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Market Reaction to Merger Announcements: The Case for Consolidation of the Banking Sector in Malaysia*

MANSOR Isa[a] and Chooi-Mei YAP[b]
University of Malaya

Abstract: This study investigates share price reaction pursuant to the announcement of a merger programme that involved the entire banking sector in Malaysia over the period January 1999 to February 2000. The study focused on the anchor banks that formed the nucleus of the resultant banking groups. This study utilised an event type analysis where the focus was on abnormal price reaction to the announcements. We found an overall positive market reaction to the announcement of the bank mergers, notwithstanding that the bank mergers were imposed by the Central Bank. Typically, substantial returns were mostly recorded on the day before the announcement followed by a slight market correction thereafter. The positive market reaction may be attributed to the economic gains expected from such mergers due to the synergies created.

1. Introduction

On 29 July 1999, the Central Bank of Malaysia made an announcement on its efforts to consolidate the fragmented local banking institutions into a few large banking groups. At the time of announcement there were 21 domestic commercial banks, 25 finance companies and 12 merchant banks. The Central Bank envisaged only six banking groups on completion of the consolidation, each providing a complete range of banking services. The banks were given a period of only two months to negotiate with potential partners and to submit the merger proposals to the Central Bank.

This announcement, although not unexpected, came rather abruptly during the time the country was recuperating from the 1997 financial crisis. In fact, it is the crisis that may have prompted the Central Bank to take a more involved role in steering the consolidation of the banking sector. The crisis, among others, exposed the vulnerabilities of a fragmented banking system. Many banks experienced extreme liquidity squeeze and were saddled with an unprecedented amount of nonperforming loans. The troubled banks were saved from bankruptcy only by the swift action of the government to refinance the nonperforming loans and to recapitalise ailing banks. Taking lessons from the crisis, it is inevitable that a rationalisation and consolidation programme of the banking sector be undertaken to enable the banking sector to withstand such future shocks.

It has long been felt that having many small banks leads to inefficiency and structural weaknesses in the banking system. It is also inevitable that Malaysia liberalises its financial sector in conjunction with the ASEAN-FTA and WTO programmes. With the increased

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[a] Professor of Finance at the Faculty of Business and Accountancy, University of Malaya. Corresponding author. *Email: mansor@um.edu.my*

[b] MBA student at the Faculty of Business and Accountancy, University of Malaya.

pace of globalisation and financial liberalisation, the local banks have no choice but to become stronger and more efficient banking groups in order to compete in the global market. In this light, the consolidation programme is expected to strengthen the banking sector.

The idea to consolidate local banks had been mooted since the early 1990s. However, there was no proper planned strategy for the reforms and the calls were largely unheeded. Nevertheless, from 1990 until 1999, four bank mergers had been completed.[1] These, however, could be considered as market motivated mergers and not part of the merger programme initiated by the Central Bank.

The objective of this study is to assess market reaction to bank merger announcements in Malaysia over the consolidation period of 1999-2000. Although it is generally believed that fewer banks are better because the larger size would allow them to reap economies of operation, no empirical test has been conducted to establish this assertion. Specifically, this study aims to test if there exists an increase in value due to synergies created by merging the banks.

2. Synergistic Gains Hypothesis and the Consolidation Process

The synergistic gains hypothesis of corporate acquisitions implies that a combination of two firms will result in a combined gain that is more than the sum of the value of the individual firms. The achievement of synergies through corporate acquisitions may be due to several reasons. Firstly, synergies may arise from increasing the efficiencies of the companies involved. If the management of the acquiring company is more efficient than the management of the target company, and if after acquisition, the inefficient target is made more efficient, then overall efficiency has been increased. This would be reflected in a combined net gain of the merger.

Secondly, and of particular relevance to the present study, synergies may also arise from economies of operation. Basically, economies of scale involve 'indivisibilities' such as people, equipment and overheads, which provide increasing returns if spread over larger units of output. Known as operating synergies, it assumes that prior to the combination, the firms are operating at levels of activity that fall short of achieving economies of scale. Before the consolidation exercise, there were numerous Malaysian banks and many were running below their capacity due to product duplication and limited consumer base. Bank mergers would result in the expansion of the customer base, increase total deposits, loans and advances, and allow for a cheaper cost of funding, etc. The new entity would also be able to reap savings by eliminating duplication of work processes, human resources, information system and the like. Further, larger banks are easier to regulate, and exhibit greater transparency and good corporate governance. The merged banks would also benefit from financial synergies brought about by a lower cost of capital as a result of reduced risk of bankruptcy.

Support of the synergistic gains hypothesis would be seen in the abnormal price reaction. The most obvious indication would be a price increase upon expectation of a successful merger and a price decrease upon expectation of the merger being unsuccessful.

[1] These were Bank of Commerce and United Asian Bank (completed in 1991), DCB Bank and Kwong Yik Bank (completed in 1997), RHB Bank and Sime Bank (completed in 1999) and Commerce-Asset and BBMB (completed in 1999).

A review of previous studies has shown that market-oriented mergers and acquisitions do create value. This can be seen from the positive reactions of stock prices of the firms during merger announcements. However, in this study, we were looking at a unique event, that is, bank mergers that were imposed by the Central Bank. This study is different from a normal merger study in two respects. Firstly, it involved the entire banking industry – all domestic commercial banks, merchant banks and finance companies. Secondly, banks had no choice but to comply. To the extent that this represents a departure from a market-oriented mergers, it would be interesting to investigate if the synergistic benefits would be created. The results may have important implications on government intervention on business policies and practices.

The first formal initiative taken by the Central Bank to consolidate the banking sector was in early 1998, and was targeted at finance companies.[2] These are banking institutions whose primary role is to finance the purchase of long-term assets by consumers and businesses. At that time there were 39 finance companies operating in the country, with 70 per cent of the business concentrated in five or six larger companies. It was stated that the mergers would be market driven with the Central Bank only facilitating the process. The acquiring institutions were given the flexibility to implement cost rationalisation measures to realise the maximum benefits from the merger.

On 29 July 1999, the Central Bank announced a follow-up merger initiative in its efforts to strengthen the banking industry.[3] This time the target was all banking institutions. Noticing that the progress to earlier calls to finance companies to consolidate had been slow, the Central Bank stressed the urgent need to accelerate the rationalisation and consolidation of the banking system in the face of a more competitive and global business environment. Moreover the 1997 crisis had clearly shown the fragility of a fragmented banking system. The Central Bank stated that all 21 domestic commercial banks, 25 finance companies and 12 merchant banks were required to consolidate into six banking groups.[4] End of September 2000 was set as the deadline to complete the negotiation process with potential partners and to have the MOU duly signed.

However, there were strong objections from the banking industry, which cited three reasons: limiting the banking groups to only six; the imposition of designated anchor banks; and the tight time frame for the implementation of the programme. The Central Bank reconsidered the directives and on 20 October 1999 announced that banking institutions were now given the flexibility and freedom to form their own merger groups and to choose their own leader in each group to lead the merger process.[5] Banking institutions were required to revert to BNM by the end of January 2000 on their respective merger groupings, as well as the agreement in principle from the major shareholders of the banking institutions in the group.

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[2] Bank Negara Malaysia press release entitled, *Merger Plans for Finance Companies*, dated 2 January 1998. (http://wwww.bnm.gov.my/pa/1998/0102.htm).

[3] Bank Negara Malaysia press release entitled, *Merger Programme for Domestic Banking Institutions*, dated 29 July 1999. (http://wwww.bnm.gov.my/pa/1999/0729.htm).

[4] Six influential banks were identified to act as anchors in the consolidation process. The banks were: Malayan Banking, Multi-Purpose Bank, Bumiputra-Commerce Bank, Public Bank, Affin Bank, and Southern Bank.

[5] Bank Negara Malaysia press release entitled, *Domestic Banking Sector Consolidation Programme*, dated 20 October 1999. (http://wwww.bnm.gov.my/pa/1999/2010.htm.htm).

On 14 February, 2000, after studying the various merger proposals from the banking institutions, the Central Bank approved ten merger groups and their respective anchor banks.[6]

Bank Negara Malaysia had set end-December 2000 as the target date for the entire consolidation exercise to be completed. To facilitate the process, the government decided to provide tax incentives to those involved, provided the merger agreements were signed by 31 August 2000.[7] These incentives comprised exemption from stamp duty, real property gains tax, as well as a tax credit on 50 per cent of the accumulated losses of banking institutions which are to be acquired. It was later reported that all banks had complied with the deadline and were therefore entitled to the tax incentives.[8]

3. Findings of Previous Merger Studies

Empirical studies on mergers and acquisitions carried out in developed as well as developing markets seem to indicate that synergistic values are created. The studies typically employ an event-type analysis of market reaction around merger announcements, and find that share prices of target companies increase substantially, while prices of acquiring companies do not decline. Some of the well-documented studies follow.

Asquith (1983) investigated the effect of merger bids on stock returns. Abnormal stock returns were examined throughout the whole merger process for both successful and unsuccessful mergers. Two merger events were used: the announcement date and the outcome date. The evidence indicates that increases in the probability of a merger benefits the stockholders of target firms, and that decreases in the probability of a merger injures the stockholders of both target and bidding firms. These results are consistent with the hypothesis that the target firms have unique resources that are sources of synergistic gains. Most of the gains from a merger go to stockholders of the target firms, with the stockholders of the successful biddings firms earning little if any return, which suggests that the bidder market is competitive and that the source of synergy is unique to the target firms.

Malatesta (1983) reports that the long-run wealth effect of the event sequence culminating in a merger is significantly negative for acquiring firms. For acquired firms, the effect is not significant. However, the immediate impact of a merger is positive for acquired firms, but negative for acquiring firms. The evidence also indicates that measured abnormal rates of return to acquiring firms are sensitive to a slight variation in model specification and dependent on firm size, with smaller firms earning significantly negative post-merger returns.

Jensen and Ruback (1983) summarised that corporate takeovers produce positive gains, that target firm shareholders benefit, and that bidding firm shareholders do not lose. The gains produced by corporate takeovers do not seem to come from the production of market power. Except for actions that exclude potential bidders, managerial actions related to

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6 Bank Negara Malaysia press release entitled, *Consolidation of Domestic Banking Institutions* dated 14 February 2000. (*http://wwww.bnm.gov.my/pa/2000/1402.htm.htm*). The 10 anchor banks and their respective group members are listed in Appendix 1.

