The Wealth Effect of Forced Bank Mergers and Cronyism

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Abstract

This study examines the impact of forced bank mergers on the shareholders' wealth of Malaysian banks. Forced bank mergers, which are the result of direct government intervention in the consolidation of the banking industry, are generally rare. Unlike the findings on voluntary mergers and acquisitions, our study shows that the forced merger scheme destroys economic value in aggregate and the acquiring banks tend to gain at the expense of the target banks. Further analysis shows that the contrasting forced merger finding is linked to cronyism.

1.   Introduction

The regulatory authority in Malaysia had repeatedly encouraged banks in Malaysia to merge with each other, but after years of moral persuasion with little success, the Malaysian government took the unprecedented measure of forcing banks to merge with each other in 1999. While there have been many studies on voluntary bank mergers and acquisitions, none has examined forced mergers and acquisitions due to their rarity. The case of Malaysia's merger scheme, therefore, offers an opportunity to assess the extent of the economic benefit of government interventions in the financial market.

The Malaysia's merger scheme, in addition, is interesting for another reason. The initial scheme included a set of prescribed valuation methods, deadline for completion, and appointment of anchor banks and their component institutions. In the face of strong objections, it was revised to a more market oriented merger scheme a few months later. Under the revised merger scheme, banks were allowed to choose their own merger partners, adopt market-based valuation method, and have more time to complete the mergers. The unique twists and turns of the events thus allow us to examine, using the same sample of banks, the contrasting effects of forced mergers against voluntary mergers.

Research on market-driven bank consolidations finds that the target banks generally experience positive abnormal returns (Hannan and Wolken, 1989; Houston and Ryngaert, 1994). The empirical evidence on the returns to the bidding banks is rather mixed. Neely (1987), Cornett and Tehranian (1992), and Houston and Ryngaert (1994) document negative abnormal returns to bidding banks; while Desai and Stover (1985) and Cornett and De (1991), report positive returns to bidders of inter-state bank mergers in the United States. Houston and Ryngaert (1994), moreover, find that the overall gains due to mergers in the United States is slightly positive, but statistically insignificant. In other words, the gains of the target are typically offset by the loss suffered by the bidder (Rhoades, 1994; Pilloff and Santomero, 1998).

Very little, however, is known about the effect of forced mergers and acquisitions on the shareholders' wealth of both the target and acquiring banks. Using an event study methodology, we first examine the impact of the forced mergers scheme on the shareholders' wealth of Malaysian banks. Our study shows that, unlike the findings on voluntary mergers and acquisitions, the forced merger scheme has a significant and negative effect on the stock returns of the target banks, but a significant and positive effect on the acquirers' stock returns. In other words, the acquiring banks gain at the expense of the target banks. Furthermore, our study shows that the overall value of the Malaysian forced bank merger scheme is significantly negative. This is in contrast to most empirical findings on voluntary bank mergers in the United States, which show that, in general, no significant overall economic value is created.

The results of our event study analysis, furthermore, show that the revised merger scheme increases the shareholders' wealth of target banks, but reduces the shareholders'

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wealth of acquiring banks. The combined effect on the acquiring and target banks is positive, albeit statistically insignificant. The result of the market-oriented revised merger scheme, which is consistent with the findings of previous studies on voluntary mergers and acquisitions, provides a sharp contrast to the result of the initial forced merger scheme.

From a policy implication view-point, while banking consolidation and reform are pressing needs for many countries, the two contrasting Malaysian merger schemes provide valuable lessons on how bank consolidation should proceed. Our study, in particular, shows that that the forced merger scheme destroys shareholders' value, while the market-oriented revised merger scheme does not destroy value in aggregate. Overall, the Malaysia's experience offers an opportunity to assess the extent of the economic benefit of government interventions in the financial market and the importance of maintaining a competitive market for corporate control.

To provide additional insights on our contrasting bank merger results, this paper also examines the determinants of the cumulative abnormal returns of the merging banks. First, cross-sectional regression analysis shows that the above event study results are not attributable to differences in firm characteristics. Second, we examine the role of politics and the effect of the merger schemes on politically-connected firms. In Malaysia, where rent seeking activities are prevalent (Gomez and Jomo, 1999), a firm's prospects often depend on the value of their political connections. The forced merger scheme was implemented right after the sacking of the then Deputy Prime Minister Anwar Ibrahim in September 1998. Our hypothesis, hence, is that the forced merger scheme is likely to affect the Anwar-connected banks more negatively than the other banks. Consistent with this view, we find that all the Anwar-connected banks were targeted to lose their banking licenses in the forced bank

merger, while only 50% of the UMNO-connected banks and 50% of the Other-connected banks were designated to lose their banking licenses.[1] We, moreover, find that the Anwar-connected banks suffered significant losses in value during the forced merger period, while the UMNO-connected banks were not significantly affected. Our study, therefore, suggests that the forced bank merger scheme in Malaysia is linked to cronyism and not entirely driven by economics. This probably explains why the forced bank merger scheme destroys economic value in aggregate.

The remainder of this paper is organized as follows: Section 2 provides the institutional background on the Malaysian merger schemes. Section 3 reports the results of the event study and Section 4 presents the empirical analysis on the determinants of the cumulative abnormal returns. Section 5 concludes the paper.

2. The Forced Bank Merger and Acquisition Scheme in Malaysia

On July 29, 1999, Bank Negara Malaysia (BNM), the Malaysian central bank, announced a scheme to force the consolidation of the country's 58 financial institutions (which consisted of 21 commercial banks, 12 merchant banks and 25 finance companies) into six core banking groups. The main objective of the forced merger scheme was to create bigger and stronger domestic banks that are capable of competing with foreign banks when the financial market is liberalized in the near future under the World Trade Organization (WTO) agreement. With 58 domestic financial institutions, Malaysia's banking system was considered by the government as "over-banked" and fragmented. While the merger announcement had caught many by surprise, the central bank's hope for consolidation in the

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[1] A bank is deemed to be Anwar-connected if it is politically connected to Anwar Ibrahim; while any bank that is connected to Mahathir Mohamad, Daim Zanuddin, or the United Malay's National Organization (UMNO) is classified as UMNO-connected. All other banks are coded as Other-connected.

banking industry actually dated back to the early 1990s. For example, in order to pressure the smaller banks to merge, a two-tier banking system was introduced in 1994, whereby highly capitalized banks (Tier-1 banks) were given permission to offer more banking services. However, the system was abolished in April 1999 because, instead of consolidating, many banks reacted by expanding aggressively and, subsequently, suffered great losses during the Asian financial crisis.

