decisions it made.

Just before assuming the role of Finance Minister, in 1984, Daim entered into a share-swap deal with MPHB that saw the group acquire a 70 percent stake in the Malaysian French Bank Berhad. In return, the MCA holding company divested its interests in UMBC into Daim's companies for RM125 million (worth RM500 – RM600 million today), cash. **In short, Daim gained UMBC, while the MCA run MPHB gained the Malaysian French Bank Berhad.**

At the time, **MPHB came under the purview and control of the party's State Liaison Committee Chairman for Wilayah Persekutuan, Tan Koon Swan.** Following the deal, the Malaysian French Bank was unofficially referred to as Multi-Purpose Bank (MPB), although it remained registered as the Malaysian French Bank Berhad. Daim went on to become Minister of Finance in 1984 and the owner of the third largest banking institution in Malaysia. A year later, the shrewd Daim increased his stakes in UMBC by ten percent.

After having acquired a lion's share of the stake-holding in UMBC, Daim made a desperate bid to merge the institution with the Bank of Commerce. The deal fell through when an agreement could not be reached over the prices of shares involved. By then also, rumours were swirling, even in UMNO, as to how Daim was abusing his position in government full-swing.

Meanwhile, **Tan Koon Swan had begun marketing MPHB as a co-operative 'godfather-led' investment vehicle for Chinese businesses right after the group purchased MPB from Daim.** Tan's manner of directing MPHB upset Daim considerably, particularly since the latter was determined to figure himself as a major-league player in corporate Malaysia. Daim feared that Tan would render all efforts by UMBC to slice a bigger stake in the corporate world futile.

All the while, **Mahathir was well aware of how Daim was abusing his position and influence in government to consolidate his own interests in the banking sector.** But I am told, not only did Mahathir turn a blind eye to Daim's misdeeds, he went so far as to defend the latter among certain well connected UMNO circles, whose members were already sneering at what Daim was doing.

A year later, in 1985, Daim and Mahathir began discussing Tan and how the MCA leader was fast becoming a thorn in their side. The duo planned to render Chinese tycoons beholden to their 'generosity' for allotting 'government inspired funding' and investment opportunity. The only problem with the plan was Tan and his 'godfather-like' MPH B that kept getting in the way.

Things took a turn for the worse later that year when Tan was made MCA president. **So the fact that the president of a major Barisan Nasional component party was still running a large financial institution that catered to Chinese business interests became unbearable for Daim and Mahathir.**

**Mahathir knew that Tan had to be removed as MCA president by hook or by crook, and that a way needed to be sought to wrest control of MPH B from him.** Mahathir couldn't afford Tan triggering a nexus of associations between MCA and major-league players within the corporate world, which both he and Daim wanted to control.

By then, Daim's control of UMBC was stirring up more and more controversy, so much, that it triggered a decision by him to sell his holdings in the bank. By then also, Tengku Razaleigh was no longer the Minister of Finance or a thorn in Mahathir's side. The fact that Daim had taken over the portfolio from Razaleigh presented him an opportunity to work out a handsome profit through the sale of UMBC to Pernas. **The Ministry of Finance had a large stake in Pernas, through which Daim knew he would still wield a domineering influence in UMBC's affairs.**

And that is the real reason why Daim had no qualms divesting his holdings in UMBC to Pernas in 1986. As a matter of fact, the same year, the then Minister of Finance relinquished his shareholding in a list of other companies, including Sime Darby, Technology Resources Industries, Sistem Televisyen Malaysia (TV3), Cold Storage, Guthrie Ropel, Malayan Banking, Tasek Cement and many more.

According to Daim, the decision to dispose of his shares in all these companies was in line with a government directive that required all ministers to do so. But the truth is, **Mahathir had formulated the directive to 'free' Daim from all these constraints so as to work on bigger plans, among them being a mission to wrest control of MPH B.** Daim needed to appear 'clean' to play an effective role in the Ministry of Finance. Besides, being Minister of Finance, he wielded a lot of jurisdiction in many of those companies anyway.

Then, in a queer twist of fate, Tan (who ran MPHB) suddenly found himself embroiled in controversy when the Singaporean High court implicated him later that year of criminal breach of trust. The case had to do with transactions that were linked to MPHB and the collapse of a Singaporean based company. The court sentenced Tan to two years imprisonment. At the time of sentence, Tan was yet the president of MCA.

**The sentencing opened the door for Tun Ling Liong Sik to take over the reins of the party leadership in 1986.** It is said that Tan's imprisonment could have been avoided had Mahathir intervened and refused to allow Singapore to arrest him. But both Mahathir and Daim were rumoured to be against any move by the government to protect Tan. Mahathir himself had plans he needed Ling to execute.