7 Bank Negara Malaysia press release entitled, *Tax Incentives for the Merger Programme for Domestic Banking Institutions* dated 31 July, 2000. (*http://wwww.bnm.gov.my/pa/2000/3107.htm.htm*).

8 Bank Negara Malaysia press release entitled, *All Banking Institutions have Successfully Signed the Sales and Purchase Agreements* dated 1 September, 2000. (http://wwww.bnm.gov.my/pa/2000/0109.htm.htm).

corporate control that injure shareholders are difficult to find.

Bradley *et al.* (1983) investigated the rationale behind interfirm tender offers through an examination of the returns realised by the stockholders of successful and unsuccessful targets. The results indicate that the permanent positive revaluation of the unsuccessful target shares is due mainly to the emergence of and/or the expectation of another bid that would ultimately lead to the transfer of control of the target resources. The rejection of a tender offer is also found to have differential effects on the share prices of the unsuccessful bidding firms, depending upon whether the tender offer process results in a change in the control of target resources. They conclude that tender offer acquisitions are aimed at exploiting potential synergies, and not due to possession of superior information on the true value of the targets.

Of particular relevance to the current work is the study by Dodd (1980) who studied market reaction to a merger process. Dodd finds that there is a large and rapid positive market reaction to the first public announcement of a merger proposal. Evidence is provided on market reaction to the announcement and subsequent acceptance or rejection of merger proposals. Subsequently, there is a positive market reaction to the approval of completed proposals and a negative market reaction to cancelled proposals. In cases where proposals are vetoed by incumbent target management, there is a negative market reaction to the veto, but this outcome does not erase the earlier positive reaction to the initial announcement. This indicates the existence of a permanent revaluation of the target shares on the first announcement itself. However, when the proposal is voluntarily cancelled, the target stock price falls back to the proposal level.

Franks and Harris (1989) examined the effects of over 1,800 UK takeovers on shareholder wealth in the period 1955-1985. It is shown that around the date of the merger announcement, targets gain 25-30 per cent, and bidders earn zero or modest gains. These gains to target companies are considerably higher than US target gains. However, when tender offer samples are specifically analysed, it is found that gains to the UK targets are similar to those in the US, indicating that wealth effects of takeover are comparable in the two countries.

In the local scene, Mansor and Lim (1993) conducted an empirical study on synergistic gains from corporate acquisitions in Malaysia by studying the share price reactions of the firms as a performance measure at the time of announcement. Their findings indicate that both acquiring firms and acquired firms gain on the announcement of the merger. They also documented that gains to target firms are more than gains to acquirers. These gains are retained in the successful targets on announcement of outcome. In contrast, unsuccessful targets lose all their announcement gains upon the outcome being known. They conclude that these results are consistent with synergistic gains hypothesis as opposed to the information effect hypothesis.

4. Data and Methodology

Our sample consisted of all the affected banks mentioned in each event date. Although 10 anchor banks were finally approved by the Central Bank at the completion of the merger programme, some of these were not known at the beginning. For instance, only eight banks were speculated to be the anchors in the first two announcement dates. It became six when it was first announced by the Central Bank in the third event date, but in the final stage

Table 1: Banks included in the study

Name of Bank	Listing Entity	First date: 23 Jan 1999	Second date: 11 June 1999	Third date: 29 July 1999	Fourth date: 14 Feb 2000
Arab Malaysia Bank	AMHB	/	/	0	/
Bumiputera-Commerce Bank	CAHB	/	/	/	/
EON Bank	EON Capital	0	0	0	/
Hong Leong Bank	Direct listing	/	/	0	/
Malayan Banking Berhad	Direct listing	/	/	/	/
Multi-Purpose Bank	MPHB	0	0	/*	/
Oriental Bank Berhad	MIDFB	/	/	0	0
Perwira Affin Bank	AHB	/	/	/	/
Public Bank Berhad	Direct listing	/	/	/	/
Rashid Hussin Bank	RHBCB	/	/	0	/
Southern Bank Berhad	Direct listing	0	0	/	/
Total banks		8	8	6	10
Sample size in the study		8	8	5	10

* Dropped from the sample due to inactive trading.

(fourth event date) 10 anchor banks were approved. Since the number of banks involved was quite limited, all relevant banks were include in each of the announcements, except for the third announcement where one bank was excluded due to data problem resulting from other events taking place in the company at the same time period. The banks included in this study are shown in Table 1.

The daily closing share prices of the sample banks and the KLSE Composite Index (KLCI) were obtained from the Bloomberg Financial News' stock data bank for a period of twenty trading days before and after each of the announcement days. Information on dividends and capital changes were collected from the KLSE *Investors Digest*.

The study period was set from the beginning of 1999 until end of 2000. This period covered the first official announcement of the merger programme by the Central Bank until the final formation of the banking groups.

This study looked at price reaction around important press announcement dates of the merger process. Since banking consolidation was an important economic agenda, especially during the recuperating period of the financial crisis, it would be expected that many announcements, news and information would be available in the market. For purposes of this study, we searched two main sources of market information for new announcements. A widely circulated daily newspaper, *The New Straits Times,* was one while other was the Central Bank website. Based on public records, the first announcement on banking sector reforms was recorded in early 1999. We also searched our sources for one full year prior to the first announcement to ensure that there was no earlier announcement on this matter. The focus of this study was on four announcements that contained significant information on bank mergers.

4.1. Study of Announcements

First Announcement: 23 January 1999

The first event date taken was 23 January 1999 where there was an announcement entitled "RHB Capital Bhd revises deal to acquire Sime Bank Bhd". The announcement mentioned that RHB Capital Bhd, one of the major players, had signed a revised sales and purchase agreement for its acquisition of a 90.36 per cent equity in Sime Bank Bhd. Less than a month later, on 20 February 1999, the daily newspaper carried a news feature entitled, "Mergers can help banks deal better with problems". The article reported views from the finance community on the urgency of the bank mergers, and urged the Central Bank to take a bolder role to lead the process. The eight banks that constituted our sample were mentioned in this feature article. In view of their close proximity, a decision was made to extend the analysis of the first announcement to cover both dates.

Second Announcement: 11 June 1999

The second event date studied was 11 June 1999 where the headline read as "Daim wants to see more bank mergers". In this article, the finance minister mentioned that there could be eight private banks who would act as anchor banks in the merger exercise.

Third Announcement: 29 July 1999

The third event date studied was 29 July 1999. In this announcement, a clearer strategy on the merger exercise was revealed. This is the first time the Central Banks specifically and officially announced that the government was undertaking a programme to consolidate the existing 21 commercial banks, 25 finance companies and 12 merchant banks into just six financial groups. No names were specifically mentioned in this announcement. The Central Bank deemed it fit for the banking community to negotiate freely with potential partners and decide among themselves on the leaders of the pact. However, it was subsequently learnt that the six potential anchors had been identified (see footnote 4). September 1999 was set as the deadline for the banks to submit merger proposals to the Central Bank for approval.[9]

Fourth Announcement: 14 February 2000

The fourth event date was the date of the announcement by the Central Bank that it had approved the formation of ten banking groups and their respective anchors. The Central Bank also set a new set of deadlines for the conclusion of the process (see Appendix 1).[10]

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[9] However, the banking industry was not agreeable to the formation of only six groups and appointment of the six anchor banks. On 20 October, 1999 the Central Bank announced revision of the terms of mergers giving freedom to the banks to form their own groups.

[10] Subsequent to this, a tax incentive was announced on 31 July 2000. Later, on 1 September 2000, it was announced that all sales and purchase agreements had been concluded.

4.2. Returns Analysis

The holding period return formula was used to derive the daily return for security *j*,

$$R_{jt} = \frac{P_{jt} - P_{j(t-1)} + D_{jt}}{P_{j(t-1)}} \tag{1}$$

where

P_{jt} = closing price for stock *j* at day *t*,
$P_{j(t-1)}$ = closing price for stock *j* at day *t*-1; and
D_{jt} = dividend for stock *j* at ex-date *t*

All daily closing prices were adjusted for capital changes and cash dividends. Information on capital changes and cash dividends were extracted from the KLSE *Investors Digest*. Daily return on the KLCI was used as a surrogate for market portfolio return.

The market-adjusted model was used to derive the abnormal return and the cumulative abnormal return for 20 trading days before and 20 days after the announcement day. This model was deemed suitable for the current study as it avoided the need to estimate parameters outside the long 'event' window if the more common risk-adjusted models were to be used. Further, this model also avoided the complications of a small sample and infrequent trading associated with our stock prices. Market-adjusted abnormal return was calculated as follows:

$$\text{Abnormal return, } AR_{jt} = \text{Actual return} - \text{Market return}$$
$$AR_{jt} = R_{jt} - R_{mt} \tag{2}$$

where

R_{jt} = realised return for security *j* on day *t*; and
R_{mt} = realised return on KLCI on day *t*

Event date was defined as day 0. The abnormal returns which were calculated using equation (2) were then averaged across the samples in day *t* to form a portfolio return (AR_t) using the following equation:

$$AR_t = \frac{\sum_{j=1}^{N} AR_{jt}}{N} \tag{3}$$

where *N* is the number of securities in the sample portfolio. A statistical significance test of AR_t was then employed to determine the standardised abnormal returns, with *N*-1 degrees of freedom, for all the securities in the portfolio at day *t*, defined as

$$\hat{AR}_{jt} = \frac{AR}{S_t(AR_j)} \tag{4}$$

where $S_t\,(AR_j)$ is the estimated standard prediction error of the abnormal return for security j on day t, given by:

$$S_t\,(AR_j) = \frac{S}{\sqrt{N}} \tag{5}$$

where

S = standard deviation of the sample

N = sample size

Besides computing the average abnormal return (AR_t), the cumulative daily abnormal return for the securities was aggregated throughout the particular portfolio (CAR_t) within the event period, that is, day -20 to day +20 relative to the event date (day 0), as follows:

$$CAR_t = \sum_{j=1}^{t} AR_{jt} \tag{6}$$

4.2 Direct versus Indirect Listing

It should also be noted that almost half of our sample was directly listed entities, while the rest indirectly listed. This situation could have implications on the extent of price reaction of the listed banks. For example, if the bank to be consolidated is a 60 per cent subsidiary of a listed company, theoretically only 60 per cent of the actual change in the bank's market value will be transmitted to the share price of the holding company. Further, the impact on the share price will even be smaller if the holding company also has other active subsidiaries. In order to provide some form of sensitivity analysis on this conjecture, our samples were divided into two sub samples: the directly listed versus the indirectly listed banks. We should expect the price reaction of the two sub samples to be in the same direction, but of a different magnitude.