Following the July 1999 announcement, the central bank announced on August 6, 1999 the appointment of the six anchor banking groups. The six anchor banks selected by the central bank were Malayan Banking, Bumiputra-Commerce Bank, Public Bank, Southern Bank, Perwira Affin Bank, and Multi-Purpose Bank. Table 1 lists the assets of the anchor banks and their merger partners. All the financial institutions were told to sign the Memorandum of Understanding (MOU) to merge by September 1999 and to complete the sale and purchase agreement by end of 1999.

[Insert Table 1 here]

By the end of September 1999, all the target banks signed MOU with their respective anchor banks, but not without strong protest. The main objections were the selection of the anchor banks and the compulsory completion date set by the central bank. The central banks did not explain how the six anchor banks were chosen. A more controversial point was that some very small banks were slated to take over larger banks.[2] Another problem was that the size of some of the new banking groups will not necessary be much bigger after the merger.[3]

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[2] For example, Perwira Affin Bank and Multi-Purpose Bank were required to acquire banks that are many times their size, leading to accusations of unfairness.

[3] For example, even if Southern Bank and Public Bank were to successfully merge with all of their designated partners, they will still remain many times smaller than the pre-merger size of the largest bank in Malaysia

Along with the merger decree, the central bank also issued a set of valuation guidelines. For non-listed institutions, valuation was based on an adjusted net tangible asset basis; while for listed institutions, three-month weighted average market capitalization from April 29 to July 29, 1999 was to be used to compute the purchase price. This left little room for the target banks to negotiate for a favorable selling price. Moreover, with the strong mandate from the central bank as well as the tight completion schedule, the anchor banks were undoubtedly in a strong position to exploit the merger and, therefore, were unlikely to pay a premium for the acquisition. This was especially so for the smaller anchor banks as funding the acquisition was not an easy task, even if they were willing to pay a premium to acquire the targets.[4]

The forced merger scheme was very unpopular and perceived by the market as impractical. There was a lot of resistance to the implementation of the forced merger scheme. Three months after the announcement, the government eventually backtracked on the forced merger scheme. On October 6 and October 13, 1999, the then Malaysian Prime Minister, Mahathir Mohamad, hinted that the government would revise the merger scheme to give the banks more freedom to form into any number of groups of their own choice partners and more time to complete the mergers. On October 20, 1999, the central bank officially announced the new merger scheme and gave the banks until the end of January 2000 to find their merger partners. It warned, however, that it would still intervene directly to select partners if banks failed to carry through the mergers. By the end of January 2000, all financial institutions submitted their proposals and on February 14, 2000, the central bank announced the ten core

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(Malayan Banking Berhad). This raised the concern that these two banks may not survive the effects of financial market liberalization post-2003.

[4] For example, Multi-Purpose Bank was to take over 11 institutions whose combined assets were about 12 times its own. Perwira Affin Bank, another smaller anchor bank, also faced a similar situation.

banking groups. The new list of banking groups, which included the previously appointed six anchor banks and four newcomers, is given in the last two columns of Table 1. By August 2000, the ten banking groups completed the signing of the merger agreement.

3.   The Wealth Effects of the Malaysian Merger Schemes

An event study methodology is used to examine the effects of the two contrasting Malaysian merger schemes on the shareholders' wealth of the merging banks. In this section, we first discuss the identification of the event dates and the measurement of the abnormal returns. We then analyze the results of the event study.

3.1   Identifying the Event Dates

The first step of our study is to identify the series of events related to the mergers. During the forced merger period, speculation was rife about which bank would survive and which would be taken over. We follow the news reports in Reuters News Services regarding the official announcements by the Malaysian government. We also verify these event dates with the local newspaper, Business Times. In total, we identify seven key events and the detailed event announcements are provided in Table 2. As some of the events are merely follow-ups of the previous events, we therefore group these related events into three periods. To ensure that information leakage is being captured, each period includes four days before the first event and four days after the last event of the period.[5] The first period, 23 July - 12 August 1999, contains the announcements of the forced merger scheme; the second period, 30 September - 26 October 1999, covers the announcement of the revised merger scheme; and

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[5] There does not appear to be a uniform standard for the event window. Harvey, Lins, and Roper (2004), for example, utilize a [-1,+4] window, while Houston, James, and Ryngaert (2001) utilize a [-4,+1] window. For robustness, we have alternatively used a [-4,+1] window and our results remain qualitatively the same.

the third period, 8 February - 18 February 2000, covers the approval of the ten banking groups.

[Insert Table 2 here]

3.2   Measuring the Abnormal Returns

Daily stock closing prices and the market index (KLSE Composite Index) are obtained from Datastream. Not all financial institutions are listed and some are listed under bank holding companies. Our sample, thus, consists of all the 16 bank holding companies that are listed on the Kuala Lumpur Stock Exchange (KLSE). Table 1 provides the details of these bank holding companies. Together, these 16 bank holding companies represent 34 of the total 55 financial institutions that are included in the merger schemes.[6]   Although the number of companies included is slightly less than 62% of the total number of financial institutions, their combined assets accounts for more than 87% of the total assets of the entire banking sector in Malaysia. We, therefore, believe that our sample is sufficiently representative of the banking industry in Malaysia.[7, 8, 9]

To measure the abnormal returns, we employ a standard event study methodology:

$$AR_{it} = R_{it} - [\hat{\alpha}_i + \hat{\beta}_i R_{mt}] \tag{1}$$

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[6] The total number of banking institutions in Malaysia reduced from 58 to 55 following the completion of the merger between Bank of Commerce and the BBMB group of companies in October 1, 1999.

[7] The statistical bias that can result from the small sample size is that we are less likely to detect any significant effect from the merger schemes.

[8] For robustness, we have also re-estimated our regression models by dropping one bank at a time to determine whether our results are dependent upon just one bank. We, in particular, find that our main results are robust with respect to this simulation exercise.

[9] A concern about two of the bank holding companies, namely Edaran Otomobil Nasional and Multi-purpose Holdings, is that their returns may not be entirely attributed to their financial subsidiaries. For example, EON Bank, which accounted for 90% of the Edaran Otomobil Nasional's total assets, provided 35% of the Group's earnings in the fiscal year ended 1999. Robustness test (see footnote #8), however, indicates that our results remain qualitatively the same when we drop either Edaran Otomobil Nasional or Multi-purpose Holdings from the sample.

where R_{it} is the daily return on firm i for event day t and R_{mt} is the return on the benchmark KLSE Composite index for event day t. $\hat{\alpha}$ and $\hat{\beta}$ are OLS regression parameters that are estimated using the market model over the period of July 1, 1998 to June 30, 1999. In our event study, the average abnormal returns (AR) are separately computed for the acquiring banks and target banks as well as for all banks. For Periods 1 and 2, the six acquiring banks are labeled as core-6 banks and the ten target banks are labeled as non-core-10 banks. For Period 3, four of the targets banks in Periods 1 and 2 became anchor banks and, thus, are re-labeled together with the previous core-6 banks as the core-10 banks. The remaining six targets banks are labeled as non-core-6 banks. Finally, the cumulative abnormal return (CAR) is calculated for each period by simply summing the abnormal returns over the respective event periods.

