

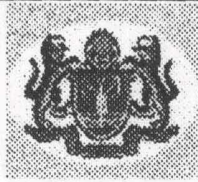


UNIVERSITI PUTRA MALAYSIA

A CASE STUDY ON BHL BANK AT THE CROSS ROADS

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**A case study to be submitted to faculty of Economics and
Management of University Putra Malaysia as partial
fulfillment of the requirement for the Degree in Masters
in Business Administration**



**I WOULD LIKE TO THANK YANG BAHAGIA PROFESSOR
MADYA DR. MOHD. ZABID ABDUL RASHID FOR HIS
GUIDIANCE IN SUPERVISING ME WITH THE CASE
STUDY AND THE SUPPORT BY MY LOVELY WIFE LU
FONG. THIS IS DEDEDICATED TO MY LOVELY
DAUGHTER ANNABELLE.**



PENGAKUAN KEASLIAN LAPORAN

I acknowledge that the contents in this case are original and done with my own effort and will be wholly responsible for the contents therein.



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The information contain herein are private and confidential and confined only for the purpose of my academic exercise in the University Putra Malaysia, Master in Business Administration program. Any unauthorized used and publication is prohibited.



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BHL BANK AT THE CROSS ROAD

“In 27 July 1997, “ Thailand market crashes” This was quoted in the New Straits Times. The paper reported that the crash in Thailand has caused panic to foreign fund managers in the ASEAN region. Paul Sager, one of the Investment Manager calls, Datuk Goh requesting some insight as to the recent turmoil happening in the region. “We are getting jittery and the sentiment seems to be fear of a domino effect on the local KLSE” said Paul. “There were reports by large hedge fund managers speculating that there are fundamental weakness in ASEAN and Malaysian economy” adds Paul. Datuk Goh asked Paul’s opinion how he and the rest of the fund manager view the Malaysian economy. Paul Sager indicated that the region would be heading for a tough time as the foreign investment community feels there are fundamental weakness especially in the financial system which have yet to be rectified. There were heavy selling on Malaysian currency causing the exchange rates to be devalued by at least 60% as concerns on the Malaysian property sector bursting. There are worries of the Malaysian economy overheating” explains Paul. Paul suggested to Datuk Goh whether he has any plans to to cope with the impending pressures.

The next morning on the 28 July 1997, Datuk called for an emergency Board meeting to discuss on the report he receives. Datuk Goh was especially interested with the figures relating to the loans made to large conglomerates, which have heavy interests in properties. He also wanted to know the actual loans made and the details of the any



substantial project the banks are involved directly or jointly finance.

Neoh Choo Kean the General Manager of the Bank, reported that BHL Bank has no large loans more than 10 million exposures to any one corporate and they have always finance projects that are near Klang Valley and Urban areas. Datuk Goh was also interested in the exposure on share financing. Datuk directed Mr. Neoh to cut down on the lending and imposed on other forms of collateral.

“There is need for a clear direction and evaluate our strengths and weakness for us to understand what the challenges facing our bank and industry”. Said Datuk Goh after the reporting. “BHL Bank needs to chart its path clearly and this requires participation by the top management and every employee of the bank. Continue Datuk Goh. “An independent consultant to be appointed analyzing BHL Banks current situation and identify the possible alternatives as to how best BHL Bank to grow in the board meeting.” mooted Datuk. The meeting was adjourned. On the 5th December 1997, after a detail screening process, the Board decided to engage Mr. Joshua Lim as the independent consultant.

On 15th January 1998, Bank Negara Malaysia announced that there was three financial institution needing re-capitalization. It was also reported that Sime Bank had suffered RM1.18 billion. On the 2nd February 1998, Bank Negara identified anchor companies for consolidation of the finance companies quoted the Investor Digest February issue. It was reported in that issue,t Bank Negara Directives was for the finance companies to merger in view of the crisis hitting the banking sector. “With an environment of tight liquidity, the banks have to form larger and stronger finance

companies.” Said the editor of the Investor Digest February’s issue.

On the 20th February 1998, Datuk Goh summon Joshua Lim and asked me to begin work immediately taking into account the current scenario and come out with a strategic paper for the Bank. Chairman directives was to study the feasibility of these alternatives and select the best option available to the bank taking into consideration of the internal and external factors surrounding BHL Bank.