5. Results

As mentioned in the previous section, this study focused on share price movements around four announcement dates related to the bank merger process. The results are presented according to the sequence of the announcement dates. To provide additional insights, results comparing the directly listed banks against the indirectly listed ones (those listed through a holding company) are also presented.

5.1 First Announcement : 23 January 1999

The announcement on *RHB Capital Bhd revises deal to acquire Sime Bank Bhd* on 23 January was taken as the first event date for this study. Although this announcement only concerned two individual banks, and may not be appropriate to be considered as an industry event, we felt that this news was sufficiently significant to affect the sentiment of the banking industry. The banking industry had been badly bashed in the crisis, and in its aftermath market talks were rife on the impending merger directives from the authorities. The

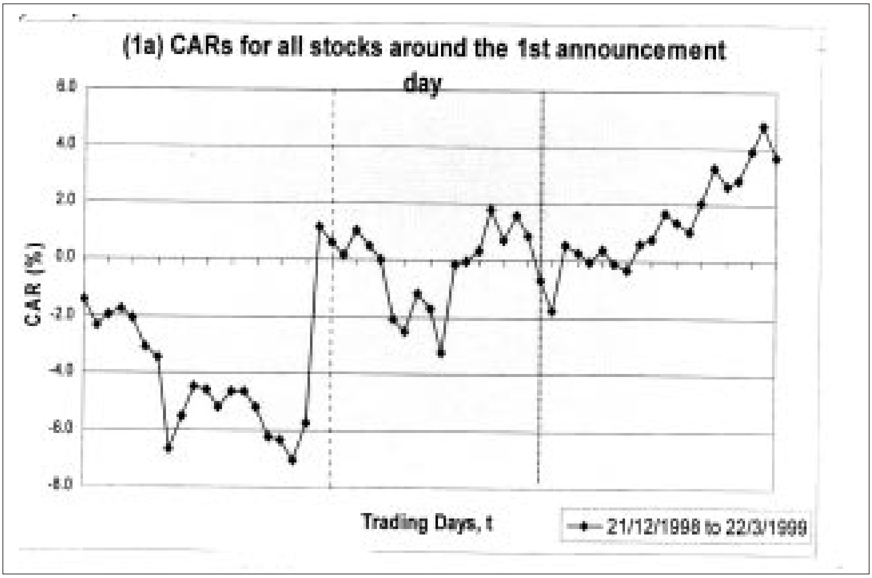

Figure 1(a): *CARs for all stocks around the 1st announcement*

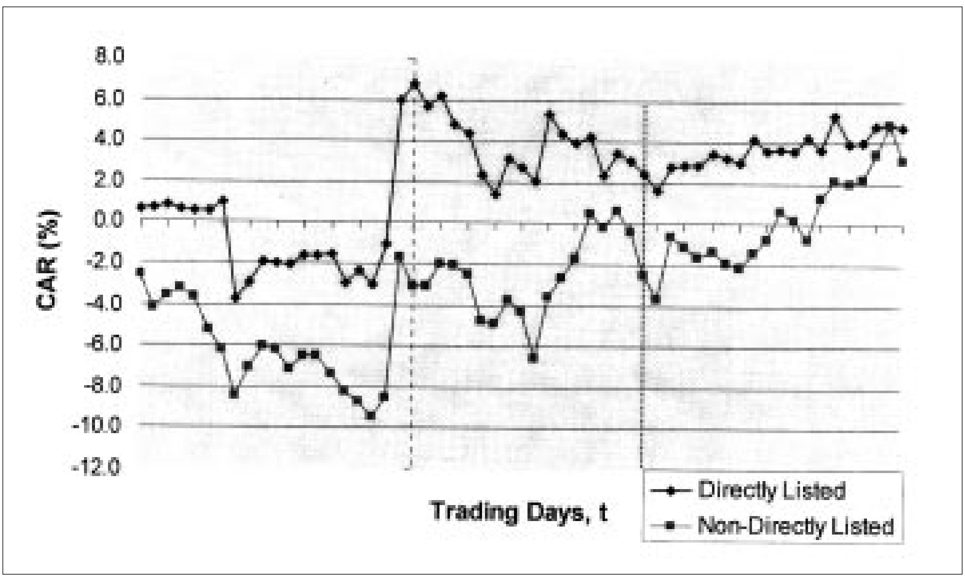

Figure 1(b): *Comparison of the CARs between the directly and the non-directly listed stocks*

announcement was therefore directly related to the bigger picture of industry consolidation. This announcement was followed, about a month later, by a feature article stressing the urgency of bank mergers. This article, published on 20 February 1999 (day +16), had the following headline, *Mergers can help banks deal better with problems.*

Table 2(a): Abnormal returns analysis for the whole sample (N=8) around the first announcement: 23 January 1999

Day	Abn Ret	*t*	CAR	Day	Abn Ret	t	CAR
-20	-1.4067	-1.2251	-1.4067	21	-0.3156	-0.8660	-0.0113
-19	-0.9270**	-2.0628	-2.3337	22	0.4090	1.2123	0.3977
-18	0.3769	0.7257	-1.9568	23	-0.4706	-1.1838	-0.0729
-17	0.1973	0.4010	-1.7595	24	-0.2290	-0.5457	-0.3019
-16	-0.3350	-0.5616	-2.0945	25	0.9047	1.8413	0.6028
-15	-0.9794**	-2.0001	-3.0740	26	0.1876	0.4354	0.7904
-14	-0.4299	-0.9906	-3.5038	27	0.9078	1.4459	1.6982
-13	-3.1647	-1.5853	-6.6685	28	-0.3319	-0.4062	1.3663
-12	1.1286	0.9369	-5.5399	29	-0.3355	-0.6393	1.0308
-11	1.0586**	2.6959	-4.4814	30	1.0559	1.1216	2.0867
-10	-0.1297	-0.1605	-4.6111	31	1.2005**	2.7722	3.2873
-9	-0.6091	-1.4017	-5.2203	32	-0.6485	-0.9207	2.6387
-8	0.5410	0.7995	-4.6793	33	0.2114	0.4695	2.8501
-7	0.0054	0.0090	-4.6739	34	1.0341	1.2035	3.8842
-6	-0.5105**	-2.0200	-5.1844	35	0.9403	1.1168	4.8245
-5	-1.0364**	-2.4910	-6.2208	36	-1.1542	-1.4289	3.6704
-4	-0.1261	-0.3736	-6.3469				
-3	-0.6639	-1.1599	-7.0108				
-2	1.2633	1.6194	-5.7475				
-1	6.9184***	4.3326	1.1708				
0	-0.5649	-0.7709	0.6060				
1	-0.4039	-0.9099	0.2021				
2	0.8511	1.3881	1.0532				
3	-0.5414	-0.9325	0.5118				
4	-0.4637	-1.4800	0.0481				
5	-2.1306**	-2.8700	-2.0825				
6	-0.4477	-0.7594	-2.5303				
7	1.3909	1.7027	-1.1393				
8	-0.5689	-1.0178	-1.7083				
9	-1.5411**	-2.4226	-3.2494				
10	3.0952***	3.3962	-0.1542				
11	0.1367	0.1382	-0.0175				
12	0.3900	0.6205	0.3725				
13	1.4344	1.0259	1.8069				
14	-1.0944	-1.5834	0.7125				
15	0.8976***	3.3062	1.6101				
16	-0.7474	-1.3854	0.8627				
17	-1.5655**	-2.7724	-0.7027				
18	-1.0542**	-2.4603	-1.7569				
19	2.3258**	3.2154	0.5689				
20	-0.2646	-0.6303	0.3043				

Notes:
Abn ret refers to abnormal returns.
Returns are in percentages.
Day 0 is the press announcement day (the *New Straits Times* daily)
*, **, *** denote significance at 10 per cent, 5 per cent and 1 per cent respectively.

Table 2(b): Comparison of the abnormal returns between directly listed (N=3) and non-directly listed (N=5) banks around first announcement day: 23 January 1999.

	Directly listed banks			Non-directly listed banks		
Day	Abn Ret	*t*	CAR	Abn Ret	*t*	CAR
-20	0.5951	0.2235	0.5951	-2.6077**	-3.3577	-2.6077
-19	0.0821	0.1443	0.6772	-1.5325**	-3.2380	-4.1403
-18	0.1172	0.2894	0.7945	0.5328	0.6413	-3.6075
-17	-0.1594	-0.3673	0.6350	0.4113	0.5353	-3.1962
-16	-0.1098	-0.2799	0.5252	-0.4702	-0.4854	-3.6664
-15	0.0100	0.0293	0.5352	-1.5731*	-2.4832	-5.2395
-14	0.4318	0.7063	0.9671	-0.9469	-1.9452	-6.1863
-13	-4.7072**	-4.4464	-3.7402	-2.2392	-0.6994	-8.4256
-12	0.7910	0.3519	-2.9491	1.3311	0.8385	-7.0944
-11	1.0491*	3.0080	-1.9000	1.0642	1.6929	-6.0302
-10	-0.1061	-0.2211	-2.0061	-0.1439	-0.1084	-6.1741
-9	-0.0337	-0.0416	-2.0399	-0.9544	-1.9000	-7.1285
-8	0.4175	1.2209	-1.6223	0.6150	0.5516	-6.5135
-7	0.0121	0.0193	-1.6102	0.0013	0.0014	-6.5121
-6	0.0806	0.3781	-1.5296	-0.8652**	-3.0330	-7.3773
-5	-1.3877*	-2.5373	-2.9173	-0.8257	-1.3660	-8.2030
-4	0.5557	1.2691	-2.3616	-0.5351	-1.3835	-8.7381
-3	-0.6186	-1.8733	-2.9802	-0.6911	-0.7349	-9.4292
-2	1.9011	1.0553	-1.0791	0.8806	1.1070	-8.5486
-1	7.0666	1.9778	5.9874	6.8294**	3.7571	-1.7191
0	0.7925	1.4218	6.7800	-1.3793	-1.4021	-3.0984
1	-1.0810	-1.8277	5.6990	0.0024	0.0042	-3.0960
2	0.4601	0.3205	6.1590	1.0857	1.7218	-2.0103
3	-1.3267	-1.6120	4.8323	-0.0703	-0.0913	-2.0805
4	-0.4804	-1.4798	4.3519	-0.4537	-0.9200	-2.5342
5	-1.9929	-0.8970	2.3590	-2.2133***	-9.2106	-4.7474
6	-0.9733	-2.2198	1.3857	-0.1324	-0.1437	-4.8798
7	1.7532	0.8816	3.1389	1.1735	1.4548	-3.7063
8	-0.4643	-0.5510	2.6746	-0.6474	-0.7558	-4.3537
9	-0.6403	-0.7944	2.0343	-2.2166*	-2.5829	-6.5704
10	3.2918	1.6336	5.3261	2.9476**	3.1785	-3.6227
11	-0.9737	-0.6972	4.3524	0.9695	0.7012	-2.6532
12	-0.3950	-0.5956	3.9575	0.9788	1.0356	-1.6745
13	0.2669	0.3185	4.2244	2.1349	0.9610	0.4604
14	-1.8600	-1.9626	2.3644	-0.6350	-0.6594	-0.1746
15	1.0659	1.8592	3.4303	0.7966*	2.5070	0.6220
16	-0.3235	-0.3700	3.1068	-1.0018	-1.3601	-0.3797
17	-0.6614	-0.8942	2.4454	-2.1079	-2.8887	-2.4876
18	-0.8482	-0.8934	1.5972	-1.1777*	-2.4376	-3.6653
19	1.1504	0.8579	2.7476	3.0310**	3.9329	-0.6344
20	0.1296	0.1155	2.8772	-0.5011	-1.7956	-1.1355