3.3   Results of the Event Study

The effects of the forced bank merger scheme on the stock returns of merging banks during Period 1 are shown in Table 3. Columns 2 and 3 report the abnormal returns and cumulative abnormal returns, respectively, for the core-6 banks (the appointed anchor banks under the forced bank merger scheme). The results for the non-core-10 banks are reported under Columns 4 and 5, while the results for all banks are reported in the last two columns. Period 1 has three key event dates, namely: 7/29/1999, 8/3/1999, and 8/6/1999.

[Insert Table 3 here]

For the group of core-6 banks, a significant and positive abnormal return of 1.28% was recorded on the second event date (8/3/1999). The abnormal returns for the core-6 banks, moreover, are positive for the first and third event dates, albeit not statistically significant.

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The core-6 banks' cumulative abnormal return at the end of Period 1, furthermore, is slightly positive, but not significantly different from zero. As for the group of non-core-10 banks, the results clearly indicate that the value of the target banks' shareholders wealth decline sharply. The cumulative abnormal return at the end of the period is about -14%, which is significantly different from zero. This result is contrary to the findings of most U.S. studies, which typically report positive abnormal returns for the target firms. Overall, the negative returns associated with the non-core-10 banks also result in negative returns for all banks. As highlighted in the last two columns of Table 3, the cumulative abnormal return at the end of Period 1 for all banks is -8%, which is significantly different from zero. Thus, it is clear that the forced merger scheme destroys shareholders' value.

As described in Section 2, the forced merger scheme was overhauled in October 1999. The revised merger scheme allowed the banks to choose their own merger partners and form any number of banking groups. We report the market reaction to the revised merger scheme during Period 2 in Table 4. In contrast to the previous results in the forced merger period, the acquiring banks (core-6) have a significant negative cumulated abnormal return of -8.8% in this period, while the target banks (non-core-10) gain a significant 9.7%. The combined cumulative abnormal return for all banks is positive, but statistically insignificant at the end of the period. Overall, the revised merger scheme has been viewed more favorably by the market. Our findings on the market-oriented revised merger scheme are, thus, in line with prior findings on voluntary mergers and acquisitions.

[Insert Table 4 here]

Table 5 reports the abnormal returns associated with Period 3. There is only one key event date in Period 3, namely 2/14/2000, which involves the naming of the ten anchor banks

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(core-10 banks) and their respective merger partners (see Table 2). The average abnormal returns on that event date, which is positive for the core-10 banks and negative for the non-core-6 banks, are not significantly different from zero. Overall, the cumulative abnormal returns at the end of the period for the core-10 banks and non-core-6 banks as well as for all banks are not statistically significant. This is likely due to possibility that much of the market reaction has already been captured in Period 2.

[Insert Table 5 here]

4.   The Determinants of Cumulative Abnormal Returns

To provide additional insights into our contrasting results above, we examine the determinants of the banks' cumulative abnormal returns. In developing economies, such as Malaysia, economics are often intertwined with politics (Gomez and Jomo, 1999). In this section, we first analyze the economic aspect of the Malaysian merger schemes. We then examine the role of politics and the effect of the merger schemes on politically-connected firms.

4.1   *Comparing the Acquiring and Target Banks*

Are the contrasting bank merger results due to differences in firm characteristics? To answer this question, we first provide in Table 6 a univariate comparison of the acquiring and target banks. The table is divided into two panels. Panel A compares the statistics of the designated core-6 (acquiring) banks and non-core-10 (target) banks in the forced bank merger scheme. Panel B compares the core-10 banks and non-core-6 banks associated with the naming of the 10 core banking groups in Period 3. In Table 6, *P1CAR*, *P2CAR*, and *P3CAR* capture the cumulative abnormal returns at the end of Period 1, Period 2, and Period 3,

respectively. The firm-specific accounting data on the 16 bank holding companies are collected from Bank Scope for the fiscal year ended 1999, the year when the forced merger scheme was announced. The *ASSETS* variable, which is equal to the book-value of total assets (in M$ million), is a measure of firm size. *NIM* is equal to the bank's net interest margin and is, thus, a proxy for profitability. *CAPITAL* is equivalent to the bank's capital adequacy ratio. *NIEA*, which is equal to non-interest expense divided by average assets, is a proxy for operating efficiency. *NPL* is a measure of non-performing loans (as a percentage of gross loans). *MB*, which is equivalent to the market-to-book value of equity, is a relative valuation measure that captures the value of intangible assets.[10]

[Insert Table 6 here]

Comparing the acquiring banks (core-6) with the target banks (non-core-10) in Panel A of Table 6, we find that the asset size (*ASSETS*) and market-to-book value (*MB*) of the acquiring banks are on average statistically larger than the target banks. There is, however, significant variation in firm characteristics within the group of acquiring banks as well as target banks. For example, the asset size of the acquiring banks (core-6) varies from M$9.329 billion to M$117.479 billion. Thus, the selection of the acquiring banks in the forced merger scheme is not purely based on firm size as some small banks are designated as anchor (acquiring) banks as well. We, furthermore, do not find any significant difference in the profitability (*NIM*), capital adequacy ratio (*CAPITAL*), non-performing loans (*NPL*), and operating efficiency (*NIEA*) of the acquiring banks and target banks. Thus, it is evident that the selection process for the anchor banks versus target banks is not driven by economics. We

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[10] The growth opportunities are likely to be the same for all firms as they are in the same industry. Thus, the variation in the firms' *MB* values is most likely attributed to differences in the value of intangible assets, such as brand name.

also obtain similar results when we compare the univariate statistics of the acquiring banks (core-10) with those of the target banks (non-core-6) in Panel B of Table 6, with the exception that the *MB* variable is on average not statistically different between the two groups of banks.

Second, we examine the determinants of the cumulative abnormal returns using cross-sectional regression analysis. In our regressions, we introduce three dummy variables to indicate the groupings of the banks, namely: *CORE6*, *CORE4*, and *NCORE*. *CORE6*, which is as defined in the previous section as core-6 banks, has a value of 1 if the bank is one of the six appointed anchor banks, and 0 otherwise. The other two dummy variables, *CORE4* and *NCORE*, are merely a breakdown of our non-core-10 banks. *CORE4* is equal to 1 if the bank is one of the additional four core banks in the revised forced merger scheme, and 0 otherwise; while *NCORE* is equal to 1 if the bank remains as targets throughout the entire mergers exercise, and 0 otherwise. Table 7 summarizes the cross-sectional regression results. In Model 1, we regress the cumulative abnormal returns against the *CORE6* and firm-specific variables (*ASSETS*, *NIM*, *CAPITAL*, *NPL*, *NIEA*, and *MB*). In Model 2, we replace *CORE6* with the *CORE4* and *NCORE* variables.