2.0 THE EARLY YEARS

BHL Bank, formerly known as Ban Hin Lee Bank has started its operations since 1935. Being established for over 62 years, it has come a long way from a trading company to a medium size leading financial institution in Penang, the Pearl of the Orient. “The company then ventured into banking as a service to local merchants who had no access to facilities provided by foreign banking institutions. Since then the company had developed into a modern financial institution that provides a wide range of banking and financial services.” said Yeap Leong Huat the Deputy Chairman. In the 1997 annual report, the Chairman reiterated, that “the culture of a conservative and prudent approach to banking has always been the way BHL Bank does its business and work closely with the economic key indicators before endeavoring any expansion plans. This was affirming again by Rating Agency Malaysia the A1 status accorded because of our prudent and

conservative management.”

“The bank has always held close to the ideal that it has to maintain close relationship with customers as the key to success.” said Neoh Choo Kean. One account holder for 30 years, Mr. Lee Kok Seng said *“that he recall those days where BHL Bank was still small. It grew steadily in the Penang as their reputation become synonym with Penangnites which are mostly Chinese.”* He added that the reason he uses BHL Bank was because of the trust gain through the years”. Mrs. Lee added *“I was surprise, that BHL Bank even had a branch in Singapore.”* She sighs with amazement. A senior staff, Mr. Tan Keng Hoe said that he had to assist the bank operations and had been transferred to Ipoh and later to Seberang Perai and assisted the east cost branches due to shortage of personnel. Naturally the bank expands to the neighboring states due to trade and commerce. *“To date BHL Bank is represented in every state, even in East Malaysia and Singapore”* declared Neoh Choo Kean

*“From a simple financing facility assisting traders , it evolved into a banking business taking over as the main business.”*said its founder’s son Mr. Yeap Lam Yang.



3.0 BHL Bank listing in the KLSE

“In 1991, an historical event took place where the bank applied to be listed in the KLSE. The reason for such application was to be able to raise capital necessary for rapid expansion” said Mr. Lim Ming Toong, the company secretary. *“A sense of professionalism and need to improve productivity and efficiency had been slowly changing our corporate culture”* added Mr. Lim Ming Toong.

Since its listing they managed to increase their shareholder’s capital and invested in the enhancing the network of branches and its Information Technological capabilities. The setting up of related services like the Unit Trust Company, Asset Management Company and Trustee Company was made beginning 1991 to 1994.

It was reported in 1994 annual report that Hong Leong Group had bid to hold larger interest in the BHL bank business through its mandatory general offer. This was not successful. In 1995, UMG took upon substantial shareholdings and their bid to take-over was also not successful. This was reported in the 1995 BHL Bank annual report.



4.0 IMF VISIT TO MALAYSIA

The recent move by the Central Bank of Malaysia to restructure the financial system, which was alleged by the IMF to be the reason for the economic turmoil, faced by the country. In the recent visit by Mr. Camduesus, the Head of the International Monetary Fund in short (“IMF”), he expressed worries that the Malaysia existing financial infrastructure has many fundamental weakness and there exist a great need to rectify the financial systems.

It was reported in the News Strait Times on the 15th February 1998 that five financial institution needing fresh capital injection. *“According to Bank Negara latest guidelines a loans that are not servicing its interest rates for more than three months are considered Non Performing Loans which requires provisions from the bank’s capital. This stress test imposed by the Central bank had created a credit crunch and liquidity problem”* said Ms Lynda Goh. The 1.18 billion loss by Sime Bank reported by the Annual General Meeting of Sime Bank on March 1998 lead the headlines in our New Straits Times.

“The pressure by IMF that in order for them provide assistance to our



government, there are certain preconditions that the government must do.” Added Mr. Lee Cheah Chiang of the BHLB Asset Management company. He further reiterates that the conditions were “Firstly to raise interest rates. Keep only the strong companies who are able to survive the stress test. Flush out the weak ones. Liberalize our financial markets and remove restrictions on equity holdings and insisting for better transparency in our market. To develop an effective system that is effective watchdog for the financial system. Reduce lending growth and control lending to unproductive sectors like properties and stock financing.”

Commented Mr. Lee Cheah Chiang the Associate Investment Director of the BHLB Asset Management Bhd



5.0 THE COMPETITIVE ENVIRONMENT OF BANKING IN MALAYSIA

Currently there are 10 banks having reached Teir-1 status.