Table 2(b) Continued

	Directly listed banks			Non-directly listed banks		
Day	Abn Ret	*t*	CAR	Abn Ret	*t*	CAR
21	-0.0238	-0.0326	2.8535	-0.4906	-1.1195	-1.6261
22	0.5977	1.0603	3.4512	0.2957	0.6382	-1.3304
23	-0.2077	-0.6859	3.2434	-0.6283	-0.9954	-1.9587
24	-0.2541	-1.1442	2.9894	-0.2139	-0.3094	-2.1726
25	1.1346	1.7482	4.1239	0.7667	1.0465	-1.4058
26	-0.5654	-0.8909	3.5585	0.6394	1.2469	-0.7664
27	0.0984	0.3891	3.6570	1.3933	1.4470	0.6269
28	-0.0836	-0.0803	3.5734	-0.4808	-0.3888	0.1461
29	0.6843*	2.9239	4.2577	-0.9474	-1.3330	-0.8013
30	-0.6177*	-2.5211	3.6400	2.0600	1.5391	1.2587
31	1.6973	1.7930	5.3373	0.9025*	2.0329	2.1612
32	-1.3797***	-9.4807	3.9577	-0.2098	-0.1873	1.9514
33	0.0859	0.2266	4.0435	0.2867	0.3973	2.2381
34	0.7374	0.6362	4.7809	1.2121	0.9456	3.4502
35	0.0743	0.0691	4.8552	1.4600	1.2090	4.9101
36	-0.1137	-0.0755	4.7415	-1.7784	-1.8899	3.1317

Notes :
Abn ret refers to abnormal returns.
Returns are in percentages.
Day 0 is the press announcement day (the *New Straits Times* daily)
*, **, *** denote significance at 10 per cent, 5 per cent and 1 per cent respectively.

Table 2(a) presents the return analysis for the total sample and Figure 1(a) shows the graph for the CARs. Overall the results show an increasing trend of the CAR beginning from a few days of the announcement. The biggest jump took place on day –1 with an average abnormal return of 6.92 per cent (significant at 1 per cent level). It is interesting to note that prior to day –1, the CAR was in negative territory indicating that the industry was not expecting the announcement. Although this announcement was for only one bank, it appears to have a strong contagion effect. This is shown by the majority of our sample experiencing abnormal returns. On day –1: RHBC 10.10%, PBB 9.90%, MIDF 9.02%, HLBB 11.33%, CAHB 7.99% and AHB 7.21% while the other two banks registered a small loss: MBB (0.032%) and AMHB (0.18%).

After the announcement there was strong upward trend of prices especially after the feature article that appeared about a month later. Taking the window as a whole there was an abnormal gain of 3.67 per cent in banks stocks over the 57–day trading period. However, from the announcement date, the cumulative gain was 9.42 per cent.[11]

[11] On day +10, the abnormal return rises to a significant return of 3.10 per cent (significant at 5 per cent level). This substantial increase in the abnormal return is probably caused by the announcement on the day that *Commerce-Asset and BBMB had merged – new entity emerges as nation's second biggest banking group*.

Comparing the two announcements which occurred within a period of 17 business days, it can be seen that there was stronger market reaction towards the first announcement compared to the second announcement. The lackluster reaction during the second announcement (on day +16) could be due to the fact that the announcement was rather general and hence did not give much impetus for the market to react.

Table 2(b) shows the comparison of CARs between directly listed samples and indirectly listed samples. The corresponding graphs combining both the return analysis are presented in Figure 1(b). The overall results showed a similar pattern with those in Table 1(a). The dominance of day –1 price jump was evident in both sub samples. The movements of the CARs were also similar, except for the starting abnormal return on day –20. Overall, the directly listed banks chalked a higher abnormal return of 4.74 per cent, compared to the indirectly listed banks with 3.13 per cent. This is to be expected since the impact of the announcement constitutes less than 100 per cent on the share price of the holding companies, depending on the percentage owned and the extent of contribution of the banks to the overall profit of the holding company.[12]

5.2 Second Announcement : 11 June 1999

The second announcement carried the headline *Daim wants to see more bank mergers*. This was considered a significant announcement because the Finance Minister affirmed market talks on the banking consolidation process. Table 3(a) presents the return analysis for the total sample, and Figure 2(a) shows the CAR. The results show a downward drift in the CAR prior to the announcement from day –20 until about day –5. A strong upward movement in the share prices was seen after the announcement. The abnormal return during the 20–day pre-announcement period was –4.96 per cent. After the announcement, the CAR gained 6.24 per cent. However, there was no significant change in prices around the announcement days (day –1 to day +1). However, on day +6, abnormal return was highest at 2.38 per cent (significant at 1 per cent level). The continuous upward movement from day +6 to +11 may be caused by the following announcements related to the banking industry:

1. day +5: news headline: *AMMB posts RM252 million operating profit for FYE 31/3/99*, and *Affin-BSN merger by March next year*.
2. day +8: news headline: *Agreement reached on BBMB sale*.
3. day +9 news headline: *More banks enter into merger talks, says Ali Abul Hassan Sulaiman*.
4. day +13, news headline: *RHB and Sime Bank merger today.*

Table 3(b) compares the directly listed banks against the non-directly listed ones. Figure 2(b) shows the corresponding graphs for the CARs. Interestingly the two sub samples appear to be behaving quite differently in this announcement window. While the directly listed banks did not seem to show much reaction, the holding companies demonstrated rather wild

[12] Our data show that as at January 1998, the percentages held by the holding companies were as follows : ABB 100 per cent, BCB 100 per cent, RHB 70 per cent, AMBB 100 per cent, ABB 53 per centand OBB 75 per cent. In addition, most of these banks do not contribute 100 per cent to the revenue of their holding companies. For instance, ABB contributed only 55 per cent of the revenue of AHB, RHB contributed 84 per cent of the revenue of RHBC and BCB contributed 71 per cent of the revenue of its holding company.

Table 3(a): Abnormal returns analysis for whole sample (N=8) around second announcement: 11 June 1999.

Day	Abnormal Returns	*t*	CAR
-20	0.5645	0.9380	0.5645
-19	-2.2754***	-4.8071	-1.7109
-18	0.4836	1.0358	-1.2273
-17	-0.1956	-0.2479	-1.4229
-16	-1.0009	-1.5116	-2.4238
-15	-1.5012	-1.5984	-3.9250
-14	-0.6824	-0.8273	-4.6075
-13	2.1816	1.7968	-2.4258
-12	-1.0311	-1.2380	-3.4569
-11	-0.1190	-0.4184	-3.5759
-10	-0.7650	-1.7581	-4.3409
-9	-0.9194	-1.4099	-5.2602
-8	0.9656	0.7467	-4.2946
-7	-0.5136	-0.9121	-4.8082
-6	-1.4559*	-1.9222	-6.2642
-5	0.6304	0.8889	-5.6338
-4	-0.4048	-0.8197	-6.0386
-3	0.6752	1.1674	-5.3634
-2	-0.3089	-0.5744	-5.6723
-1	0.7083	1.1194	-4.9640
0	-0.6414	-1.2968	-5.6054
1	0.2549	0.4238	-5.3505
2	-0.0717	-0.1941	-5.4222
3	1.4896	1.5566	-3.9325
4	-0.4938	-0.5827	-4.4263
5	0.0886	0.1474	-4.3377
6	2.3788***	3.4114	-1.9589
7	1.1335	1.3665	-0.8254
8	1.6465*	2.1558	0.8210
9	1.5852	1.5117	2.4062
10	0.9974	0.8974	3.4036
11	0.7192	0.8948	4.1228
12	-0.7166**	-2.4089	3.4062
13	-0.2626	-0.2882	3.1437
14	0.1694	0.2091	3.3131
15	0.3511	0.4202	3.6642
16	-0.0221	-0.0222	3.6421
17	-0.4043	-0.6448	3.2379
18	-1.3569*	-2.0107	1.8810
19	-0.1717	-0.3199	1.7093
20	-0.4316	-0.9590	1.2777

Notes :
Returns are in percentages.
Day 0 is the press announcement day (the *New Straits Times* daily)
*, **, *** denote significance at 10 per cent, 5 per cent and 1 per cent respectively.