[Insert Table 7 here]

The results in Table 7 show that, after controlling for firm-specific variables, the cumulative abnormal returns at the end of Period 1 are significantly positive for the *CORE6* banks, but significantly negative for the *NCORE* banks (banks that have never made it to the anchor bank list throughout the merger exercise). The cumulative abnormal returns associated with the *CORE4* banks in Period 1, in addition, are negative and marginally significant with a p-value of 0.1145 (using a two-tail test). These results are, thus, comparable to our earlier

findings that the appointed anchor banks tend to gain at the expense of the target banks in the forced merger scheme. The reverse is true, however, for the revised merger scheme. For both Period 2 and Period 3, we find that the cumulative abnormal returns are significantly negative for the *CORE6* banks, but significantly positive for the *CORE4* and *NCORE* banks. Our earlier findings on both the forced merger scheme and revised merger scheme, thus, remain robust after controlling for firm-specific factors.

Table 7 also shows that the banks' cumulative abnormal returns are positive and significantly related to *NIM* and *CAPITAL* in Period 1, which suggests that banks that are profitable and adequately capitalized tend to benefit more in the forced merger scheme and, hence, are more resilient to the damaging effect of government interventions. The revised merger scheme, on the other hand, tends to benefit the bigger and more profitable banks, i.e., the log(*ASSETS*) variable is significantly positive in both Period 2 and Period 3, while *NIM* is significantly positive in Period 3. A likely reason why *NIM* is significantly positive in both the forced merger and revised merger schemes is that the more profitable banks tend to receive relatively higher market valuations and, hence, exhibit better performance. Also, a likely reason why bank size did not matter under the forced merger scheme is because, as pointed out earlier, some of the designated anchor banks were disproportionately larger than the target banks. Size, however, matters under the market-driven revised merger scheme because the bigger banks are less likely to be taken over and tend to have greater bargaining power.

Another finding in Table 7 is that *NPL* is significantly positive in Period 2, but not in Period 1. A likely reason for this finding is that subsequent to the forced merger scheme announcements, the BNM announced on August 10, 1999 a tax credit scheme for losses

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incurred by financial institutions involved in the merger to smooth the merger process. Under this scheme, the bank's *NPL*, which is proxy for the potential tax credit provided by the government, is likely to be positively correlated with the banks' cumulative abnormal returns. Finally, the coefficient estimate for *CAPITAL* is not very stable in Period 2 and Period 3, i.e., it is significantly negative in some models, but positive in others.[11]

4.2   *Effects of the Merger Schemes on Politically-connected Firms*

The previous analysis shows that the contrasting bank merger results are not attributable to differences in firm characteristics, i.e., economic analysis alone does not provide an adequate explanation for our contrasting results. In order to provide additional insights, we now turn to the political aspect of the merger schemes. Gomez and Jomo (1999) find that economics are often intertwined with politics in Malaysia. Political patronage, furthermore, is a common practice because the ruling politicians, through their discretionary executive powers, controls the distribution of valuable concessions, licenses, contracts, and privatized projects. Firms thus derive a significant portion of their value through their political connections in a rent seeking society. Political patronage, in fact, had led to the meteoric rise of many well-connected rich Malay businessmen. It also allowed many Chinese businessmen to build vast business empire based on their political connections (Gomez and Jomo, 1999).[12]

In Malaysia, the banking sector is generally protected as a result of the limit on the number of banks and restriction on branching activities. Banking license is thus a valuable asset in Malaysia because it gives the entrepreneur the right to extract rents. In a major

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[11]A possible reason is that *CAPITAL* is positively correlated with *NIM*. Our findings are generally robust with respect to the exclusion of either *CAPITAL* or *NIM* from the regressions.
[12] The new Prime Minister Abdullah Ahmad Badawi actually criticized the Malaysian citizens recently for their addiction on rent seeking and their unwillingness to discard such bad habit for hampering the development of the country (Badawi, 2005).

consolidation of the banking industry, firms with the right political connections are more likely to retain their prized banking licenses than firms that are not. The forced merger scheme was implemented right after the sacking of the then Deputy Prime Minister Anwar Ibrahim in September 1998.[13] Our hypothesis is that, in such a major restructuring of the banking industry, the Anwar-connected banks are likely to be disadvantage in comparison to other banks. Political connection is thus a double-edged sword because the values of such politically-connected firms are likely to fluctuate with the rise and fall of their political patrons.

To examine the above hypothesis, we provide in Table 1 a summary of the owners as well as the political connections of the 16 bank holding companies that are included in our study. Following Johnson and Mitton (2003), the banks' owners and political connection are primarily coded based on the studies by Gomez and Jomo (1999) and Gomez (1999), which provide a detailed analysis of the Malaysian corporations and their political connections. The information provided by Gomez and Jomo (1999) and Gomez (1999), however, is not exhaustive. We, therefore, supplement and cross-check the ownership and political connection information with searches through media reports using Factiva.com. In Table 1, the bank's political connection is classified according to whether it is Anwar-connected, UMNO-connected, or Other-connected. As is done in Johnson and Mitton (2003), a bank is coded as Anwar-connected if the bank is deemed to be politically connected to Anwar Ibrahim; while any bank that is connected to the Mahathir Mohamad, Daim Zanuddin, or UMNO is classified

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[13] Anwar Ibrahim, who first joined the United Malay's National Organization (UMNO) in 1971, rose rapidly through the ranks to become the Agriculture Minister in 1984 and then Education Minister in 1986. He became the Finance Minister in 1991 and was appointed the Deputy Prime Minister in 1993. Anwar was originally handpicked by Mahathir Mohamad to be his protégé, but was fired by Mahathir in 1998 after Anwar led massive anti-Mahathir protests. While in office, however, Anwar was in position of power to distribute and grant valuable economic rights and concessions to businessmen. The success of many business groups in Malaysia can actually be attributed to Anwar's patronage (Gomez and Jomo, 1999; Johnson and Mitton, 2003).

as UMNO-connected.[14, 15] All other banks, which are mostly the Chinese-controlled banks and banks without any clear affiliation, are coded as Other-connected.

Consistent with our above hypothesis, Table 1 shows that none of the Anwar-connected banks received anchor bank status in the forced merger scheme. In fact, all the Anwar-connected banks were slated to be taken over by other banks, of which some were relatively smaller in size. In comparison, the UMNO-connected banks were not necessarily advantaged because four of the eight UMNO-connected banks were designated as anchor banks, while others were designated as target banks. In fact, the acquirers for all the UMNO-connected target banks were themselves UMNO-connected. Among the four Other-connected banks, two were designated as anchor banks. Under the revised merger scheme, four additional banks were re-designated as acquiring (anchor) banks, of which two were UMNO-connected and another two were Anwar-connected.