They are:

<u>NAME</u> <u>BRANCHES</u>	<u>SHAREHOLDERS</u> <u>FUND(Billion)</u>	<u>TOTAL ASSETS</u> <u>(Billion(RM))</u>	<u>NO.</u> <u>OF</u>
Malayan Banking	RM6.97	RM82.94	298
Bank Bumiputra	RM2.79	RM44.61	195
Bank of Com.	RM1.1	RM18.185	50
RHB Bank	RM5.2	RM41.9	141
Public Bank	RM2.2	RM26.522	172
Hong Kong Bank	RM1.5	N/A	36
OCBC Bank	RM1.19	N/A	N/A
Citibank	RM0.94	N/A	3
Standard Chart.	RM1.05	N/A	17
Pacific Bank	RM0.79	RM10.178	68

***Extract from Business Times dated 20th March 1998**



In the recent report by Asiaweek Financial 500 report on the 500 largest commercial banks in Asia review the standing of the Malaysian banks as follows(in terms of total assets):

Local Rank	Name of Bank	Asia Ranking
1)	Malayan Banking Bhd	(60 th position)
2)	Public Bank Bhd	(152 nd position)
3)	RHB Bank	(165 th position)
4)	Sime Bank Bhd	(194 th position)
5)	Hong Kong Bank(Mal) Bhd	(206 th position)
6)	Hong Leong Bhd	(236 th position)
7)	Bank of Commerce	(244 th position)
8)	OCBC Bank Malaysia	(253 rd position)
9)	Standard Chartered Bank(Mal) Bhd	(284 th position)
10)	Perwira Affin Bank	(289 th position)
11)	United Overseas Bank Malaysia	(319 th position)
12)	EON Bank	(324 th position)
13)	Pacific Bank	(325 th position)
14)	Citibank Malaysia	(326 th position)
15)	Phileo Allied Bank Malaysia	(343 rd position)



16)	Southern Bank	(350 th position)
17)	Arab Malaysian Bank	(352 nd position)
18)	Oriental Bank	(354 th position)
19)	Multi Purpose Bank	(365 th position)
20)	BSN Commercial Bank	(375 th position)
21)	Ban Hin Lee Bank	(378 th position)
22)	Bank Utama	(383 rd position)
23)	Overseas Union bank Malaysia	(386 th position)
24)	Hock Hua Bank	(394 th position)
25)	Bank Islam	(403 rd position)
26)	Bank of Tokyo-Mitsuibishi (Mal.)	(424 th position)
27)	Deutche Bank Malaysia	(432 nd position)
28)	Bank of America of Malaysia	(448 th position)
29)	Sabah Bank	(453 rd position)
30)	ANB Amro Bank	(459 th position)
31)	International Bank of Malaysia	(475 th position)

See Appendix 3 for the lists of Banks in ASIA in ASIaweek Financial 500

“The banking industry has always been a very valuable business as the license issued by the Finance Ministry have been frozen. In fact the license itself is more valuable than the banks business” Mr. Teh Kok Wah, Researcher for Metro Research House. “In the past having license to banking was not precious like now. There is no strict



requirement to grow. That's why there are certain banks, which remains smalls, and has only a limited branches. This is changing as Bank Negara began to introduce polices to encourage banks to grow by introducing Tier 1 status. For those banks that have complied with the requirements, they can expand more branches and operate foreign accounts deposits." explained Mr. Teh. He added "pending the liberalization and agreement by the World Trade Organization, we will have to open up market to foreign banks. This is like asking Giant to live in the land of the midget" said Mr. The Kok Wah

"The impact would be survival of the fittest and protectionist laws will have to give way to free market. It would be the end of small banks" either we are big enough to compete or we will be eaten up" added Mr. Rajalingam from JFK Unit Trust company.

"The recent move by Bank Negara are pre-emptive measures to awaken smaller banks to either to shape up or ship out. As the time grew closer, they are encouraging size and technology transfer in areas related to managing risk and capital which local banks must seriously look into before they are force to change" added Rajalingam

"For one thing there are too many local banks and they are still losing out to foreign banks although they are being limited in their branches. Especially with the recent difficulty to secure deposits, the foreign banks are having larger deposits than the local banks." John Chan from Citibank explains.

“We can see today the rapid growth in packaging financial products whereby conventional services are being replaced with hybrid and advance instruments to cater for different needs of the market. Technological advances like virtual banking and electronic commerce have become the industry benchmark no banks can ignore” said Head of I.T. of Foreign bank James P. Hanson. *“Today, customers demands and needs are different from our earlier generation. They are more educated and have needs for greater flexibility”* said James.

6.0 THE REGULATIONS AND LAWS GOVERNING THE BANKING

INDUSTRY

The local banks are governed by the central bank in Malaysia, the Bank Negara.. Through its mandatory Statutory Reserves Requirements, BNM controls the liquidity in the country. It also acts as Banks for the local banks whereby they regulate the entire banking operations.