Table 3(b): Comparison of abnormal returns between directly listed (N=3) and non-directly listed (N=5) banks around second announcement day: 11 June 1999

	Directly listed banks			Non-directly listed banks		
Day	Abn Ret	*t*	CAR	Abn Ret	*t*	CAR
-20	-0.8314	-1.6964	-0.8314	1.4021*	2.0356	1.4021
-19	-1.8144	-2.0595	-2.6458	-2.5520***	-4.3543	-1.1499
-18	-0.3626**	-5.8263	-3.0084	0.9913	1.4991	-0.1586
-17	0.8923	0.5182	-2.1161	-0.8483	-1.1241	-1.0069
-16	0.0263	0.0300	-2.0898	-1.6173	-1.8760	-2.6242
-15	0.1791	0.1693	-1.9108	-2.5093*	-2.0791	-5.1336
-14	-0.1332	-1.2724	-2.0440	-1.0120	-0.7482	-6.1455
-13	-0.7049	-0.8103	-2.7489	3.9136**	2.8383	-2.2319
-12	1.2098	1.1644	-1.5391	-2.3756**	-3.6966	-4.6076
-11	0.3481	0.5723	-1.1910	-0.3992	-1.5897	-5.0068
-10	-0.1256	-0.3497	-1.3166	-1.1486	-1.8315	-6.1554
-9	0.2360	0.6067	-1.0806	-1.6126	-1.7756	-7.7680
-8	-0.8119	-0.9932	-1.8925	2.0321	1.0531	-5.7359
-7	-0.4992	-0.7758	-2.3917	-0.5222	-0.5977	-6.2581
-6	0.1508	0.2080	-2.2409	-2.4200**	-2.6578	-8.6781
-5	-1.1118**	-3.4397	-3.3527	1.6756*	2.0811	-7.0025
-4	-0.0346	-0.0787	-3.3873	-0.6269	-0.8148	-7.6294
-3	0.8119	1.0495	-2.5754	0.5932	0.6837	-7.0363
-2	0.5311	0.7786	-2.0443	-0.8129	-1.1485	-7.8492
-1	0.5398	0.5658	-1.5044	0.8094	0.8825	-7.0397
0	-0.1159	-0.1109	-1.6203	-0.9567	-1.7733	-7.9964
1	0.0258	0.1203	-1.5945	0.3923	0.3950	-7.6041
2	0.2675	2.1918	-1.3270	-0.2752	-0.4654	-7.8793
3	-0.9962**	-3.5732	-2.3232	2.9811**	2.8983	-4.8981
4	0.3836*	2.8083	-1.9395	-1.0203	-0.7562	-5.9184
5	-0.1563	-0.2074	-2.0958	0.2356	0.2589	-5.6828
6	2.4186	1.9349	0.3228	2.3548*	2.4929	-3.3280
7	-0.2637	-0.2148	0.0592	1.9718	1.9656	-1.3562
8	1.1812	1.5272	1.2404	1.9256	1.6264	0.5694
9	0.5933	1.4700	1.8337	2.1804	1.3045	2.7498
10	-0.3321	-0.4186	1.5016	1.7951	1.0641	4.5449
11	-0.8850	-0.7784	0.6167	1.6817	1.8762	6.2266
12	-0.7382	-0.9813	-0.1215	-0.7036*	-2.5210	5.5229
13	-1.3298	-0.7420	-1.4513	0.3778	0.3624	5.9007
14	1.0327	0.6793	-0.4185	-0.3486	-0.3549	5.5520
15	-0.0440	-0.0734	-0.4626	0.5882	0.4373	6.1403
16	-1.2165	-1.3571	-1.6791	0.6946	0.4694	6.8349
17	0.0430	0.1009	-1.6361	-0.6726	-0.6732	6.1623
18	0.0344	0.0576	-1.6017	-2.1916**	-2.6131	3.9706
19	-0.9515	-0.9997	-2.5532	0.2962	0.4751	4.2668
20	0.3960	0.5257	-2.1572	-0.9282	-1.9244	3.3387

Notes :
Abn ret refers to abnormal returns.
Returns are in percentages.
Day 0 is the press announcement day (the *New Straits Times* daily)
*, **, *** denote significance at 10 per cent, 5 per cent and 1 per cent respectively.

Table 4(a): Abnormal returns analysis for whole sample (N=5) around third announcement: 30 July 1999

Day	Abnormal Returns	*t*	CAR
-20	-0.1774	-0.6061	-0.1774
-19	0.0776	0.0835	-0.0998
-18	-0.3353	-0.5797	-0.4352
-17	-0.2058	-0.5353	-0.6410
-16	-0.0961	-0.1300	-0.7371
-15	0.4465	0.8477	-0.2906
-14	1.7204	1.0422	1.4298
-13	-0.6923	-0.6418	0.7375
-12	-0.2692	-0.7306	0.4683
-11	-0.8535	-1.3870	-0.3852
-10	-0.5086	-0.8768	-0.8938
-9	-0.0516	-0.0716	-0.9454
-8	0.2365	0.2635	-0.7089
-7	-0.2808	-0.4842	-0.9897
-6	-0.0873	-0.1325	-1.0771
-5	0.6480	1.5049	-0.4291
-4	0.0823	0.0949	-0.3468
-3	-0.0080	-0.0086	-0.3548
-2	1.5436**	2.7774	1.1889
-1	0.7639	1.6619	1.9527
0	3.7417	1.9482	5.6945
1	-1.8661	-0.9627	3.8284
2	1.9769*	2.2878	5.8053
3	0.3332	0.4595	6.1385
4	-0.4705	-0.6297	5.6680
5	-0.4255	-0.2381	5.2425
6	-0.2790	-0.2342	4.9636
7	1.6443	1.1745	6.6079
8	2.2280	1.3771	8.8358
9	-0.0233	-0.0190	8.8125
10	1.1298	0.4832	9.9423
11	2.6880*	2.2181	12.6303
12	-0.7505	-1.0099	11.8798
13	0.1525	0.2262	12.0323
14	1.0557	0.8225	13.0880
15	-0.6615**	-3.9212	12.4265
16	-0.8547	-1.7022	11.5718
17	0.3978	0.4825	11.9697
18	0.3104	0.4181	12.2800
19	-0.4319	-0.8056	11.8481
20	-0.7626	-1.0952	11.0856

Notes:
Returns are in percentages.
Day 0 is the press announcement day (the *New Straits Times* daily)
*, **, *** denote significance at 10 per cent, 5 per cent and 1 per cent respectively.

Table 4(b): Comparison of abnormal returns between directly listed (N=3) and non-directly listed (N=2) banks around third announcement day: 30 July 1999.

	Directly listed stocks			Non-directly listed stocks		
Day	Abn Ret	*t*	CAR	Abn Ret	*t*	CAR
-20	-0.1669	-0.3124	-0.1669	-0.1932***	-31.9015	-0.1932
-19	-0.2731*	-2.6559	-0.4401	0.6037	0.2116	0.4105
-18	0.2130	0.4554	-0.2270	-1.1579	-0.9263	-0.7474
-17	0.1741	0.3781	-0.0530	-0.7756	-1.4134	-1.5230
-16	-0.9515	-0.9997	-1.0044	1.1870***	24.5773	-0.3360
-15	1.0833	1.6756	0.0788	-0.5086	N/A	-0.8447
-14	3.3660	1.4126	3.4448	-0.7480*	-3.0398	-1.5927
-13	0.7147	0.6415	4.1595	-2.8028*	-4.0081	-4.3954
-12	-0.4516	-0.7045	3.7079	0.0043	0.1984	-4.3911
-11	-0.6664	-0.8295	3.0415	-1.1342	-0.8649	-5.5253
-10	-0.9880	-1.1521	2.0536	0.2105	0.3863	-5.3148
-9	-0.9921	-2.1153	1.0615	1.3590	1.2291	-3.9558
-8	0.4919	0.3501	1.5534	-0.1466	-0.1067	-4.1024
-7	-0.7231	-0.8202	0.8303	0.3826	0.7001	-3.7198
-6	-0.3334	-0.2847	0.4969	0.2819***	99.4179	-3.4380
-5	0.0953	0.2647	0.5922	1.4769	2.6130	-1.9611
-4	0.2522	0.1608	0.8444	-0.1725	-0.8766	-2.1336
-3	0.5233	0.6410	1.3677	-0.8049	-0.3436	-2.9385
-2	1.7915*	2.4769	3.1592	1.1718	1.0321	-1.7667
-1	1.1796*	2.4123	4.3388	0.1403	0.1623	-1.6264
0	2.2479	0.8755	6.5867	5.9825	2.0231	4.3560
1	1.0853	0.8650	7.6721	-6.2932***	-14.7260	-1.9371
2	0.6268	1.6173	8.2988	4.0021**	9.4244	2.0649
3	1.0772	1.0466	9.3761	-0.7827***	-10.8791	1.2822
4	-0.8041	-1.0572	8.5719	0.0300	0.0162	1.3122
5	1.5821	1.9194	10.1540	-3.4368	-0.8936	-2.1246
6	1.0619	1.5914	11.2158	-2.2902	-0.9268	-4.4148
7	-0.0240	-0.0147	11.1919	4.1467*	3.8656	-0.2682
8	0.5244	0.4338	11.7163	4.7833	1.4482	4.5151
9	-1.2992**	-4.7491	10.4171	1.8904	0.6414	6.4056
10	0.1402	0.0541	10.5573	2.6143	0.4707	9.0199
11	3.1939	1.5133	13.7511	1.9292*	3.2001	10.9491
12	0.4106	1.0405	14.1618	-2.4922***	-870.2876	8.4569
13	-0.7081	-1.3048	13.4537	1.4435	1.5342	9.9004
14	0.7907	0.3548	14.2444	1.4531	1.2714	11.3534
15	-0.4821*	-2.8494	13.7623	-0.9307*	-3.3318	10.4228
16	-0.6835	-1.0501	13.0788	-1.1115	-1.0408	9.3113
17	0.7765	0.6319	13.8553	-0.1702	-0.1294	9.1411
18	0.9586	0.9598	14.8139	-0.6619	-0.6818	8.4792
19	-0.7344	-0.9447	14.0795	0.0218	0.0258	8.5010
20	-0.5075	-0.5539	13.5720	-1.5277	N/A	6.9734

Notes:
Abn ret refers to abnormal returns.
Returns are in percentages.
Day 0 is the press announcement day (the *New Straits Times* daily)
*, **, *** denote significance at 10 per cent, 5 per cent and 1 per cent respectively.

Table 5(a): Abnormal returns analysis for whole sample (N=10) around fourth announcement: 14 February 2000.