To determine if our forced bank merger result is politically-related, we examine the effect of the Malaysian merger schemes on the cumulative abnormal returns of politically-connected banks. Table 7 shows the results of our cross-sectional regression analysis that include the politically-connected variables. In Model 3, we include two independent variables that capture the political-connections of the banks, namely: *ANWAR* and *UMNO*.[16] *ANWAR* is a dummy variable, which is equal to one if the bank is Anwar-connected, and 0 otherwise;

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[14] United Malay's National Organization (UMNO), which represent the collective interests of the Malay (Bumiputera) community, is the dominant political party in Malaysia's ruling coalition. The Prime Minister of Malaysia is traditionally also the President of UMNO. Mahathir Mohamad held both the Prime Minister and UMNO President positions from 1981 to 2003.

[15] Daim Zanuddin is a close associate and political confidant of Mahathir. He was appointed as UMNO's Treasurer and Finance Minister in 1984 by Mahathir. He later resigned from his Finance Minister post in 1991, but was brought back into the government as economic advisor in 1998 and as Finance Minister from 1999 to 2001. Daim is deemed to be the chief architect in orchestrating UMNO's involvement and ownership of the corporate sector (Gomez and Jomo, 1999).

[16] We did not include the *CORE6* variable in Model 3, because it is negatively correlated with the *ANWAR* variable.

while *UMNO* is equal to one if the bank is UMNO-connected. According to the above analysis, the Anwar-connected banks are expected to be affected negatively by the forced merger scheme, while UMNO-connected banks are either not significantly affected or positively affected by the forced merger scheme.

Consistent with our expectations, we find that the Anwar-connected banks suffered significant losses in value during the forced merger period, while the UMNO-connected banks are not significantly affected. According to the estimates for Period 1, the cumulative loss in value (abnormal returns) is about 19.6% if the bank is Anwar-connected. The reverse, however, is true during the revised merger periods. *ANWAR* is positive and significant in the Period 2 and Period 3 regressions. This, however, does not necessarily mean that the revised merger scheme is beneficial to the Anwar-connected banks. It was reported that the two Anwar-connected banks, RHB Bank and Hong Leong Bank, obtained anchor status only after their respective owners, Rashid Hussain and Quek Leng Chan, lobbied the Prime Minister Mahathir Mohamad intensively, i.e., suggesting a change in the political connections of these banks (Jayasankaran, 2001a; Jayasankaran, 2001b).[17] Indeed, when RHB Bank and Hong Leong Bank are re-coded as UMNO-connected banks in Period 2 and Period 3, we find that neither the *ANWAR* variable nor *UMNO* variable is statistically significant in the cross-sectional regression for both periods.

Earlier we find that the acquiring banks tend to gain at the expense of the target banks in the forced merger scheme (and vice-versa in the revised merger scheme) and that all the Anwar-connected banks were targeted to be taken over in Period 1. In order to determine if the target (non-core-10) banks results are driven by the *ANWAR* variable, we segregate the

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[17] The Hong Leong Group, moreover, was reported to be a huge donor to the ruling National Front campaign during the November 1999 general election (Jayasankaran, 2001b).

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non-core-10 banks according to whether the bank is politically-connected to Anwar or not in Model 4 of Table 7. *NC10-Anwar* is equal to 1 if the non-core-10 bank is Anwar-connected, and 0 otherwise. *NC10-Others* is equal to 1 if the non-core-10 bank is not Anwar-connected, and 0 otherwise. The results in Table 7 indeed show that the target banks results in Period 1 and Period 2 are primarily driven by the Anwar factor. The *NC10-Anwar* variable, for example, is significantly negative (positive) in Period 1 (Period 2), while the *NC10-Others* variable is neither significant in Period 1 nor in Period 2. In Period 3, both the *NC10-Anwar* and the *NC10-Others* variables are significantly positive. Furthermore, the magnitude of the estimated coefficients for the *NC10-Anwar* variable is much larger than that of the *NC10-Others* variable in all periods. Thus, the overall Model 4 results suggest that the earlier findings on the shareholders' wealth of target banks are largely attributed to the Anwar factor.

5.   Conclusions

The consolidation of banks is a global trend, but forced bank mergers are relatively rare. In this study, we show that the Malaysia's forced merger scheme destroys economic value and the acquiring banks tend to gain at the expense of the target banks. This is in contrast to the findings on voluntary mergers and acquisitions where the target generally gains at the expense of the acquiring banks and the overall value is not affected.

One possible explanation for the different finding is due to the matching of merger partners and the choice of anchor banks. In the United States and Europe, the larger and more efficient banks tend to take over smaller and less efficient banks, presumably to spread their expertise and operating procedures over the acquired resources (Berger et al., 1999; Focarelli et al., 1999). In Malaysia's forced bank merger case, the average efficiency of the acquiring

banks is not any better than the targets. On average, the ratio of non-interest expense to average asset of the designated anchor banks is not statistically different from that of the target banks. The size of some of the appointed anchor banks is also disproportionately smaller than the targets. We, furthermore, do not find any significant difference in the profitability, capital adequacy ratio, and non-performing loans of the acquiring banks and target banks. The Malaysian forced merger exercise, therefore, does not appear to be driven primarily by economic factors. Our analysis, furthermore, show that banks that are politically-connected to the deposed deputy Prime Minister Anwar Ibrahim are affected negatively in the bank merger schemes, while the UMNO-connected firms are not significantly affected. This finding reaffirms the general idea that politics are often intertwined with economics in less developed countries and that institutions matter in analyzing economic outcome (North, 1990; La Porta et al., 1998; Acemoglu et al., 2001).

Our findings, in addition, add to the growing literature on cronyism and politically-connected firms. Related to our work is the study by Fisman (2001), which estimates the value of political connections in Indonesia. Fisman (2001) finds that rumors about the health of former Indonesian President Suharto affected firms that are politically dependent on Suharto more negatively than the less-dependent firms. Another study is by Johnson and Mitton (2003), which show that the politically connected firms in Malaysia were hit harder during the Asian Crisis and the imposition of capital control in September 1998 primarily benefited some of these politically connected firms. Our study, in contrast, examines the relative wealth effect of the Malaysian forced bank merger scheme on politically-connected firms. We find that the forced bank merger scheme is linked to cronyism.