One of Ling's immediate tasks was to release the debt-saddled MPHB from dire circumstances. In the interim, Mahathir and Daim began discussing plans to either re-acquire MPHB or to have it run by a trusted ally. One thing led to another before Ling 'acquiesced' to the sale of MPHB on a "willing buyer-willing seller basis," an offer which Lim Thian Kiat (LTK), then a staunch Daim proponent, grabbed almost as soon as it was made available. It is said that LTK's family sold a business concern of theirs in 1986 just to amass the funds needed for the acquisition.

### ***The problem with Anwar Ibrahim***

On the 29<sup>th</sup> of July 1997 (and not in 1998 or 1999 as detailed in most texts), the then Governor of Bank Negara Malaysia (BNM), Tan Sri Dato' Ahmad bin Mohd Don, announced a major restructuring program that was geared to assist the domestic banking sector achieve economies of scale. Put differently, BNM announced an initiative to create bigger and stronger banks with greater value and operational efficiencies.

The central thrust to the program was the forced merger of 21 commercial banks, 12 merchant or investment banks and 25 finance companies into six core banking groups. Among these groups were Maybank and MPB, the latter being a financial institution that was still identified with Daim, despite his name not appearing anywhere on the shareholding roll. The consolidation exercise, as it came to be known, was to be government assisted while being supervised by BNM.

The said program followed years of association that began with an idea Daim floated to Mahathir in 1994. During a closed-door session between the two that was witnessed by a third party, **Daim was said to have proposed a two-tier incentive to encourage smaller banking institutions into mergers to consolidate their capital while combining talent and reducing costs.**

Under the scheme, highly capitalized banks were accorded a tier-one status and were given allowance to offer a wide range of financial products and services. Sources in the know believe that the shrewd Daim had planned this to be the first-wave of mergers to coerce smaller financial institutions into consolidation. **According to these sources, both Daim and Mahathir had already begun discussing a forced merger exercise that was to follow.**

Needless to say, the two-tier scheme proved unsuccessful, inspiring only a limited number of mergers among smaller banking institutions. Two years later, both Daim and Mahathir got together and began discussing the planned second wave of mergers. We were told much later that the move, which truly was a forced consolidation scheme, was to reduce global pressures that threatened to bankrupt smaller financial institutions.

But that was far from the truth. The truth is, both Mahathir and Daim were impelled by hidden political forces that threatened to undermine their influence within the corporate sector. Daim's major concern related to a nexus of associations that LTK had forged with Dato' Seri Anwar Ibrahim, then the Minister of Finance. **Mahathir is said to have told Daim how Anwar and Lim "were too close for comfort" and that "something needed to be done."**

By then, Anwar had established close ties with Chinese businesses and major-league corporate players that were sprawled all over the nation's capital and beyond. LTK is said to have helped Anwar work out the financing for government linked projects that were carried out by the latter's business associates. In short, **to Mahathir and Daim, Anwar turned out to be as big a problem to them as Tan Koon Swan was back in the eighties.**

So, **just as Mahathir did away with Tan, he knew he needed to do away with Anwar.** Mahathir wanted nobody, not even the Pope, to come between him and the corporate giants he wanted to build and nourish to deliver him the strength and financial power to control UMNO.

Which is why, during the 1996 meeting he had with Daim, **Mahathir agreed to assign PhileoAllied Bank Berhad (PABB) to MPB under a forced merger program, the condition being that Daim was to get his associates to wrest control of MPHB from LTK.** By then, Mahathir had sought the assistance of sleuths from UMNO and outside the party to pry into Anwar's private life and his dealings with the corporate world.

A year later, the Prime Minister is said to have instructed the then governor of BNM to announce a 'government assisted' consolidation scheme to safeguard the banking sector. By then, **Mahathir had told Daim that Anwar "needed to go" come hell or high water. The former premier found it absolutely difficult to forgive Anwar for reasons we will not get into here, something that had to do with his other son, Mirzan Mahathir.**

The announcement by BNM did not go down well with a large segment of the Chinese business community. I am told, several Chinese businessmen who were closely aligned with association leaders began lobbying against the mergers, anxious that many of the Chinese-owned banking institutions that helped finance their projects would be lost forever.

With the general election looming, Mahathir feared vexing the Chinese or the MCA and got BNM to defer the deadline for mergers to after the general election. The former premier also got the central bank to issue statements explaining the restructuring scheme in point-by-point detail.

Many authors claimed that an eventual increase in number of anchor banks from six to ten sparked a rift between Mahathir and Daim. This is true, but only in part.

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Source: <http://www.malaysia-today.net/mahathirs-multi-billion-ringgit-banking-phileo-sophy-part-1/>