Day	Abnormal Returns	*t*	CAR
-20	1.8070	1.1310	1.8070
-19	0.2169	0.1426	2.0239
-18	-2.4703**	-3.0882	-0.4464
-17	-0.5191	-0.5772	-0.9655
-16	0.5421	0.7310	-0.4234
-15	0.1380	0.2628	-0.2854
-14	-0.2993	-0.3244	-0.5848
-13	1.4986	1.3121	0.9138
-12	-0.2899	-0.3905	0.6239
-11	-0.4622	-1.1547	0.1617
-10	0.0651	0.0632	0.2268
-9	0.6441	1.1304	0.8709
-8	-0.1645	-0.2212	0.7064
-7	0.3121	0.7351	1.0185
-6	1.1455	0.9639	2.1641
-5	-0.8126*	-1.9916	1.3515
-4	1.1814	0.7052	2.5329
-3	2.7078	1.6808	5.2407
-2	-1.0620	-1.2580	4.1787
-1	-0.4353	-1.2926	3.7434
0	0.3224	0.4465	4.0659
1	3.3684	1.6974	7.4342
2	-0.5834	-1.2408	6.8508
3	-0.3223	-0.4048	6.5285
4	-0.4666	-0.8756	6.0619
5	-0.3750	-1.0821	5.6869
6	-1.2791**	-2.9135	4.4078
7	-1.0812*	-2.1861	3.3265
8	0.0633	0.1036	3.3898
9	0.2268	0.5152	3.6166
10	-0.1553	-0.2917	3.4613
11	-0.5699	-1.1246	2.8914
12	1.0869	1.6916	3.9783
13	-0.1409	-0.2339	3.8374
14	0.9603	1.0609	4.7977
15	-0.3452	-0.5268	4.4525
16	-0.2005	-0.3247	4.2520
17	-0.9956	-1.0523	3.2564
18	0.3533	0.6268	3.6097
19	-1.3458	-1.3984	2.2639
20	0.2309	0.3349	2.4948

Notes:
Returns are in percentages.
Day 0 is the press announcement day (the *New Straits Times* daily)
*, **, *** denote significance at 10 per cent, 5 per cent and 1 per cent respectively.

Table 5(b): Comparison of abnormal returns between directly listed (N=4) and non-directly listed (N=6) banks around fourth announcement day: 14 February 2000.

	Directly listed banks			Non-directly listed banks		
Day	Abn Ret	*t*	CAR	Abn Ret	*t*	CAR
-20	-0.7831	-0.8941	-0.7831	3.5337	1.4597	3.5337
-19	1.1046	0.5209	0.3214	-0.3749	-0.1681	3.1589
-18	-2.2915	-1.1866	-1.9700	-2.5895***	-3.9923	0.5693
-17	-1.9867**	-4.2776	-3.9568	0.4594	0.3367	1.0287
-16	-0.5564	-0.6920	-4.5132	1.2745	1.2026	2.3031
-15	-0.1192	-0.1707	-4.6323	0.3094	0.3938	2.6125
-14	-1.2352**	-4.0557	-5.8675	0.3246	0.2130	2.9371
-13	0.3313	1.0207	-5.5362	2.2768	1.2052	5.2138
-12	-0.9560	-0.9119	-6.4922	0.1541	0.1460	5.3680
-11	-0.1328	-1.0072	-6.6250	-0.6818	-1.0169	4.6862
-10	1.3082*	2.7214	-5.3168	-0.7637	-0.4605	3.9225
-9	0.1959	0.6843	-5.1209	0.9429	0.9958	4.8654
-8	1.4406**	2.7858	-3.6803	-1.2345	-1.2475	3.6308
-7	-0.2842	-0.8166	-3.9644	0.7097	1.1038	4.3405
-6	-1.1739	-1.7444	-5.1383	2.6918	1.5915	7.0323
-5	-0.9801	-1.9591	-6.1185	-0.7009	-1.1179	6.3315
-4	3.0683	0.7206	-3.0501	-0.0765	-0.1247	6.2550
-3	0.9827	0.6998	-2.0675	3.8578	1.5326	10.1128
-2	-2.0011	-1.1794	-4.0686	-0.4359	-0.4903	9.6769
-1	-0.3724	-1.3377	-4.4409	-0.4772	-0.8594	9.1997
0	-0.2395	-0.2489	-4.6804	0.6970	0.6574	9.8967
1	3.4112	1.8062	-1.2691	3.3398	1.0363	13.2365
2	-0.8419	-1.2402	-2.1110	-0.4111	-0.6035	12.8254
3	0.9524	0.5970	-1.1586	-1.1722	-1.6204	11.6532
4	-0.5405	-0.8097	-1.6991	-0.4174	-0.5090	11.2358
5	-1.3710**	-3.1854	-3.0700	0.2890	1.1271	11.5248
6	-0.9414	-1.3064	-4.0115	-1.5042**	-2.5602	10.0206
7	-1.3566**	-2.8201	-5.3681	-0.8976	-1.1359	9.1229
8	-0.1611	-0.5909	-5.5293	0.2129	0.2051	9.3358
9	0.2238	0.6678	-5.3055	0.2288	0.3124	9.5646
10	0.7789	1.5321	-4.5266	-0.7781	-1.0465	8.7866
11	-0.0079	-0.0482	-4.5345	-0.9446	-1.1376	7.8420
12	0.7343	1.3833	-3.8002	1.3219	1.2615	9.1639
13	-0.1966	-0.3691	-3.9967	-0.1037	-0.1051	9.0602
14	-0.9581	-1.1604	-4.9548	2.2391	1.9147	11.2993
15	0.3499	0.7372	-4.6049	-0.8087	-0.7743	10.4907
16	0.4346	0.4587	-4.1703	-0.6239	-0.7481	9.8668
17	-1.2154*	-2.2229	-5.3857	-0.8490	-0.5311	9.0178
18	1.4617	2.1137	-3.9240	-0.3856	-0.5514	8.6322
19	-0.8301	-1.3021	-4.7541	-1.6897	-1.0566	6.9425
20	0.7333	1.2807	-4.0208	-0.1040	-0.0935	6.8385

Notes :
Abn ret refers to abnormal returns.
Returns are in percentages.
Day 0 is the press announcement day (the *New Straits Times* daily)
*, **, *** denote significance at 10 per cent, 5 per cent and 1 per cent respectively.

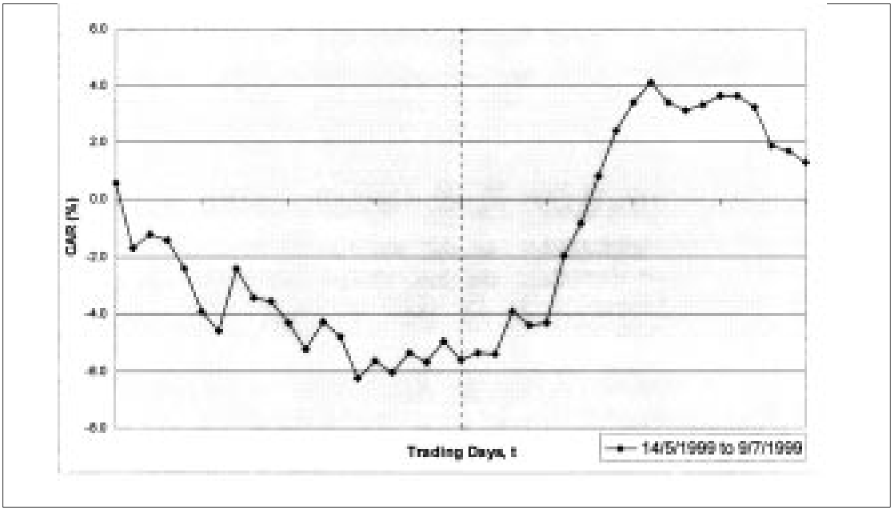

Figure 2(a): *CARs for all stocks around 2nd announcement day*

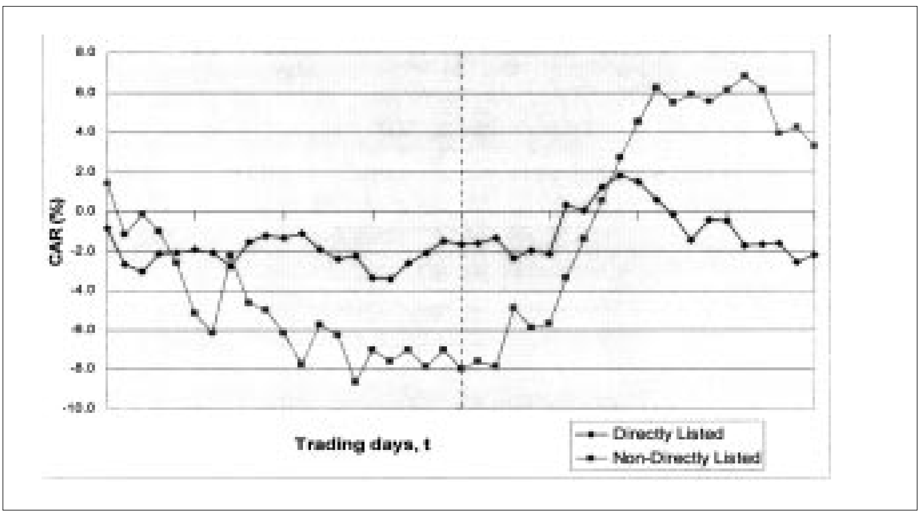

Figure 2(b): *Comparison of the CARs between directly and non-directly listed stocks*

movements, going downward in the period prior to the announcement, and surging upwards after the announcement. Again the behaviour may be attributed to the many subsequent announcements, as mentioned previouly, most of which were related to the holding companies. In fact, comparing across Figures 2(a) and 2(b), it can be seen that the whole sample behaviour was dominated by holding companies.

The positive reactions of the market to the second announcement is an indication that there could have been several uncertainties about the consolidation process and the market tended to resolve these uncertainties slowly as new information was made available.