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Table 1

A summary of the anchor banking groups under the forced bank merger scheme and revised bank merger scheme[a, b]

Financial Institutions	Asset	Listed Under BHC	Owners	Political Connection	Forced Merger Scheme		Revised Merger Scheme	
					Status	Grouping	Status	Grouping
Malayan Banking Bhd	78,411	Malayan Banking Bhd	Permodalan Nasional Berhad	UMNO	Acquirer	1	Acquirer	1
Pacific Bank Bhd	10,956	Pacificmas Bhd	OCBC and others	OTHER	Target	1	Target	1
Kewangan Bersatu Bhd	2,427				Target	1	Target	1
Sime Finance Bhd	1,529				Target	1	Target	1
Amanah Merchant Bank Bhd	1,897				Target	1	Target	3
Delta Finance Bhd	933				Target	1	Target	10
EON Bank Bhd	13,889	Edaran Otomobil Nasional Bhd	Diversified Resources Berhad and Hicom	UMNO	Target	1	Acquirer	8
MIMB	1,989	MIDF	Government	UMNO	Target	1	Target	8
Perwira Affin Bank Bhd	15,343	Affin Holdings Bhd	Armed Forces Provident Fund	UMNO	Acquirer	2	Acquirer	2
BSN Commercial Bank (M) Bhd	7,380				Target	2	Target	2
Arab-Malaysian Bank Bhd	41,562	AMMB Holdings Bhd	Azman Hashim	UMNO	Target	2	Acquirer	9
Bank Utama (Malaysia) Bhd	8,582	Utama Banking Group Bhd	Sarawak state government	UMNO	Target	2	Target	9
Multi-Purpose Bank Bhd	7,659	Multi-Purpose Holdings Bhd	Quantum Aspects	UMNO	Acquirer	3	Acquirer	3
Sabah Bank Bhd	2,974				Target	3	Target	3
MBf Finance Bhd	18,734				Target	3	Target	3
Bolton Finance Bhd	1,382				Target	3	Target	3
International Bank Malaysia Bhd	969				Target	3	Target	3
Bumiputra Merchant Bankers Bhd	1,638				Target	3	Target	3
RHB Bank Bhd	44,711	RHB Capital Bhd	Rashid Hussain	ANWAR	Target	3	Acquirer	10
Oriental Bank Bhd	9,928	MIDF	Government	UMNO	Target	3	Target	8
Phileo Allied Bank (Malaysia) Bhd	10,359	Phileo Allied Bhd	Tong Kooi Ong	ANWAR	Target	3	Target	1
Public Bank Bhd	31,582	Public Bank Bhd	Teh Hong Piow	OTHER	Acquirer	4	Acquirer	4
Hock Hua Bank Bhd	4,935	Hock Hua Bank Bhd	Sarawak state private interests	OTHER	Target	4	Target	4
Advance Finance Bhd	341				Target	4	Target	4
Sime Merchant Banker Bhd	895				Target	4	Target	4
Wah Tat Bank Bhd	725				Target	4	Target	7
Inter finance Bhd	485				Target	4	Target	10
Southern Bank Bhd	8,193	Southern Bank Bhd	Tan Teong Hean	OTHER	Acquirer	5	Acquirer	5
Ban Hin Lee Bank Bhd	6,828	Ban Hin Lee Bank Bhd	Yeap Family	ANWAR	Target	5	Target	5
Cempaka Finance Bhd	949				Target	5	Target	5
Perdana Finance Bhd	316				Target	5	Target	5
Perdana Merchant Bankers Bhd	646				Target	5	Target	5
United Merchant Finance Bhd	6,454				Target	5	Target	5
City Finance Bhd	604				Target	5	Target	8
Perkasa Finance Bhd	221				Target	5	Target	8
Bumiputra-Commerce Bank Bhd	65,484	Commerce Asset-Holdings Bhd	Ministry of Finance / Khazanah / Renong	UMNO	Acquirer	6	Acquirer	6
Hong Leong Bank	23,479	Hong Leong Bank Bhd	Quek Leng Chan	ANWAR	Target	6	Acquirer	7
Credit Corporation (M) Bhd	4,948				Target	6	Target	7

[a]The Malaysian central bank (BNM) unveiled the six anchor banking groups under the forced bank merger scheme on August 6, 1999 and the 10 anchor banking groups under the revised bank merger scheme on February 14, 2000. Assets (in RM$ million) are as at end of 1998 (US$1 = RM$3.8).

[b]Ownership and political connection, which are primarily coded based on the studies by Gomez and Jomo (1999) and Gomez (1999), are supplemented and cross-checked with information obtained from searches through media reports using Factiva.com. A bank is deemed to be Anwar-connected if it is politically connected to Anwar Ibrahim; while any bank that is connected to Mahathir Mohamad, Daim Zanuddin, or the United Malay's National Organization is classified as UMNO-connected. All other banks are coded as Other-connected.

Table 2
Chronology of Merger Announcements[a]

Date	Announcement
July 29, 1999	Bank Negara Malaysia (BNM), the Malaysian central bank, announced a scheme to force the 21 commercial banks, 12 merchant banks, and 25 finance companies to merge into six banking groups. The institutions were given till end-September 1999 to sign memorandums of understanding (MOU) to merge.
August 3, 1999	BNM Governor said the six anchor banks under the proposed merger scheme had been identified but declined to reveal their identities. Unconfirmed list of six anchor banks was reported in Reuters and other news agencies. However, the BNM Governor said the unconfirmed list was not entirely correct.
August 6, 1999	BNM unveils the six anchor banks and their merging partners (see Table 1).
October 6, 1999	Malaysian Prime Minister indicated that the merger scheme would be revised to allow more than six banking groups to operate due to strong lobbying by some non-core banks.
October 13, 1999	Malaysian Prime Minister said the National Economic Action Council (NEAC) had officially decided to review the merger scheme. The NEAC had decided the following: (1) not to push the merger too quickly; (2) to be more flexible on the number of banking groups; and (3) to allow the anchor banks to emerge, instead of by appointment.
October 20, 1999	In an official statement, BNM announced it had dropped its earlier forced merger scheme to allow banks to form their own merger groups and pick their own leaders. The merging program completion date had also been extended to end-December 2000.
February 14, 2000	BNM announced that it had approved ten anchor banking groups as part of a nationwide merger program (see Table 1).

[a]The forced bank merger scheme was announced over the period of July 29, 1999 to August 6, 1999 and the revised bank merger scheme was announced over the period of October 6, 1999 to February 14, 2000. In our study, Period 1 covers the announcements of the forced bank merger scheme. There are three key event dates in Period 1, namely: 07/29/1999, 08/03/1999, and 08/06/1999. Period 2 covers the initial announcements of the revised bank merger scheme. There are three key event dates in Period 2, namely: 10/06/1999, 10/13/1999, and 10/20/1999. Period 3 covers the Malaysian central bank's (BNM) announcement associated with the approval of 10 banking groups in the revised bank merger scheme. The key event date in Period 3 is on 02/14/2000.