The relevant act governing the banks are the Banking and Financial Act (known as BAFIA) whereby the standards and duties of the banks are enacted to control abuses and integrity of the banking institution

“There are also new regulations and directives issued by the central bank on which the banks have to comply. They are binding and require compliance by both foreign and local banks.” Quoted Tuan Hj. Idrus the Bank Assistant General Manager

“The policy by the central bank has always been to encourage banks to grow stronger and they also monitor tightly the sufficiency of the bank Capital adequacy Ratio which the current industry of 8% level. The level of Non Performing Loans (NPL) is also an issue, which the Bank Negara look into seriously. The central bank also monitors the portfolio of loans to ensure that no banks is expose to any one sector” quoted one senior officer of the Bank Negara who chose to remain anonymous

“The recent intervention by the central banks to raise interest rates forcing the statutory reserve requirements to increase to 12% was due to international pressure by International Monetary Fund (IMF)” stated the Treasury Manager Mr. Chan Kok Wah

“We have to report that a loan is considered Non Performing Loans if it is unable to service for more than three months and the banks have to allocated its capital for NPL causing the banks capital to be tied down” stated Chan

“This is causing a lot of damage to our liquidity and worst of all the deposits in our local banks have to be strained as more depositors are running to the foreign banks. We have to borrow from the foreign banks causing us to have higher cost of fund to lend out” continues Chan. BHL Bank 1997 Annual Report showed the NPL to be 3.8% for the year ending 1997.

“The papers are blaming the local banks for the high interest rates but are caught in between” denied Chan that the banks are being unhelpful.



7.0 BHL BANK MARKETING CULTURE

“BHL Bank through its subsidiaries have a strong marketing force whereby they are the leading agency force in the unit trust industry. Besides the strong marketing force its has also has other associate companies which promotes the banks services like BHLB Trustee Bhd.” said Saw Leong Aun, the former Assistant General Manager of BHLB Pacific Unit Trust Company currently Advisor of BHLB Trustee Bhd.. *This culture was reflected in the banks operations where a special department has been set up called the Financial Services Centers(FSC). The FSC consist of bank staff, which is trained to market the bank services by providing financial services of the banks and its subsidiaries. This new culture was establish only in the 90’s”* commented Mr. Khoo Kay Siang the Senior Manager of the Banking and Finance Services Division.

8.0 BHL BANK THE COMPANY

8.1 Corporate Financial Statement

The BHL Bank financial performance from 1993-1997 is shown in appendix I

8.2 Company Performance

In his speech, the BHL Bank Chairman reiterated that the bank had performed for

the year 1997, BHL Bank had placed much emphasis on the accurate analysis of the Malaysian economy. This guided towards growth. For the year 1997, BHL Bank pre-tax profit stood at a record RM90.5 million, a decrease of 1% over the 1996 performance of RM91.4 million. This performance was attributed to the more stringent provision policy for bad and doubtful loan. The risk weighted capital ratio continued to be above the minimum standard of 8% set by the Basle Committee. At the end of 1997 it stood at 12.1%. BHL Bank continued its growth rate in excess of 24.0% in its net loans and advances, to reach RM4, 420.6 million. At the same time, deposits from customers grew in tandem by 14.4% to RM5262.9 million.

The total shareholders fund grew by RM68.1 million to a total of RM554.4 million.

The bank was accorded a long-term rating of A1 and short term rating of P1 from RAM (Rating Agency Malaysia Berhad). RAM is the recognized independent rating body that evaluates the soundness of an institution where it grades according to the level of risk from its ability to service its obligations. RAM further stated the ratings reflected the Bank's sound asset quality, its good asset-liability management, stable funding base which comprises mainly customer deposits and low dependence on the volatile inter bank market. Favorable liquidity, relatively strong capital adequacy to support its growth and a competent and conservative



management are other positive factors. This can be seen from Appendix 3

The bank now provides a wide range of services including flexible deposits, loans for various productive sectors like Tradepac (International LCs) and SMIs (Small Medium Size Firms). The bank had recently obtained approval from the BNM to provide Unit Trust investments, Asset Management services, Private banking services and Trustee services through their financial Services Centers.

On 22nd August 1997, the Chairman has approved the upgrading of the bank's Information Technology capabilities. This will allow the banking transactions to be made through E-commerce.

8.3 Current Situations

“The current economic environment has caused some uneasiness as to the tight liquidity squeeze and the pressure by the international bodies for Malaysia to revamp its financial market so that the weakness its now faced can be rectified.

call for Malaysia to open up the market to international banks is now at the door steps of our nation,” says Mahawangsa Asset Management Dr. Gonzales Jeffrey.

He continues that the time is short and Bank Negara is sponsoring rationalization and consolidations in some instances. The bank intends to expand more branches