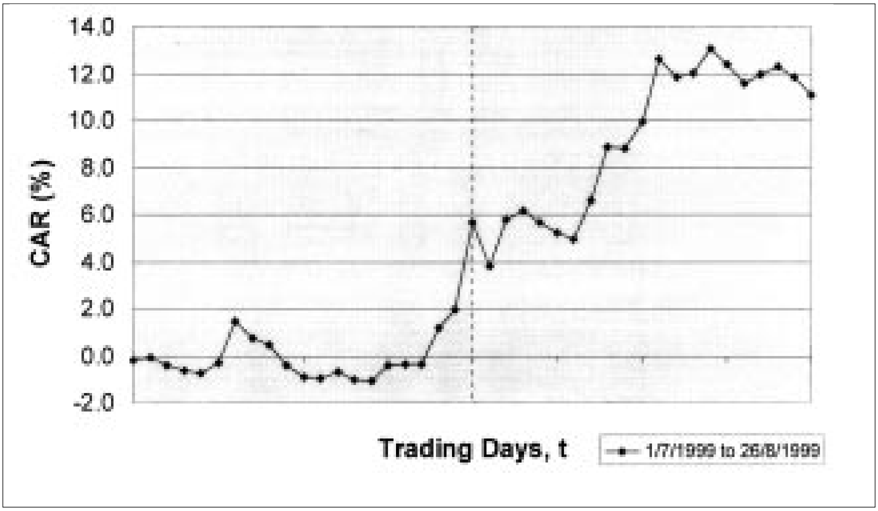

Figure 3(a): *CARs for all stocks around the 3rd announcement day*

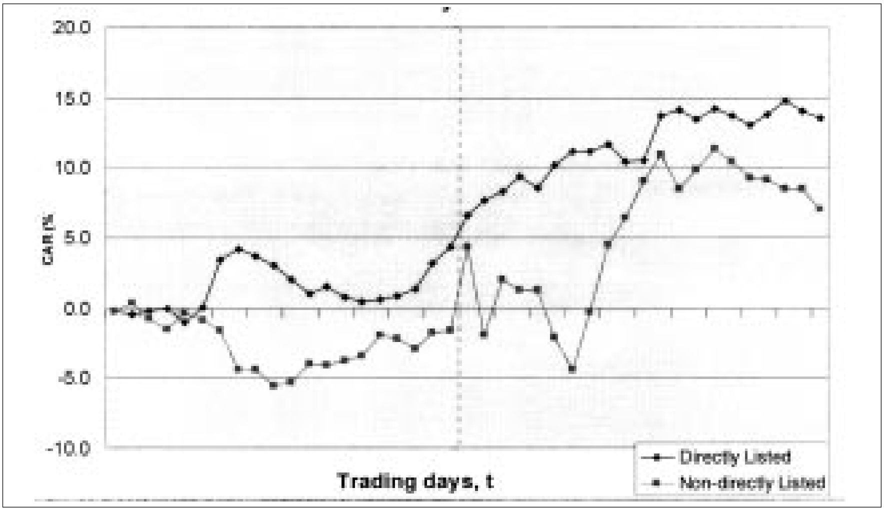

Figure 3(b): *Comparison of the CARs between directly and non-directly listed stocks*

5.3 Third Announcement : 29 July 1999

This was the first official announcement from the Central Bank stating that it is forcing a merger programme among local banking institutions. The objective of the programme was to consolidate the 21 commercial banks, 25 finance companies and 12 merchant banks in the country into six financial groups, led by six anchor banks. But one of the six banks was dropped from the sample due to inactive trading.

Table 4(a) presents the returns analysis for the total sample (consisting of five stocks).

Figure 4(a): *CARs for all stocks around 4th announcement day, 14 February 2000*

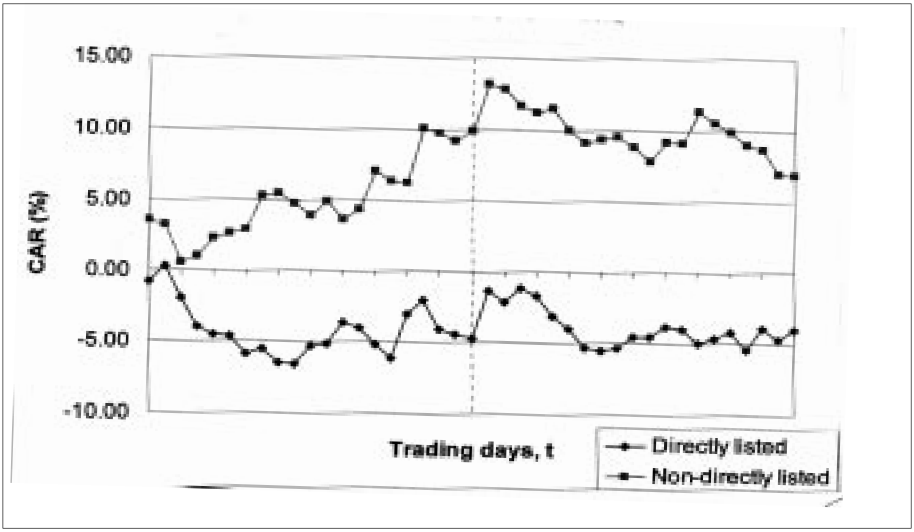

Figure 4(b): *Comparison of the CARs between directly and non-directly listed banks*

The table is complemented by Figure 3(a) which shows the graph for the CARs. The results show that there was an overall increase in the abnormal return for the whole event window of 41 days (abnormal return rose by 11.09 per cent at the end of the event window) with a more drastic upward movement during the post-announcement period. The 20-day pre-announcement period saw a gain of 1.95 per cent compared to a more substantial abnormal return of positive 9.29 per cent during the 20-day post-announcement period. For the three days surrounding the announcement day i.e. from day –1 to day +1, the abnormal return was a positive 2.64 per cent. From day –3 onwards, the CAR was on an upward trend. It appeared that the impact of the announcement continued to be felt during the post-announcement period until day +14 and subsequently, the abnormal returns began to subside. The continuous upward movement after day 0 may also be due to the following additional announcements on day +8: *Anchor banks selected based on synergy*, *incentives for banks involved in merger* and *no problems expected from the mergers*.

Table 4(b) presents returns analysis for the two sub samples, i.e. the directly listed stocks (MBB, PBB and SBB) and the holding companies for the anchor banks (AHB and CAHB). The graphs for the CARs are presented in Figure 3(b). In general, the behaviour of both CARs is quite similar except that the holding companies tended to be more erratic. The overall abnormal gain by the listed companies was 13.57 per cent while the holding companies gained only 6.97 per cent. This is to be expected because holding companies may not hold the entire shares of the bank in addition to having other business income. Hence only a proportion of the gain is transmitted into the shares of the holding companies.

5.4 Fourth Announcement: 14 February 2000

This announcement informed the market that the Central Bank had finally approved the formation of ten banking groups and the respective anchor banks. Of the ten, nine had been previously speculated, or mentioned. The one that was not previously mentioned was Eon Bank.

Table 5(a) shows abnormal returns for the total sample, while Figure 4(a) shows the graph of the CAR. It can be seen that there is a clear positive reaction of the market to the announcement. The upward movement in the prices began on day –10. It was slow in the beginning but picked up pace as announcement day drew near. The early reaction is understandable due to strong market attention to the process, and news may well have leaked out before the official announcement. However, there was a noticeable big jump in share prices on day 1. Interestingly about half of the gains prior and up to announcement day were lost several days after the announcement. On the whole, companies gained about 7.43 per cent over the 20-day period prior to the announcement, but lost about 5 per cent in the 20-day period after the announcement.

Table 5(b) shows the comparison between the directly-listed companies and those listed through their holding companies. The CARs are shown in Figure 4(b). It is clear from the graphs that the two group of companies behaved quite differently, especially in the days prior to the announcement. The CARs, up to announcement day for the indirectly listed shares, were 9.90 per cent while for the directly listed banks, it was a negative 4.68 per cent, creating a gap of almost 15 per cent. After the announcement, the CARs of both sub samples took a brief downward movement before going in a flat direction thereafter. Overall, the holding companies gained about 6.84 per cent, while the directly listed banks lost 4.02 per cent. The different behaviour between the two samples may be attributed to the emergence of banks previously not mentioned as anchor banks. All of these anchor banks had been listed via their respective holding companies. As for the directly listed banks, it may well be that the market had fully anticipated such results, and their prices had long taken this into account.

5.5 A Note on Market Efficiency

Market efficiency hypothesis stipulates that share prices fully reflect all available information. The semi-strong form efficiency says that the speed of price adjustment is instantaneous as information comes into the market. In order to provide some idea on the extent of market efficiency in the context of the bank merger exercise, we took a closer look at the affected banks as the process developed. Figures 5 (a) to (g) present a series of CARs that shows how the local market responded to the announcement.

Figure 5(a) shows the CAR of four banks[13] that had been speculated to be anchor banks and ultimately made it to the final ten. The graph shows price behaviour around the second announcement date, 11 June 1999, when the finance minister remarked on the bank merger programme in one of his press statements. Figure 5(b) shows the CAR of three banks[14] that had been speculated to be anchor banks, were later dropped by the Central Bank, but ultimately made it the final ten. It can be seen that both groups showed a positive reaction to the announcement, in about a similar fashion. As to why it takes a while for prices to move up may be due to the uncertainty and incompleteness of the information. In fact, the announcement did not mention the name of any of the anchor banks but the market began to speculate on the identity of these banks.

Figures 5(c) and (d) shows the CARs of the two groups which faced a somewhat different fate in the third announcement, 29 July 1999. In this announcement, the Central Bank announced there would only be six banking groups on completion of the consolidation process. Figure 5(c) shows that the earlier speculated banks were now confirmed as designated anchors. However, those in the second group were dropped from the potential anchor list. Accordingly, the market showed a positive reaction to the “chosen” banks and negative reaction to “those not chosen”. Again, it took several days before the market realised the situation and reacted. The fact is the Central Bank did not officially announce the identity of the six anchor banks in that announcement. The names actually came through market sources. To the extent that the market reacts differently according to the fate of these banks, it appears that the market is demonstrating its ability to efficiently process information.

Figures 5(e) and (f) look at the price behaviour of the same group of banks on 20 October 1999. Facing strong objections from the banking industry, on this day the Central Bank announced flexibility to the banking industry to form their own banking groups and to choose their own anchor banks. The sensitivity of the local market can be clearly seen from the differences in reaction from the two groups. Figure 5(e) shows a negative impact on the banks previously “appointed” as anchor banks, and now facing uncertainty on their status. On the other hand, Figure 5(f) shows that the market reacted positive to some banks not being appointed as anchor banks by the Central Bank. With this announcement, other banks now stood a fair chance of becoming anchor banks themselves. Again, the early price movements (12 days before the official announcement) may be attributed to the leakage of information to the market.

Finally, Figures 5(g) and (h) show price behaviour of both groups in the final announcement date, 14 February 2000. On this day the Central Bank announced its approval of ten banking groups, with all the banks in both samples being accorded anchor bank

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[13] These are AHB, CAHB, MBB and PBB.