Table 3
Reaction to forced bank merger scheme - abnormal returns over Period 1[a]

Date	Core-6 Banks		Non-Core-10 Banks		All Banks	
	AR (%)	CAR (%)	AR (%)	CAR (%)	AR (%)	CAR (%)
07/23/1999	-0.167	-0.167	-0.540	-0.540	-0.400	-0.400
07/26/1999	-2.790	-2.957	-2.226	-2.766	-2.438	-2.838
07/27/1999	1.279	-1.678	1.261	-1.505	1.268	-1.570
07/28/1999	0.576	-1.101	-0.897	-2.403	-0.345	-1.915
07/29/1999	**1.543**	**0.441**	**-0.339**	**-2.741**	**0.367**	**-1.548**
07/30/1999	1.492	1.933	3.287 ***	0.546	2.614 **	1.066
08/02/1999	-3.024	-1.090	-5.172 ***	-4.626	-4.366 ***	-3.300
08/03/1999	**1.282 ***	**0.192**	**0.739**	**-3.887**	**0.943**	**-2.358**
08/04/1999	0.054	0.246	-2.636 **	-6.523 **	-1.627 **	-3.985
08/05/1999	-0.517	-0.271	-1.659	-8.182 **	-1.231	-5.216 *
08/06/1999	**0.026**	**-0.244**	**-2.018**	**-10.200 ****	**-1.251**	**-6.467 ****
08/09/1999	-0.651	-0.895	-11.813 ***	-22.013 ***	-7.627 ***	-14.094 ***
08/10/1999	1.867	0.972	3.268 ***	-18.745 ***	2.743 ***	-11.351 **
08/11/1999	0.253	1.225	0.259	-18.486 ***	0.256	-11.095 **
08/12/1999	0.695	1.919	4.534 **	-13.953 ***	3.094 **	-8.001 **

[a]This table presents the event study results for the forced bank merger scheme. Period 1, which covers the announcements associated with the forced bank merger scheme, has three key event dates, namely: 07/29/1999, 08/03/1999, and 08/06/1999. Details of the event announcements are provided in Table 3. AR (in %) is the market-adjusted abnormal return. CAR (in %) is the cumulative abnormal return, which is calculated by summing the abnormal returns over the respective event periods. Core-6 banks represent the appointed anchor (acquiring) banks under the forced bank merger scheme, while the ten target banks are labeled as non-core-10 banks.
*Significance at 10%, **Significance at 5%, ***Significance at 1%, using two-tailed test.

Table 4
Reaction to revised bank merger scheme - abnormal returns over Period 2[a]

Date[a]	Core-6 Banks		Non-Core-10 Banks		All Banks	
	AR (%)	CAR (%)	AR (%)	CAR (%)	AR (%)	CAR (%)
09/30/1999	-0.345	-0.345	-1.485*	-1.485*	-1.057*	-1.057*
10/01/1999	1.099	0.754*	0.784	-0.701	0.902	-0.155
10/04/1999	0.458	1.212	-0.024	-0.725	0.157	0.002
10/05/1999	-0.514	0.698	3.763**	3.038	2.159**	2.160*
10/06/1999	**-0.186**	**0.512**	**-0.471**	**2.568**	**-0.364**	**1.797**
10/07/1999	-0.754	-0.242	3.900**	6.468*	2.155*	3.952*
10/08/1999	-0.474	-0.716	1.538	8.006*	0.784	4.735*
10/11/1999	-0.325	-1.042	1.946	9.953**	1.094	5.830**
10/12/1999	0.209	-0.832	-0.169	9.784**	-0.027	5.803**
10/13/1999	**-0.396**	**-1.228**	**1.854**	**11.638****	**1.010**	**6.813****
10/14/1999	-0.660	-1.888	0.295	11.933**	-0.063	6.750**
10/15/1999	-0.825	-2.713	-2.862**	9.071**	-2.098**	4.652
10/18/1999	-0.525	-3.238	-1.744**	7.326*	-1.287**	3.365
10/19/1999	-0.953	-4.191	0.166	7.492*	-0.254	3.111
10/20/1999	**-1.217**	**-5.408**	**0.002**	**7.494***	**-0.455**	**2.656**
10/21/1999	-2.890**	-8.298*	1.414*	8.909*	-0.200	2.456
10/22/1999	0.009	-8.289**	1.566*	10.475**	0.982	3.439
10/25/1999	0.237	-8.052*	-0.867**	9.608**	-0.453	2.985
10/26/1999	-0.757**	-8.808*	0.121	9.729**	-0.208	2.777

[a]Period 2 covers the initial announcements of the revised bank merger scheme. There are three key event dates, namely: 10/06/1999, 10/13/1999, and 10/20/1999. Details of the event announcements are provided in Table 3. AR (in %) is the market-adjusted abnormal return. CAR (in %) is the cumulative abnormal return, which is calculated by summing the abnormal returns over the respective event periods. Core-6 banks represent the six acquiring banks associated with the forced bank merger scheme, while the ten target banks are labeled as non-core-10 banks.

*Significance at 10%, **Significance at 5%, ***Significance at 1%, using two-tailed test.

Table 5
Reaction to revised bank merger scheme - abnormal returns over Period 3[a]

	Core-10 Banks		Non-Core-6 Banks		All Banks	
Date	AR (%)	CAR (%)	AR (%)	CAR (%)	AR (%)	CAR (%)
02/08/2000	0.8789	0.8789	-2.0955 **	-2.0955 **	-0.1126	-0.1126
02/09/2000	1.1393	2.0181	2.5096 **	0.4141	1.5961	1.4834
02/10/2000	-1.5570 *	0.4611	0.9929	1.4071	-0.7071	0.7764
02/11/2000	-0.8011 *	-0.3400	2.9844	4.3914	0.4607	1.2371
02/14/2000	**0.0585**	**-0.2815**	**-1.9402**	**2.4513**	**-0.6077**	**0.6294**
02/15/2000	2.9593	2.6777	-1.0951	1.3562	1.6078	2.2372
02/16/2000	-0.5510	2.1267	0.8609	2.2171	-0.0804	2.1568
02/17/2000	-0.7089	1.4178	-1.2380 *	0.9790	-0.8853	1.2715
02/18/2000	-0.3503	1.0675	-1.6815	-0.7024	-0.7940	0.4775

[a]Period 3 covers the Malaysian central bank (BNM) announcement associated with the approval of 10 banking groups in the revised bank merger scheme. The key event date is on 02/14/2000. AR (in %) is the market-adjusted abnormal return. CAR (in %) is the cumulative abnormal return, which is calculated by summing the abnormal returns over the respective event periods. The ten anchor (acquiring) banks announced by BNM on 02/14/2000 are designated as the core-10 banks, while the six targets banks are labeled as non-core-6 banks.
*Significance at 10%, **Significance at 5%, using two-tailed test.