[14] These are AMB, HLBB and RHBB.

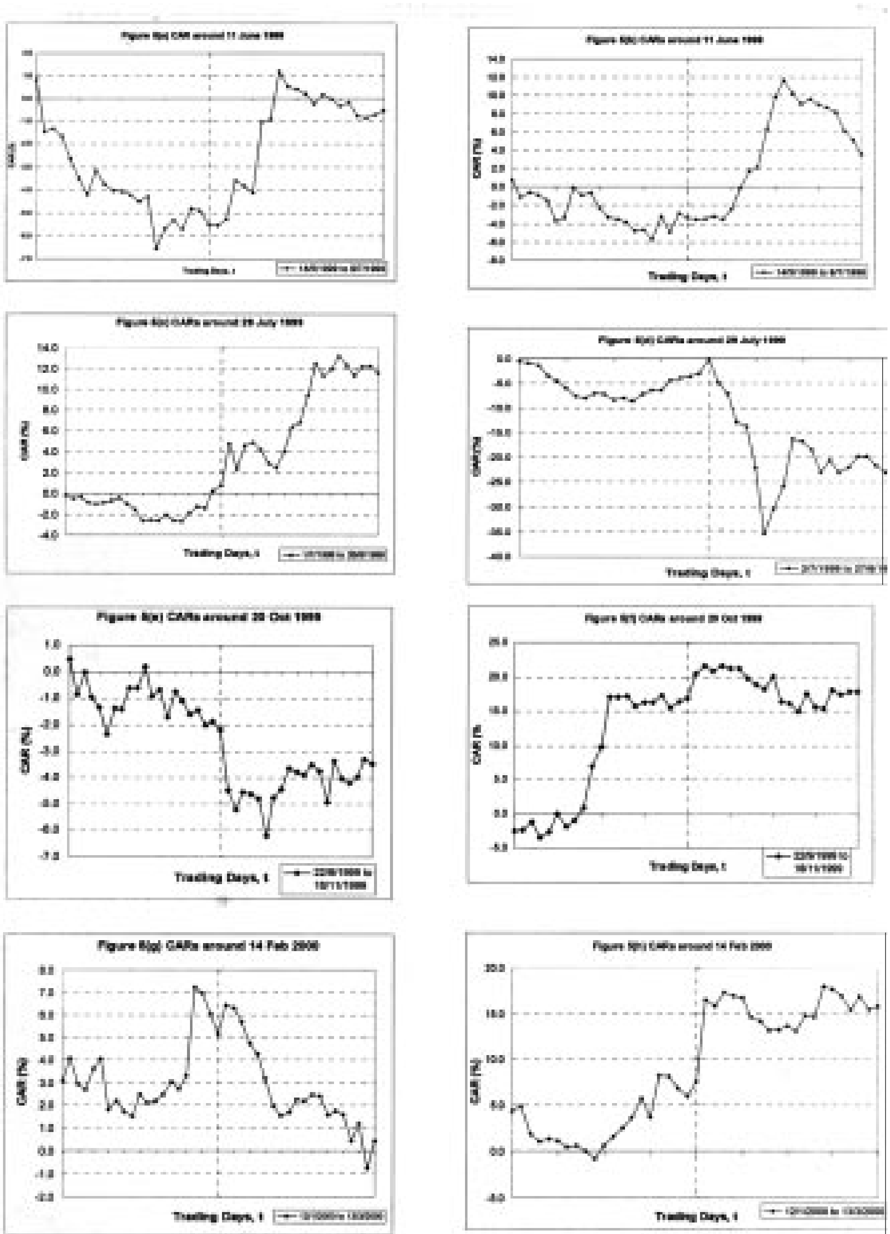

Figure 5: *Graphs of CARs for two groups of banks: Group 1 (left column) are those banks that were speculated to be the anchors (5a), appointed by the Central Bank (5c), then facing uncertainty (e), but later approved (5g). Group 2 (right column) were those that were speculated (5b), but not appointed (5d), then were told they stood a fair chance (5f), and later approved (5g).*

status. Figure 5(g) seems to indicate a positive reaction from the stalwarts of the banking industry, but all gains were lost a few days after the announcement. This indicates that this announcement is a "forgone conclusion" to these banks. Figure 5(h) on the other hand shows a clear positive reaction to the announcement indicating that this is a welcome development.

To conclude our observations on this section, it appears that the local market demonstrated a clear sign of market efficiency in processing information contained in various news items and announcements pertaining to the consolidation of the banking sector. Consistent with the theory of economic gains from the merger exercise, a positive, or negative reaction was appropriately observed.

6. Conclusion

This study investigated empirically share price reaction pursuant to the announcement of a merger programme that involved the entire banking sector in Malaysia, spanning a period from January 1999 to February 2000. The study focused on anchor banks that formed the nucleus of the resultant banking groups. Four relevant event dates were selected for analysis. The first two were news items that could be considered speculative in nature. The third and fourth were official announcements from the Central Bank on the merger process. This study utilised an event type analysis with the focus on abnormal price reaction to the announcements.

We found an overall positive market reaction to the announcement of the bank mergers, notwithstanding that the bank mergers were enforced by the Central Bank. The CARs for the four event dates for the 41-day event window stood at 3.67 per cent, 1.28 per cent, 11.09 per cent and 2.49 per cent respectively. Typically, substantial returns were mostly recorded on the day before the announcement followed by a slight market correction thereafter.

Our results also indicate much uncertainty in the banking merger process. However, the market appeared to react appropriately as these uncertainties were eventually resolved by the series of announcements studied. This explains the existence of positive returns from the first to the fourth announcements, as more information was made available to the market. Our observations on price reactions to the announcements also indicate the local market has attained a reasonable level of market efficiency in semi-strong form. The findings on positive market reaction on expectations of successful mergers and negative reaction on uncertainties of successful mergers present support for the presence of synergistic gains in the banking consolidation exercise.

Further, we also observed positive returns in the directly listed banks as well as in the holding companies of the unlisted banks. However, the returns were marginally lower in the case of holding companies compared to the directly listed banks. This is because the extent of the market reaction to the holding companies would depend on the amount of holding the parents have in the banks and the amount of contribution the banks provide to the profits of the holding companies.

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Appendix 1

Bank Negara Malaysia Press Release
Consolidation of Domestic Banking Institutions

14 February 2000

Tan Sri Dato' Seri Ali Abul Hassan bin Sulaiman, Governor, Bank Negara Malaysia (BNM) wishes to announce that BNM has studied carefully the merger proposals submitted by the domestic banking institutions in the context of a number of factors, including the following:

i. The need for a substantial reduction in the number of domestic banking institutions from the present number of 54 institutions;

ii. The need to structure the mergers in such a way so as to reap the maximum synergy from the merger so as to improve the profitability and efficiency of the proposed banking groups;

iii. The need to ensure minimal disruption in the provision of banking services following the rationalisation of branches and employees;

iv. The need to minimise post-integration costs that may otherwise affect the viability of the merged entity; and

v. The need to ensure that each banking group is of a sufficient size. In this regard, upon completion of the merger programme, each banking group will attain minimum shareholders' funds of RM2 billion and asset base of at least RM25 billion.

On the basis of the above parameters, approval has been granted for the formation of 10 banking groups, the selection of the anchor banks and their respective partners. The 10 banking groups are as follows:

Anchor Bank	Banking Institutions in Group
Malayan Banking Berhad	• Malayan Banking Berhad • Mayban Finance Berhad • Aseambankers Malaysia Berhad • PhileoAllied Bank Berhad • The Pacific Bank Berhad • Sime Finance Berhad • Kewangan Bersatu Berhad
Bumiputra-Commerce Bank Berhad	• Bumiputra-Commerce Bank Berhad • Bumiputra-Commerce Finance Berhad • Commerce International Merchant Bankers Berhad
RHB Bank Berhad	• RHB Bank Berhad • RHB Sakura Merchant Bankers Berhad • Delta Finance Berhad • Interfinance Berhad

Appendix 1 Continued

Anchor Bank	Banking Institutions in Group
Public Bank Berhad	• Public Bank Berhad • Public Finance Berhad • Hock Hua Bank Berhad • Advance Finance Berhad • Sime Merchant Bankers Berhad
Arab Malaysian Bank Berhad	• Arab-Malaysian Bank Berhad • Arab-Malaysian Finance Berhad • Arab-Malaysian Merchant Bank Berhad • Bank Utama Malaysia Berhad • Utama Merchant Bankers Berhad
Hong Leong Bank Berhad	• Hong Leong Bank Berhad • Hong Leong Finance Berhad • Wah Tat Bank Berhad • Credit Corporation Malaysia Berhad
Perwira Affin Bank Berhad	• Perwira Affin Bank Berhad • Affin Finance Berhad • Perwira Affin Merchant Bankers Berhad • BSN Commercial Bank Berhad • BSN Finance Berhad • BSN Merchant Bank Berhad
Multi-Purpose Bank Berhad	• Multi-Purpose Bank Berhad • International Bank Malaysia Berhad • Sabah Bank Berhad • MBf Finance Berhad • Bolton Finance Berhad • Sabah Finance Berhad • Bumiputra Merchant Bankers Berhad • Amanah Merchant Bank Berhad
Southern Bank Berhad	• Southern Bank Berhad • Ban Hin Lee Bank Berhad • Cempaka Finance Berhad • United Merchant Finance Berhad • Perdana Finance Berhad • Perdana Merchant Bankers Berhad
EON Bank Berhad	• EON Bank Berhad • EON Finance Berhad • Oriental Bank Berhad • City Finance Berhad • Perkasa Finance Berhad • Malaysian International Merchant Bankers Berhad

BNM will work closely with the individual banking groups to implement the consolidation programme. The next step for the banks is to complete the due diligence process and sign the sales and purchase agreements. Bank Negara Malaysia has set the target date of end-December 2000 for the entire consolidation exercise to be completed.

The merger and consolidation programme is a necessary pre-condition to create strong, efficient and competitive domestic banking institutions. However, it has also to be supplemented with other measures, as the consolidation programmeme on its own cannot achieve these objectives. BNM will, therefore, continue to introduce appropriate policies such as enhancing the expertise and professionalism of the banking personnel and bringing about more effective corporate governance to further increase the resilience and competitiveness of the domestic banking institutions in the context of the challenges of a globalised and liberalised environment. The merger programme is the first important step in this mission.