Table 6
A univariate comparison of the acquiring and target banks[a]

Panel A: Forced bank merger scheme

		Core-6 Banks					Non-Core-10 Banks				Difference in
Variable	N	Mean	Std Dev	Min	Max	N	Mean	Std Dev	Min	Max	Mean
P1CAR	6	1.919	12.950	-15.208	22.326	10	-13.953	11.393	-35.173	3.604	15.872**
P2CAR	6	-8.808	8.516	-24.760	-1.041	10	9.729	12.818	-15.314	28.504	-18.537***
P3CAR	6	-4.080	3.365	-7.626	1.762	10	3.165	10.451	-10.984	20.732	-7.245*
ASSETS	6	45,115	41,735	9,329	117,479	10	18,776	17,055	5,430	58,210	26,339*
NIM	6	2.957	0.706	1.940	3.710	10	2.236	1.114	0.010	3.730	0.721
CAPITAL	6	14.910	3.453	11.960	21.400	10	13.769	2.953	10.420	20.750	1.141
NPL	6	11.877	3.925	6.470	17.100	10	15.993	13.527	2.400	48.610	-4.116
NIEA	6	2.867	0.617	1.870	3.500	10	3.141	1.710	1.100	6.580	-0.274
MB	6	2.482	0.799	1.251	3.481	10	1.650	0.615	0.579	2.615	0.832**

Panel B: Revised bank merger scheme

		Core-10 Banks					Non-Core-6 Banks				Difference in
Variable	N	Mean	Std Dev	Min	Max	N	Mean	Std Dev	Min	Max	Mean
P1CAR	10	3.314	14.136	24.914	22.326	6	15.811	10.650	35.173	4.699	12.497*
P2CAR	10	-2.099	13.986	-24.760	15.977	6	10.905	12.127	-4.129	28.504	-13.004*
P3CAR	10	1.068	9.957	-7.626	20.732	6	-0.585	8.172	-10.984	12.421	1.653
ASSETS	10	40,521	33,557	9,329	117,479	6	8,873	2,758	5,430	12,955	31,648**
NIM	10	2.787	0.832	1.250	3.730	6	2.038	1.207	0.010	3.500	0.749
CAPITAL	10	14.099	3.038	10.800	21.400	6	14.360	3.455	10.420	20.750	-0.261
NPL	10	12.122	5.858	4.030	24.320	6	18.328	16.333	2.400	48.610	-6.206
NIEA	10	3.159	1.305	1.870	6.580	6	2.837	1.598	1.100	5.860	0.322
MB	10	2.172	0.810	0.960	3.481	6	1.612	0.650	0.579	2.615	0.559

[a]P1CAR, P2CAR, and P3CAR are the cumulative abnormal returns at the end of Period 1, Period 2, and Period 3, respectively; ASSETS is equal to the book-value of total assets (RM$ million); NIM is the net interest margin (in %); CAPITAL is equal to the capital adequacy ratio (in %); NPL is the non-performing loan (% of gross loans); NIEA is equal to non-interest expense / average assets; and MB is the market-to-book value of equity. Under the forced bank merger scheme, the six anchor (acquiring) banks are designated as the Core-6 banks, while the ten target banks are labeled as non-core-10 banks. Under the revised merger scheme, the ten anchor (acquiring) banks are designated as the core-10 banks, while the six targets banks are labeled as non-core-6 banks.
*Significance at 10%, **Significance at 5%, ***Significance at 1%, using two-tailed test.

Table 7

Cross-sectional regression of the cumulative abnormal returns

Variable	Period 1				Period 2				Period 3			
	Model 1[a]	Model 2[a]	Model 3[b]	Model 4[b]	Model 1[a]	Model 2[a]	Model 3[b]	Model 4[b]	Model 1[a]	Model 2[a]	Model 3[b]	Model 4[b]
Intercept	-51.965	-5.886	-43.465	-29.969	-30.714	-110.109**	-63.751**	-71.753**	-33.704	-37.981	-47.198*	-55.365**
CORE6	16.170*				-23.939**				-13.592***			
CORE4		-14.072				20.049**				14.246***		
NCORE		-23.052*				36.700***				11.449**		
ANWAR			-19.601*				23.836**				17.303**	
UMNO			-4.878				-7.719				1.839	
NC10-Anwar				-19.650*				34.151***				18.411***
NC10-Others				-11.860				11.291				7.624*
Log(*ASSETS*)	1.402	-1.442	4.567	1.941	3.994*	9.266**	2.521	2.412	5.072**	4.186*	2.911	4.325**
NPL	0.015	-0.015	-0.048	-0.057	0.417**	0.472**	0.749***	0.627***	0.221	0.212	0.328	0.320
CAPITAL	2.113	2.597*	0.146	1.480	-0.997	-1.893**	1.514**	0.862	-1.537*	-1.387	0.132	-0.660
NIM	8.979*	7.167**	9.161**	8.576**	-1.171	2.189	1.498	0.014	4.967**	4.402*	5.364***	5.526***
NIEA	-1.218	-1.434	-3.601	-2.398	0.057	0.457	4.058	3.520	-2.126	-2.193	0.218	-0.492
MB	-12.700	-13.264	-7.924	-11.300	7.165	8.211	-4.472	3.057	1.010	0.834	-3.552	-0.929
Adjusted-R^2	0.277	0.233	0.107	0.223	0.161	0.235	0.379	0.446	0.193	0.091	0.178	0.306

[a]In Model 1, we regress the cumulative abnormal returns against the *CORE6* and firm-specific variables (*ASSETS*, *NIM*, *CAPITAL*, *NPL*, *NIEA*, and *MB*). In Model 2, we replace *CORE6* with the *CORE4* and *NCORE* variables. *CORE6* is a dummy variable, which has a value of 1 if the bank is one of the six appointed anchor banks in the forced merger scheme, and 0 otherwise. The other two dummy variables, *CORE4* and *NCORE*, are merely a breakdown of our non-core-10 banks. *CORE4* is equal to 1 if the bank is one of the additional four core bank in the revised forced merger scheme, and 0 otherwise; while *NCORE* is equal to 1 if the bank that remain as targets throughout the entire mergers exercise, and 0 otherwise.

[b]To examine the effects of the merger schemes on politically-connected banks, we include two independent variables in Model 3 that capture the political-connections of the banks, namely: *ANWAR* and *UMNO*. *ANWAR* is a dummy variable, which is equal to 1 if the bank is Anwar-connected, and 0 otherwise; while *UMNO* is a dummy variable that is equal to 1 if the bank is UMNO-connected, and 0 otherwise. In Model 4, we segregate the non-core-10 banks according to whether the bank is politically-connected to Anwar or not. *NC10-Anwar* is equal to 1 if the non-core-10 bank is Anwar-connected, and 0 otherwise. *NC10-Others* is equal to 1 if the non-core-10 bank is not Anwar-connected, and 0 otherwise.

[*]Significance at 10%, [**]Significance at 5%, [***]Significance at 1%, using the White-adjusted heteroskedasticity-consistent t-test.